# Branch profits tax

## Things to know

- The branch profits tax applies to foreign corporations carrying on business in Canada through a "branch", and is intended to replicate the withholding tax that would have been due had a Canadian subsidiary paid its profits to its non-resident parent in the form of a dividend.
- A 25% tax is imposed on the after-tax income that non-resident corporations earn in Canada, to the extent that such earnings are not reinvested in the Canadian business. The 25% rate may be reduced under a tax treaty between Canada and the country of residence of the foreign corporation. For example, under the Canada-US tax treaty, the rate of branch profits tax is reduced to 5%.
- Some of Canada's tax treaties, such as the Canada-US tax treaty, exempt the first $500,000 of a non-resident corporation's income from the branch profits tax.
- The amount reinvested in Canada is generally determined with reference to the non-resident corporation's cost amount of property used in its Canadian business.
- The branch profits tax does not apply to a corporation whose principal business was transportation, communication, or mining iron ore in Canada, and special rules apply to non-resident insurers.
- Using a Canadian subsidiary may be preferable if the Canadian business is expected to generate profits in the near term.
- Using a Canadian branch may be preferable if the Canadian business is expected to incur losses in the near term, although this may depend on the tax laws of the parent jurisdiction.

## Things to do

- When establishing a business in Canada, determine whether using a Canadian branch or a Canadian subsidiary is preferred. Consult a tax advisor, if necessary.
- If a non-resident corporation has a Canadian branch, any surplus funds of the branch that are not needed in the home country can be reinvested in the Canadian business in order to reduce the branch profits tax.

### USEFUL RESOURCES

**Government of Canada**

- IT-137R3: Additional tax on certain corporations carrying on business in Canada (Archived)

### RELATED TOPICS

- Initial structuring and income tax considerations
- Thin-capitalization rules
- Branch of a foreign corporation vs. Canadian subsidiary
- Forming a Canadian subsidiary
- Canada's tax system

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