

NARRATIVE REPORT ON CANADA



PART 1: NARRATIVE REPORT

Overview¹

Canada's role in the offshore system has three principal components. First, compared to its peers it has an extremely low effective tax rate on businesses. Second, it is effectively a regulatory haven for the world's extractive industries. Third, Canadian interests played a significant part in the development of tax havens elsewhere, notably in the Caribbean. Canada also offers some secrecy facilities.

With a secrecy score of 46 of 100, Canada ranks among the less secretive jurisdictions on the Financial Secrecy Index list, though there remains 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](#)² 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. At various stages Ottawa has 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 instrumental in the development of business districts and legislative initiatives that provided tax benefits for banks, businesses and private wealth holders. As the [IMF noted in 2013 \(page 5\)](#)³:

“Foreign banks, primarily Canadian, play a leading role throughout the Caribbean, accounting for about 60 percent of banking system assets.”

Since 1980, the most notorious Canadian-linked tax haven has been Barbados, with a non-double taxation treaty between the two countries allowing Canadian corporations to register assets to the Barbados and then to transfer them back to Canada, income that has been realised in Barbados being almost completely untaxed.

Today, Canada is using this privileged tax relation as a model for tax information sharing treaties (known as “Tax Information

Rank: 29

Chart 1 - How Secretive?

46
Secrecy Score

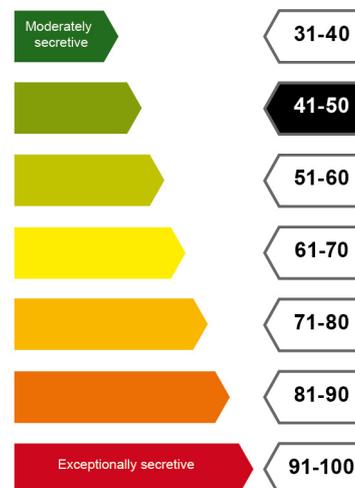
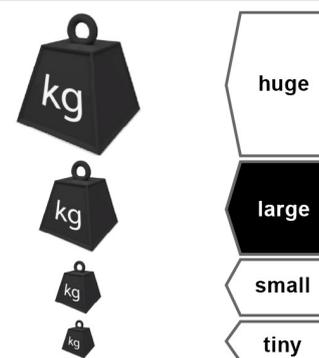


Chart 2 - How Big?



Canada accounts for slightly under 1.8 per cent of the global market for offshore financial services, making it a large player compared with other secrecy jurisdictions.

The ranking is based on a combination of its secrecy score and scale weighting.

Read more
 → Full data
 → Canada on TJN Blog
 → Full Methodology

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Exchange Agreements”, or [TIEA](#)) signed with other tax havens. TIEAs signed by the Canadian government are unusual. They are being enacted as non-double taxation treaty. According to the consolidated regulation 5907(11) of the Canadian Law on taxation, as soon as Canada signed such agreement with a tax havens, it allows companies declaring international income in jurisdictions where taxes are close to zero [to bring the money back home to Canada as dividends without paying Canadian tax](#). So far, highly accommodating agreements have been established with the following, among others: Anguilla, the Bahamas, Bahrain, Brunei, Bermuda, British Virgin Islands, the Cayman Islands, Cook Islands, Curaçao, Dominica, Liechtenstein, Saint Lucia, Saint Vincent and the Grenadines, San Marino, St. Kitts and Nevis, and the Turks and Caicos Islands.

In 2011 Canada also approved a [free-trade agreement with Panama](#), even though Panama is viewed by many crime experts as a leading centre for laundering the proceeds from drug trafficking.

Canada’s role as a tax haven

Within its own jurisdiction, Canada has allowed entire sectors of the financial industry to develop an offshore flavour.

Canada’s fairly low secrecy score shows it is less opaque than many jurisdictions. One area where it falls down badly, however, is in the area of anonymous shell corporations. World Bank research [summarised](#)⁴ by Canada’s *National Magazine* notes:

“Canada and the U.S. are the two most lax jurisdictions in the world when it comes to the rules for preventing the incorporation of anonymous shell companies. What’s more, corporate service providers operating in those two countries are less compliant than those operating in Ghana, Lithuania, or Barbados, and follow laxer rules than those in Malaysia or the Cayman Islands.”

In the tax area, Canada has a more complex

offering. 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.](#)⁵, created by the Nova Scotia government and managed exclusively by private partners. The agency is in practice a place where [tax advantages](#)⁶ 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.

A [2012 report](#)⁷ from accounting firm KPMG 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.

A study of 99 of the largest Canadian corporations from 2009 to 2011 revealed that on average, the effective tax rates paid by the corporations amounted to 19.5 percent – though many enjoyed far lower.⁸

In 2009, the Canadian Department of Transport produced a document whose title says it all: *Canada Tax and Duty Advantages: Enjoy the Benefits of Foreign Trade Zones... Anywhere in Canada!* The programme known as ‘Canada’s Gateways’ freely adopts offshore language and eliminates GST and customs tariffs on exports. The [International Financial Centre of Montreal](#), established [in 1986](#)⁹, [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 tax and 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.

Since 2011, income trusts in Canada have been tax exempt as long as they manage no substantial activity within the country. This move, originally agreed in 2006, has benefited owners of mining assets throughout the world: they can register trusts in Canada owning mining assets elsewhere. Keith Schaefer, publisher of the [Oil and Gas Investment Bulletin](#)¹⁰, wrote in 2011: “Last year, *Eagle Energy Trust (EGL. UN)* went public on the TSX, which was the first Canadian-listed oil and gas trust to launch since Flaherty’s Halloween surprise in 2006. The company holds only foreign oil-producing assets [...], a loophole that excludes it from the new Canadian tax regime.”

At the federal level corporation tax has been aggressively cut by successive administrations. Between 1981 and 2012 the corporation tax rate dropped from 38 percent to 15 percent. Moreover, tax breaks, eternal reports on tax payments and the abolition of other business taxes has turned Canada into a tax haven. For this reason major corporations such as Burger King or Valeant Pharmaceuticals have decided to move their headquarters in Canada explicitly for tax purposes.

Politically, Canada tends to protect and lobby on behalf of mining 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, and despite Canada’s commitment to investigating and pursuing any corporation registered on its territory that is suspected of corruption abroad.

On the diplomatic front, Canada shares its seat on the Board of the [World Bank](#) and the IMF 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. According to Statistics Canada, Canadian corporations have made more than 170 billion Canadian dollars in so-called “direct investments” in tax havens, of which more than 60 billion dollars were held in Barbados. This is a conservative figure since the data was provided to the public agency by the corporations themselves.

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 high net worth individual’s use of tax havens to conceal assets through the use of trusts, foundations or offshore subsidiaries.

With thanks to Alain Deneault and Dennis Howlett for their major input into this report.

Read more:

- [Full data for Canada](#)
- [Canada on TJN Blog](#)
- [Full Methodology](#)
- Alain Deneault, with the Réseau Justice fiscale (Canada), [Canada: A New Tax Haven. How the Country That Shaped Caribbean Tax Havens Is Becoming One Itself](#), Vancouver: Talonbooks, 2015.
- 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.

¹ This narrative report is based on information up to date at 11 October 2011, however all references to

FSI scores or ratings reflect the 2013 results.

² https://en.wikipedia.org/wiki/New_France; 30.7.2015.

³ www.imf.org/external/pubs/ft/wp/2013/wp13175.pdf; 30.7.2015

⁴ http://www.nationalmagazine.ca/Articles/June_2013/Shell_companies_Blinders_on.aspx; 30.7.2015.

⁵ <http://www.novascotiabusiness.com/en/home/aboutus/default.aspx>; 30.7.2015.

⁶ <http://www.novascotiabusiness.com/en/home/invest/incentivesandtaxes/default.aspx>; 30.7.2015.

⁷ <http://www.competitivealternatives.com/highlights/taxfocus.aspx>; 30.7.2015.

⁸ The research was carried out by the Laboratoire de recherche socioéconomique at the Université du Québec à Montréal. Their data includes the following:

Company	Before-tax profit (in millions of dollars)	Effective tax rate
Cott Corporation	193.20	-14.50 %
Emera Inc.	639.20	-7.00 %
Canadian Pacific Railway	2,199.00	-4.70 %
Molson Coors Brewing Company	2,420.70	-1.90 %
Canadian Oil Sands Limited	2,762.00	0.00 %
TransCanada Corporation	5,914.00	1.70 %
Québecor Inc.	1,822.20	3.80 %
Rogers Communications Inc.	6,192.00	5.10 %
Enbridge Inc.	4,764.00	5.30 %
SNC-Lavalin Group Inc.	1,567.70	6.20 %

⁹ <http://www.finance-montreal.com/fr/mesure-cfi>; 30.7.2015.

¹⁰ <http://oilandgas-investments.com/2011/investing/energy-income-trusts/>; 30.7.2015.

PART 2: CANADA'S SECRECY SCORE

TRANSPARENCY OF BENEFICIAL OWNERSHIP – Canada

- 1  *Banking Secrecy: Does the jurisdiction have banking secrecy?
Canada partly curtails banking secrecy*
- 2  *Trust and Foundations Register: Is there a public register of trusts/foundations, or are trusts/foundations prevented?
Canada partly discloses or prevents trusts and private foundations*
- 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 free, or for less than US\$10/€10?
Canada does not require that company ownership details are publicly available online*
- 5  *Public Company Accounts: Does the relevant authority require that company accounts are made available for inspection by anyone for free, or for less than US\$10/€10?
Canada does not require that company accounts be available on public record*
- 6  *Country-by-Country Reporting: Are all companies required to publish country-by-country financial reports?
Canada partly requires public country-by-country financial reporting by some companies*

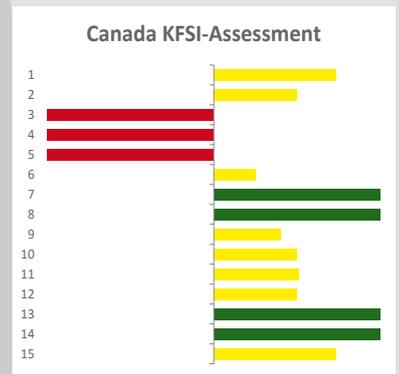
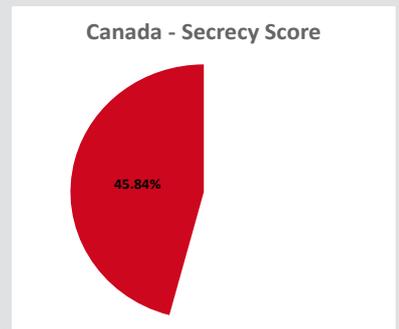
EFFICIENCY OF TAX AND FINANCIAL REGULATION – Canada

- 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 efficiently, and is there a large taxpayer unit?
Canada uses appropriate tools for efficiently 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 multilateral Automatic Information Exchange via the Common Reporting Standard?
Canada partly participates in Automatic Information Exchange*
- 13  *Bilateral Treaties: Does the jurisdiction have at least 53 bilateral treaties providing for information exchange upon request, or is it part of the European Council/OECD convention?
As of 31 May, 2015, Canada had at least 53 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 ratified the five most 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*

Secrecy Score



Notes and Sources

The ranking is based on a combination of its secrecy score and scale weighting (click [here](#) to see our full methodology).

The secrecy score of 46 per cent for Canada has been computed by assessing its performance on 15 Key Financial Secrecy Indicators (KFSI), listed on the left. Each KFSI is explained in more detail, [here](#).

Green indicates full compliance on the relevant indicator, meaning least secrecy; red indicates non-compliance (most secrecy); and yellow indicates partial compliance.

This paper draws on data sources including regulatory reports, legislation, regulation and news available as of 31.12.2014 (with the exception of KFSI 13 for which the cut-off date is 31.05.2015).

Full data on Canada is available here: <http://www.financialsecrityindex.com/database/menu.xml>

All background data for all countries can be found on the Financial Secrecy Index website: <http://www.financialsecrityindex.com>