Report on Canada

Canada is ranked at 24th position on the 2011 Financial Secrecy Index. This ranking is based on a combination of its secrecy score and a scale weighting based on its share of the global market for offshore financial services.

Canada has been assessed with 56 secrecy points out of a potential 100, which places it in the lower mid range of the secrecy scale (see chart 1 below).

Canada accounts for slightly under 1 per cent of the global market for offshore financial services, making it a tiny player compared with other secrecy jurisdictions (see chart 2 below).

Chart 1 - How Secretive?

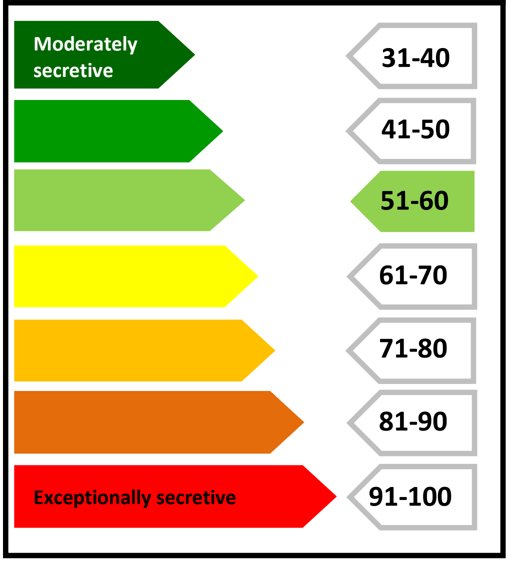
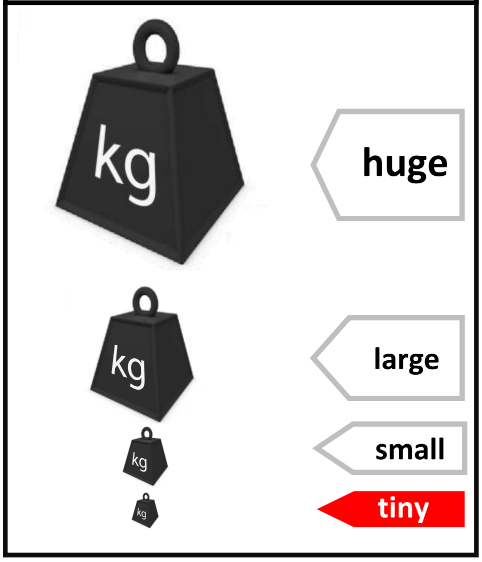


Chart 2 - How Big?



Next steps for Canada

Canada's 56 per cent secrecy score shows that it must still make major progress in offering satisfactory financial transparency[1]. If it wishes to play a full part in the modern financial community and to impede and deter illicit financial flows, including flows originating from tax evasion, aggressive tax avoidance practices, corrupt practices and criminal activities, it should take action on the points noted where it falls short of acceptable international standards. See part 2 below for details of Canada's shortcomings on transparency. See this link http://www.secrecyjurisdictions.com/kfsi for an overview of how each of these shortcomings can be fixed.

Part 1: Telling the story

Overview

Canada's influence as a player in the offshore system has two main components. First is its role as a tax haven in its own right. It levies an extremely low effective rate of tax on businesses, compared with its peers, and it is effectively a regulatory haven for the world's extractive industries. The second, more important element concerns the role Canadian interests have played in the development of tax havens elsewhere, notably in the Caribbean.

With a secrecy score of 56 of 100, Canada is one of the less secretive jurisdictions on the Financial Secrecy Index list, although – as outlined in our full report – there remains major room for improvement.

History: Canada in the Caribbean

The history of trade relations between Canada and the Caribbean islands begins as far back as the development of New France in the 17th Century. By the 19th century these relations were so close that Canada wanted to put British dependencies in the Caribbean under its own colonial administration. London rejected this but in 1837 the Colonial Bank of the Caribbean, the British banking authority for its dependencies in the region, signed an agreement with the Halifax Banking Company allowing it to develop there even before it had been registered in Toronto. In the end, for some periods Ottawa wielded more influence than London on financial decisions affecting the Caribbean islands.

This helps explain the spectacular growth of Canadian banking in the Caribbean in the twentieth century. Particularly in the Bahamas and the Cayman Islands, Canadians were often instrumental in the development of business districts and legislative initiatives that provided tax benefits for banks, businesses and fortune holders.

Since 1980, the most notorious Canadian tax haven has been Barbados, with a tax treaty between the two countries allowing Canadian taxpayers to transfer to Canada, tax free, income that has been realised in Barbados where almost no tax has been paid on it. In 2011 Canada also approved a free-trade agreement with Panama, even though Panama is viewed by many criminologists as one of the tax havens that does most to support the laundering of drug trafficking profits.

Today, Canada is using this privileged tax relation as a model for tax information sharing treaties (discreetly known as "Tax Information Exchange Agreements", or TIEA) signed with other tax havens. So far, highly accommodating agreements have been established with the following, among others: Anguilla, the Bahamas, Bermuda, the Cayman Islands, Dominica, Saint Lucia, the Netherlands Antilles, Saint Vincent and the Grenadines, San Marino, St. Kitts and Nevis, and the Turks and Caicos Islands. These laws allow companies declaring international income in jurisdictions where taxes are close to zero to bring the money back home to Canada without paying Canadian tax.

Canada's role as a tax haven

Within its own jurisdiction, Canada has allowed entire sectors of the financial industry to develop in direct relation to tax havens.

A prime example is the city of Halifax, in eastern Canada, which for the past few years has been the headquarters of a development agency known as the Nova Scotia Business Inc., created by the Nova Scotia government and managed exclusively by private partners. The agency is in fact a place where tax advantages can be obtained by hiring accountants working for firms involved in insurance and hedge funds in connection with the tax havens of Bermuda and the City of London.

In terms of tax, Canada today could be described as a tax haven – or, at any rate, it is one of the least fiscally demanding of the countries that are not usually considered tax havens. A 2010 report from KPMG accounting firm called *Special Report: Focus on Tax* identifies Canada, among rich countries, as the one where businesses are the second least-taxed. Of the 41 cities studied according to the same criteria, three Canadian cities – Vancouver, Montreal and Toronto – are respectively ranked first, fourth and fifth. The International Financial Centre of Montreal, established in 1986, says that 75% of the net profits of foreign companies that register with it will not be taxed, and that other tax advantages will be provided for employees. Canadian companies can claim identical benefits through their offshore subsidiaries.

Canada is also a regulatory haven for the world's extractive industries. According to government sources in 2009, three quarters of the world's mining companies are headquartered in Canada. The Toronto Stock Exchange is more favourable than others to speculation in this area, and tax benefits are specifically designed to encourage investment in the mining industry. Politically, Canada tends to protect its industry despite the industry's sorry ethical record at the international level, to the point where Canada incurred a rebuke from the OECD in a 2011 report on international corruption. In this report, an OECD working group explicitly asks why Canada has prosecuted only one company over a ten-year period even though it is home to a majority of the world's mining companies, which, according to the group, are known to be particularly likely to resort to influence-peddling.

On the diplomatic front, Canada shares its seat on the Board of the World Bank with a group of Caribbean tax havens consisting of Antigua & Barbuda, the Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, St. Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines.

Government agencies have done little to provide adequate measurement of the real losses incurred by the state as a result of tax evasion. At most, federal or provincial governments target illicit tax evasion practices within the small-scale domestic economy, rarely bringing up the problems caused by large corporations' or fortune holders' use of tax havens to conceal assets through the use of trusts, foundations or offshore subsidiaries.

With thanks to Alain Deneault and Aline Tremblay for their major input into this report.

Read more:

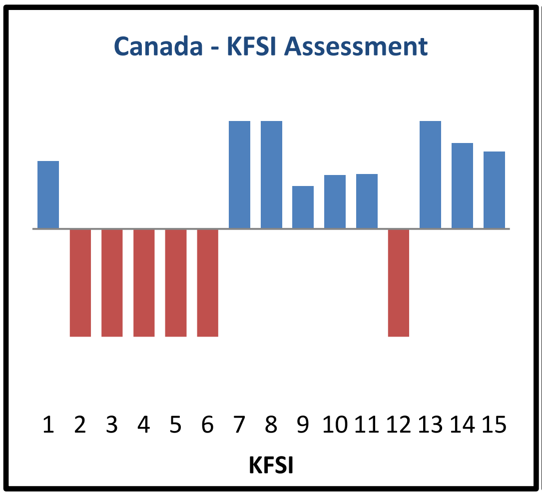
Alain Deneault and William Sacher, *Imperial Canada Inc.: Legal Haven of Choice for the World's Mining Industries*, Vancouver: Talonbooks, 2011.

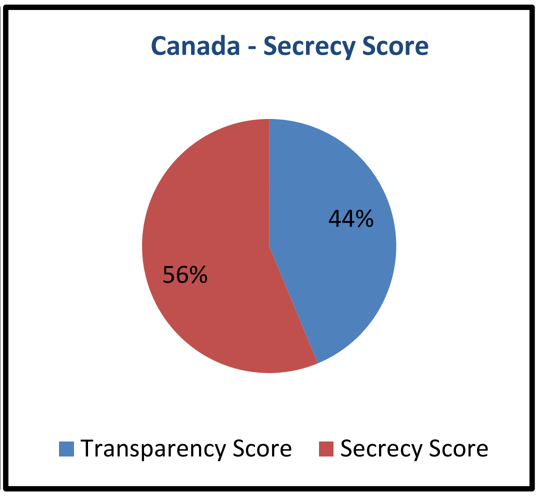
Alain Deneault, *Offshore: Tax Havens and the Rule of Global Crime*, New York: The New Press, 2011.

Mario Possamai, *Money On The Run: Canada And How The World's Dirty Profits Are Laundered*, Toronto: Penguin Books of Canada, 1992.

Part 2: Secrecy Scores

The secrecy score of 56 per cent for Canada has been computed by assessing the jurisdiction's performance on the 15 Key Financial Secrecy Indicators, listed below.





The numbers on the horizontal axis of the bar chart on the left refer to the Key Financial Secrecy Indicators (KFSI). The presence of a blue bar indicates a positive answer, as does blue text in the KFSI list below. The presence of a red bar indicates a negative answer as does red text in the KFSI list. Where the jurisdiction's performance partly, but not fully complies with a Key Financial Secrecy Indicator, the text is coloured violet in the list below (combination of red and blue).

This paper draws on key data collected on Canada. Our data sources include regulatory reports, legislation, regulation and news available at 31.12.2010[2]. The full data set is available here[3]. Our assessment is based on the 15 Key Financial Secrecy Indicators (KFSIs, below), reflecting the legal and financial arrangements of Canada. Details of these indicators are noted in the following table and all background data can be found on the Mapping Financial Secrecy web site[4]. This data is the basis on which the Financial Secrecy Index[5] is compiled.

The Key Financial Secrecy Indicators and the performance of Canada are:

TRANSPARENCY OF BENEFICIAL OWNERSHIP – Canada	
1.	Banking secrecy: Does the jurisdiction have banking secrecy? **Canada does not adequately curtail banking secrecy**
2.	Trust and Foundations Register: Is there a public register of Trusts and Foundations? **Canada does not put details of trusts on public record**
3.	Recorded Company Ownership: Does the relevant authority obtain and keep updated details of the beneficial ownership of companies? **Canada does not maintain company ownership details in official records**
KEY ASPECTS OF CORPORATE TRANSPARENCY REGULATION – Canada	
4.	Public Company Ownership: Does the relevant authority make details of ownership of companies available on public record online for less than US$10? **Canada does not require that ownership of companies is put on public record**
5.	Public Company Accounts: Does the relevant authority require that company accounts are made available for inspection by anyone for a fee of less than US$10? **Canada does not require that company accounts be available on public record**
6.	Country-by-Country Reporting: Are companies listed on a national stock exchange required to comply with country-by-country financial reporting? **Canada does not require country-by-country financial reporting by companies**
EFFICIENCY OF TAX AND FINANCIAL REGULATION – Canada	
7.	Fit for Information Exchange: Are resident paying agents required to report to the domestic tax administration information on payments to non-residents?

	Canada requires resident paying agents to tell the domestic tax authorities about payments to non-residents
8.	Efficiency of Tax Administration: Does the tax administration use taxpayer identifiers for analysing information effectively, and is there a large taxpayer unit? **Canada uses appropriate tools for effectively analysing tax related information**
9.	Avoids Promoting Tax Evasion: Does the jurisdiction grant unilateral tax credits for foreign tax payments? **Canada partly avoids promoting tax evasion via a tax credit system**
10.	Harmful Legal Vehicles: Does the jurisdiction allow cell companies and trusts with flee clauses? **Canada partly allows harmful legal vehicles**
INTERNATIONAL STANDARDS AND COOPERATION – Canada	
11.	Anti-Money Laundering: Does the jurisdiction comply with the FATF recommendations? **Canada partly complies with international anti-money laundering standards**
12.	Automatic Information Exchange: Does the jurisdiction participate fully in Automatic Information Exchange such as the European Savings Tax Directive? **Canada does not participate fully in Automatic Information Exchange**
13.	Bilateral Treaties: Does the jurisdiction have at least 60 bilateral treaties providing for broad information exchange, covering all tax matters, or is it part of the European Council/OECD convention? **As of June 30, 2010, Canada had at least 60 bilateral tax information sharing agreements complying with basic OECD requirements**
14.	International Transparency Commitments: Has the jurisdiction ratified the five most relevant international treaties relating to financial transparency? **Canada has partly ratified relevant international treaties relating to financial transparency**
15.	International Judicial Cooperation: Does the jurisdiction cooperate with other states on money laundering and other criminal issues? **Canada partly cooperates with other states on money laundering and other criminal**

	issues

[1] Our definition of financial transparency can be found here: http://www.secrecyjurisdictions.com/PDF/FinancialTransparency.pdf.

[2] With the exception of KFSI 13 for which the cut-off date is 30.6.2010. For more details, look at the endnote number 2 in the corresponding KFSI-paper here: http://www.secrecyjurisdictions.com/PDF/13-Bilateral-Treaties.pdf.

[3] That data is available here: http://www.secrecyjurisdictions.com/sj_database/menu.xml.

[4] http://www.secrecyjurisdictions.com.

[5] http://www.financialsecrecyindex.com/.

