
TEN THINGS TO KNOW BEFORE STARTING A BUSINESS IN CANADA

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Canada and the U.S. are deeply intertwined, sharing a long border, common interests, similar values and a deep level of economic integration. This makes the trading relationship between the two nations critically important.

Within almost every industry, Canada offers a receptive, transparent and open market for U.S. goods and services. Canadians spend more than 60 percent of their disposable income on American products and services, making Canada the largest export market for U.S. firms. Trade between the two nations generates roughly \$1.8 billion per day, with total bilateral trading reaching \$714 billion in 2018. In addition to trade, the U.S. and Canada have deep investment ties, with the U.S. serving as Canada’s largest foreign investor, and vice versa.

For small to mid-sized companies seeking to tap global markets while also saving money on taxes, Canada is a natural candidate for expansion.

However, it’s imperative to consider the challenges and opportunities specific to the Canadian market before beginning the expansion process. With that in mind, here are ten key things to know before starting a business in Canada.

1. LOWER CORPORATE TAX RATES

While U.S. corporate tax rates have been lowered significantly in recent years, many nations still offer lower rates. Currently, the national corporate tax rate in the U.S. is 21 percent, with branch rates ranging from 21 to 31 percent and local rates also varying.

Canada’s corporate tax rate is 15 percent, one of the most competitive rates in the world. In an effort to help spur economic growth and attract international business, Canada’s government has been gradually reducing its tax rate, which was 18 percent in 2010.

2. CANADIAN TRADE PACTS

Growth and trade in Canada are stimulated by the country’s participation in a variety of wide-reaching trade agreements. These pacts include the North American Free Trade Agreement (NAFTA), the European Union’s Comprehensive Economic and Trade Agreement (CETA) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

The CPTPP, which came into effect in December 2018, is a trade agreement that was passed after the U.S. declined to sign the original Trans-Pacific Partnership trade agreement. The two agreements share much the same language, though the CPTPP does not include the U.S.

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3. NAVIGATING PROVINCIAL RULES

Canada has ten provinces within three federal territories. These provinces act much like U.S. states and have their own provincial governments. As such, expanding companies must consider not only federal laws, regulations and taxes, but also those laws and taxes passed and enforced by the provinces. Canadian labor laws also vary by province, something that impacts the nature of employee contracts.

The most substantial distinction in this regard involves French-speaking Quebec, which has a civil law system rather than the common law system in force everywhere else in Canada. When operating in Quebec, all forms and filings must be completed in French and all local workers should be conversant in the language.

Additionally, Quebec Sales Tax must be paid by Quebec-based firms in addition to Canada's standard GST (Goods and Services Tax).

4. UNDERSTANDING BUSINESS LICENSING REQUIREMENTS

Licensing requirements in the U.S. and Canada are quite similar and include substantial regulation for industries such as architecture or engineering. Professional licensing in Canada requires a significant amount of training and the completion of rigorous examinations. Additionally, permits and licenses are issued at varying levels of government, and expanding businesses need to ensure that all relevant requirements are met.

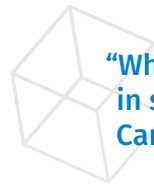
This process extends to applying for basic business licenses. Just as in U.S. cities, counties and states, any new Canadian business entity must apply for a business license in the proper jurisdiction.

It should be noted that the permitting process is lengthier in some Canadian industries. For example, in the construction sector, it often takes up to nine months to secure a permit—a process that takes even longer in Quebec, where special construction permits are a requirement.

5. CANADIAN INDUSTRY RESTRICTIONS

Exporters don't have unfettered access to Canadian markets. Some sectors are restricted or even inaccessible to imports, which means exporters must do their due diligence. This includes evaluating available sales channels, varying provincial laws, regulations and market opportunities.

Those looking to start a business in Canada must also ensure compliance with customs laws and bilingual packaging and labeling requirements. These requirements are part of the Canadian Consumer Packaging and Labeling Act, which requires companies to create English and French product labels.



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Additionally, Canada has special rules in place that govern the acquisition of domestic companies by foreign firms. These rules apply to six industries: financial services, uranium production, transportation, telecommunications, cultural industries and broadcasting. All acquisitions by foreign firms within these sectors must be reviewed for approval by Canadian regulators.

Procurement procedures in Canada, whether at the federal, provincial or municipal level, are open to U.S. bidders. These procedures vary somewhat from U.S. processes. All foreign bidders must be registered within Canada and fulfill all mandatory requirements in order to win contracts.

In some cases, bidders are required to acquire a security clearance prior to submitting a bid. Defense projects may also have their own specific requirements for offsets (known as Industrial Technical Benefits).

6. PROPER DOCUMENT AUTHENTICATION

Like all nations, Canada requires origination verification for all public documents before they can be legally used. To complete this process, expanding companies must acquire authentications from offices representing the country where the document was issued and the country (or embassy/consulate) where it will be used.

It should also be noted that Canada is not a member of The Hague Convention, which means Apostille mechanisms do not apply. Expanding businesses must ensure they request Authentication.

Businesses that mistakenly use the Apostille method will not have their documents authenticated within Canada. Should this occur, it's essential that a new document be created and submitted (or re-submitted) to the appropriate consul

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or embassy. (For more details, please review “[Global Deal Workflow: Managing Document Translation, Retrieval, and Verification](#)”.)

7. PERFORMING LIEN SEARCHES AND FILINGS

While few nations meet the requirements of U.C.C. Article 9, Canada would appear to meet many of the standards. This means searches and filings performed within Canada can be pursued with a high level of confidence, as it is likely that proper recording measures were followed.

Despite the close equivalence of U.S. and Canadian systems, there are some potential pitfalls that must be avoided. Canada does not allow copies of filings to be submitted and only allows electronic filing. Additionally, collateral descriptions are often briefer and less precise than what is typically seen in the U.S. (For more information please see “[Performing Lien and Court Searches Outside the U.S.](#)”)

8. INTELLECTUAL PROPERTY PROTECTIONS

While Canada and the U.S. share somewhat similar legal systems, it is still vitally important for expanding businesses to protect their IP. There is no international patent, copyright or trademark that protects IP everywhere. All IP rights must be registered and enforced under local laws, which means existing U.S. trademark and patent protections are not enough to protect IP in foreign markets.

It’s also important to act with speed when seeking IP protections. Businesses that rely on the U.S. government to intercede in IP disputes may find that their rights have lapsed

or eroded due to legal doctrines such as estoppel, statute of limitations, laches and so forth.

9. CONTRACT ENFORCEMENT CHALLENGES

While Canada has a robust and transparent legal system, it can be somewhat difficult to enforce contracts in a timely fashion. It takes, on average, 910 days to resolve a delinquent contract in Canada, according to the World Bank’s [Doing Business 2019](#) report.

10. CULTURAL DIFFERENCES

While Canada and the U.S. are quite similar in so many ways, it’s a mistake to think Canadians and Americans are interchangeable (and an etiquette faux pas as well). Additionally, there are a variety of key regional differences that need to be understood and accommodated. Quebec, for example, has significant cultural differences with English-speaking Canada, where people are often more formal and reserved.

As in the U.S., the exchange of business cards is common practice, though when exchanging cards in Quebec or Eastern Ontario, including both English and French translations is advisable. Business cards in Canada also often include academic titles and degrees earned.

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