

Canada Overview

2019 Individual Income and Social Taxes

Gaining an understanding of the tax system in a new country is a critical step in addressing risks and reducing costs for companies with mobile employees. This overview summarizes key individual income and social tax compliance and tax planning considerations for companies sending employees to work in Canada.

Individual income tax overview

A resident of Canada is subject to Canadian income tax on worldwide income at graduated tax rates that range from approximately 19% to 54% of total taxable income. A non-resident of Canada is subject to income tax on Canada source income (source of income is typically determined based on the taxpayers physical location during their workdays) at the tax rates that apply to resident taxpayers.

Canadian income tax is levied on both a federal and a provincial level. As such, the ultimate tax rate for a non-resident of Canada will depend on the province where the individual lives and works.

Residency

A person is generally considered a resident of Canada if they have established significant personal ties. Important factors include duration of stay, location of family, housing arrangements, and the nature of personal, economic, and social ties to Canada. A person can establish residence at any point in the year and would become subject to tax on worldwide income from that date forward.

A non-resident who stays temporarily in Canada for 183 days or more during a calendar year is deemed a Canadian tax resident, unless that taxpayer is deemed to be a resident of another country based on an applicable income tax treaty with Canada.

Tax filings

Tax Year: Calendar year.

Due Date: April 30 following the calendar tax year. No extensions for filing are available.

Joint/Separate Returns: Spouses must file separate tax returns.

Tax Payments: Quarterly estimated tax payments might be required for income not subject to income tax withholding.

Planning ideas and common tax issues

1. Timing of transfer may help reduce Canada taxation (tax treaties must be consulted).
2. Accelerating or deferring income to non-resident periods may reduce tax.
3. Capital gains may be subject to tax at special tax rates or might not be subject to tax.
4. Reasonable education allowances for children may be exempt from tax, subject to certain requirements.

5. Certain allowances and reimbursements may be fully or partially excluded from taxable income, including items such as duplicate housing costs for a period of 2 years, moving expense reimbursements and limited furniture allowances.

Income tax treaties

Canada has income tax treaties with many countries including the US. Business travelers going to Canada may be exempt from Canadian income tax if certain conditions are met (e.g., related compensation expense is not deducted by the employer in Canada and the employee does not exceed defined presence or income thresholds). Reporting requirements and applications to obtain a tax waiver/exemption from Canadian tax withholding may apply even if the employees are exempt from Canadian taxation under the treaty.

Social taxes

Social taxes are generally applied as follows:

- Canada Pension Plan – 5.1% of salary for both employers and employees, subject to cap (the 2019 maximum annual contribution is approximately C\$2,749 for both employers and employees). Rates differ slightly for Quebec.
- Employment Insurance (EI) – For 2019, employee EI premiums are calculated at 1.62% on earnings up to C\$53,100 (maximum of C\$860.22). Employer premiums are calculated at 1.4 times the amount of employee premiums (up to C\$1,204.31). Quebec rates will differ.

Canada has social security agreements with over 50 countries including the US. These agreements may exempt an expatriate and their employer from all or part of the Canada social taxes. US business travelers to Canada are generally exempt from Canadian social tax (without need for application) for trips of up to 183 total days during the calendar year.

* * * * *

GTN specializes in mobility tax services. To learn how we can help you better understand these rules, or if you have additional questions, please contact us at info@gtn.com or +1.888.486.2695.

This overview is based upon tax law in effect as of January 1, 2019. The information provided is for general guidance only and is subject to change. This information should not be utilized in lieu of obtaining professional tax and/or legal advice.