GKP Conference Investment in Canada

KPMG Canada

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Presented by

Henry Chung (정현철 총괄이사)
Executive Director, Korea Practice National Lead
henrychung@kpmg.ca
+1-604-691-3328

Kevin Koo (구자환 파트너)
Partner, Tax – Korea Practice
kevinkoo@kpmg.ca
+1-604-673-4477

Agenda

Korean Companies in Canada & KPMG Korean Client Service Group

Korean companies in Canada

Korean companies have been successful in Canada and KPMG has a dominant Korea clients service group in Canada to support this success.

Korean companies are diverse from many different industries and they are actively operating across Canada

Direct investments are the majority of cases but there are also investments through regional head office in US or locally grown in Canada

To support Korean clients, there have been 7 Korea Practice teams across the country since 1989 and the team has about 100 Korean speaking resources in diverse service lines

Korean clients' needs & KPMG's services

Korean companies' needs

Korean clients have various needs to be successful in the Canadian market and KPMG provides one stop service for all these needs.

- Market Research
- Risk Assessment
- Procurement
- Project Financing
- Deal Advisory
- Site Selection
- Entity Setup & Visa
- Audit and Tax
- Transfer Pricing
- Government Incentive
- Initial Public Offering

Canadian Incentive Landscape

Focus on programs fostering the energy transition and strategic investments

01

Federal Incentives

Clean economy investment tax credits and other key federal incentive programs

Clean Economy Investment Tax Credits (ITCs)

The Canadian government has introduced five* Clean Economy Investment Tax Credits (ITCs) in the past few years, providing $93 billion in incentives by 2034-35 to support the transition to a net-zero economy by 2050. An overview of these ITCs is summarized below.

	Carbon Capture, Utilization, and Storage (CCUS) ITC	Clean Technology Investment Tax Credit	Clean Hydrogen Investment Tax Credit	Clean Electricity Investment Tax Credit	Clean Technology Manufacturing ITC
Description	• Refundable tax credit for the investment of capital in the development and operation of CCUS capacity in Canada	• Refundable tax credit for the investment of capital in the adoption and operation of clean technology property in Canada	• Refundable tax credit for the investment of capital in the production of clean hydrogen and clean ammonia in Canada.	• Refundable tax credit to support investments in new and refurbished electricity facilities in Canada	• Refundable tax credit for the investment of capital in Canada for a CTM use
Eligibility	• **Qualified project**: approved by Minister of Natural Resources • **Qualified expenditures**: eligible capture equipment used in direct air capture project, other eligible capture equipment, eligible transportation, storage, and use equipment	• Eligible property includes equipment for solar, wind, water, nuclear fission, heat pumps, stationary storage, industrial zero-emission vehicles, geothermal, and waste biomass energy generation.	• **Qualified project**: approved by Minister of Natural Resources • **Eligible property**: specified equipment to produce hydrogen, clean ammonia equipment, dual-use electricity and heat equipment, and dual-use hydrogen and ammonia equipment.	• Eligible investments include non-emitting electricity generation, stationary storage, abated natural gas-fired generation, electricity transmission equipment, and waste biomass energy generation.	• **Eligible property**: Machinery and equipment for manufacturing, processing, and critical mineral extraction. • **Eligible use**: Manufacturing renewable energy equipment, hydrogen electrolysis, and producing qualifying materials in mineral activities.
Support	**Maximum rate of 60% for qualified expenditures – rates based on type of qualified expenditures**	**Maximum rate of 30% of capital cost of eligible property - rates vary based on labour requirements**	**Maximum rate of 40% of capital cost of eligible property - rates vary based on carbon intensity and labour requirements**	**Maximum rate of 15% of eligible investment**	**Maximum rate of 30% of the capital cost of eligible property used for eligible use**

**Note: The Canadian government announced a 6th investment tax credit as par of the 2024 federal budget – Electric Vehicle (EV) Supply Chain ITC. It has not been highlighted due to the restrictiveness of its eligibility criteria (e.g., requirement to invest in 3 segments of the EV supply chain [i.e., Cathode active material production; battery production; and. vehicle assembly]), which limits its applicability to a small number of large investors.*

Other Key Federal Incentive Programs

The Government of Canada provides financial support to investment, innovation, and sustainable development projects through a number of other incentive programs, including the five programs summarized below.

	Canadian Infrastructure Bank (CIB)	Canada Growth Fund (CGF)	Strategic Innovation Fund (SIF)	Clean Fuels Fund (CFF)	Critical Minerals Infrastructure Fund
Description	• The CIB provides low-cost, long-term, subordinated capital often pegged to revenue streams not typically sufficient for traditional debt and equity investors. • The CIB's focus on green infrastructure and clean power sectors aligns well with the development of hydrogen and EV technology.	• Administered by PSP Investments, the CGF provides a range of funding mechanisms for strategic energy transition projects. • The CGF makes private sector investments to help transform and grow Canada's economy on the path to net-zero including clean technology & critical minerals.	• The SIF invests in major projects that promote economic growth. Relevant program objectives include: (1) R&D investments that lead to technology transfer and commercialization, (2) accelerating business growth and expansion, and (3) attracting and retaining large-scale investments.	• The CFF provides capital investment required to build new or expand existing clean fuel production facilities • Open intake begins Dec 2024, until funds depleted. Projects must be commissioned by 2030, meeting set capacity and carbon targets	• Federal initiative supporting energy and transportation projects that can unlock access to priority mineral deposits. • Up to $300M for energy / transportation projects and $3.5M for Indigenous-led projects, supporting access to priority mineral deposits.
Instruments	• Development loans • Subordinated project financing • Project equity investments • Structured derivatives	• Concessional equity or debt • Contracts for difference (CFD) • Anchor equity • Offtake contracts	• Repayable contributions, conditional and unconditional. • Non-repayable contributions	• Conditional repayable contributions • Grants	• Non-repayable contributions • Conditionally repayable contributions • Grants
Support	Funding envelope: >C$20 billion • Funding available since 2020 • **CIB can cover up to 50% of a project's financing, net of any other government incentives. Maximum of $1B for single project.**	Funding envelope: C$15 billion • Funding available since 2023 • **Unique for each project**	Funding envelope: C$9.5 billion • Funding available since 2021 (not refinanced in the last federal budget) • **Up to 50% of eligible CapEx, with average contribution for past projects ranging between 5% to 15%**	Funding envelope: C$1.5 billion • Funding available since 2021 • **Up to 30% of total eligible project cost, up to a maximum of $150M per project. Maximum grant of $50M**	Funding envelope: C$1.5 billion • Funding available since 2023 • Up to 50% of total eligible project cost, up to 75% for Arctic, Northern, and Indigenous led projects. Maximum grant of $3.5M.

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02

Provincial Incentives

Examples from Ontario, Quebec, and Alberta

Ontario Incentive Programs

Examples of key incentive programs offered by the province of Ontario to support strategic investment projects are summarized below.

	Invest Ontario Fund*	Ontario Made Manufacturing ITC	Southwestern Ontario Development Fund*
	Invest Ontario	Ontario Ministry of Finance	Ministry of Economic Development, Job Creation and Trade
TYPE	Refundable and non-refundable financial contribution	Refundable Tax Credit	Refundable and non-refundable financial contribution
Description	• Supports and encourages investments in the key sectors of advanced manufacturing, technology and life sciences. • Advances high growth opportunities across priority sectors. • Leverages data to identify and prioritize investments that have the greatest economic impact for Ontario.	• Helps Ontario manufacturers lower their costs, innovate, and become more competitive by offering Corporate Income Tax support for investments in buildings, machinery and equipment used for manufacturing or processing.	• Provides support for projects and investments to existing businesses, municipalities and not-for-profit organizations for economic development in southwestern Ontario. • Offers financial support and services to help growing companies in eastern and southwestern Ontario make investments to grow their business, generate broad positive regional economic impact, and invest in innovation.
SUPPORT*	5%-15% of eligible cost	10% refundable corporate tax credit on qualifying investments (Up to $2M)	Up to 15% of eligible cost (merit-based) (Up to $5M)

**Note: The Invest Ontario Fund and the Southwestern Ontario Economic Development Fund are mutually exclusive.*

Quebec Incentive Programs

Examples of key incentive programs offered by the province of Quebec to support strategic investment projects are summarized below.

	Quebec Tax Holiday for Large Investment Projects*	C3i Tax Credit*	ESSOR Program
	Quebec Ministry of Finance (MFQ) & Revenu Québec (RQ)	Quebec Ministry of Finance (MFQ) &Revenu Québec (RQ)	Investissement Québec (IQ) & Quebec Ministry of Economy, Innovation and Energy (MEIE)
TYPE	Tax Holiday	Refundable Tax Credit	Loans, including forgivable loans (highly discretionary)
Description	• A large investment project in Québec may, under certain conditions, benefit from a tax holiday on the income coming from the eligible activities pertaining to the large investment project. • For a 48-month investment period, and under certain conditions, a corporation or a partnership that carries out a large investment project in Quebec can benefit from a 10-year tax holiday on the income from eligible activities (up to $1B in eligible expenditures, with a minimum investment threshold of $100M).	• Encourages companies to purchase manufacturing equipment, electronic equipment, management software packages, and mineral processing. • The credit applies to the first $100M of equipment, with a $100M cumulative limit over a 48-month period.	• The Essor Program is one of the main vehicles used by the Quebec government to provide financial support to strategic projects. • The program offers a range of reimbursable and non-reimbursable contributions, as well as loan guarantees and equity participation, under certain conditions. • International investors often apply to ESSOR's Component 2 ("Volet 2"), which focuses on supporting investment projects that favor productivity and business expansion.
SUPPORT*	15% to 25% of eligible expenditures (up to $1B) based on geographic location	15% to 25% of eligible expenditures (up to $1B) based on geographic location	Up to 25% of eligible expenditures

**Note: The Quebec Tax Holiday for Large Investment Projects (THI) and C3i Tax Credit cannot be received for the same property.*

Alberta Incentive Programs

Examples of key incentive programs offered by the province of Alberta to support strategic investment projects are summarized below.

	Clean Resources Fund	Advancing Hydrogen Competition	Emissions Reduction Alberta
	Alberta Innovates	Alberta Innovates	TIER, Government of Alberta
TYPE	Grant	Grant	Grant
Description	• The Clean Technology program focuses on decarbonization technologies and achieving net-zero goals, particularly in the energy sector. It includes work on renewable and alternative energy (e.g., biofuel), grid modernization, energy storage, and electricity generation, as well as critical minerals and emerging technology.	• Specifically targeting the adoption of hydrogen into Alberta's economy, this competition offers funding for projects that fill innovation gaps from production to end use, supporting economic diversification and GHG emission reductions.	• Emissions Reduction Alberta (ERA) has a mandate to reduce GHG emissions and grow Alberta's economy by accelerating the development and adoption of innovative technology solutions. ERA invests proceeds from Alberta's carbon pricing system to reduce GHG emissions and enable sustainability of new and incumbent industries. ERA funding covers various industries, including industrial transformation which focuses on emerging solutions to accelerate Alberta's transformation to a low-carbon economy.
SUPPORT*	Up to $2M to support projects that align with its strategic priorities	Up to $5M	Unique for each project

Taxation in Canada

Tax in Canada

- Incorporation in Canada vs. No Canadian entity (Branch / Project)

- Non-resident who carries on business in Canada is liable for income tax in Canada

- Tax requirements are modified and restricted by Canada's income tax treaties, including the Canada-Korea Tax Treaty (the "Treaty")

- In particular, Article 7 of the Treaty provides, in effect, that a non-resident's business profits are taxable in Canada <u>only if the non-resident carries on business in Canada through a permanent establishment situated in Canada (a "PE"), and only to the extent of the income attributable to the PE</u>

PE Considerations

- Will there be any employees or personnel in Canada who have the ability, and habitually exercise that ability, to conclude contracts for the company while in Canada?

- Will the company maintain an office or place of management in Canada through the duration of the project? Consider the manner in which the employees will perform their duties in Canada.

- Will the project extend for more than six months (from date of arriving in Canada until the date of completion and departure)?
  - Under the Treaty, a non-resident operating in Canada (i.e., through a branch) in respect of a construction and installation project would be automatically deemed to have a Canadian PE if that project continued for more than 6 months. Furthermore, the 6-month time limit would be evaluated separately for each project, and a job site that does not have a geographic coherence to anther job site would be separately evaluated

Withholding Tax Reg 105 - Branch

- NR providing service in Canada:
- Withholding tax requirement = 15% of gross revenue
  - Cash flow issue
  - Refund excess once tax return filed
- Waiver could be obtained if no PE in Canada
- Withholding tax can be avoided if incorporated in Canada

Canadian Sales Tax

Combined Federal and Provincial/Territorial Tax Rates for Income Earned by General Corporation – 2024 and 2025

	M&P Income	Active Business Income	Investment Income
Provincial rates			
British Columbia	27.0%	27.0%	27.0%
Alberta	23.0	23.0	23.0
Saskatchewan	25.0	27.0	27.0
Manitoba	27.0	27.0	27.0
Ontario	25.0	26.5	26.5
Quebec	26.5	26.5	26.5
New Brunswick	29.0	29.0	29.0
Nova Scotia	29.0	29.0	29.0
Prince Edward Island	31.0	31.0	31.0
Newfoundland and Labrador	30.0	30.0	30.0
Territorial rates			
Yukon	17.5	27.0	27.0
Northwest Territories	26.5	26.5	26.5
Nunavut	27.0	27.0	27.0

Canadian Sales Tax

Federal and Provincial / Territorial Sales Tax Rates

Provinces and Territories	GST	PST/RST/QST	HST
British Columbia	5% GST	7% PST	
Alberta	5% GST		
Saskatchewan	5% GST	6% PST	
Manitoba	5% GST	7% PST	
Ontario			13% HST
Quebec	5% GST	9.975% QST	
New Brunswick			15% HST
Nova Scotia			15% HST
Prince Edward Island			15% HST
Newfoundland and Labrador			15% HST
Yukon	5% GST		
Northwest Territories	5% GST		
Nunavut	5% GST		

GST/HST

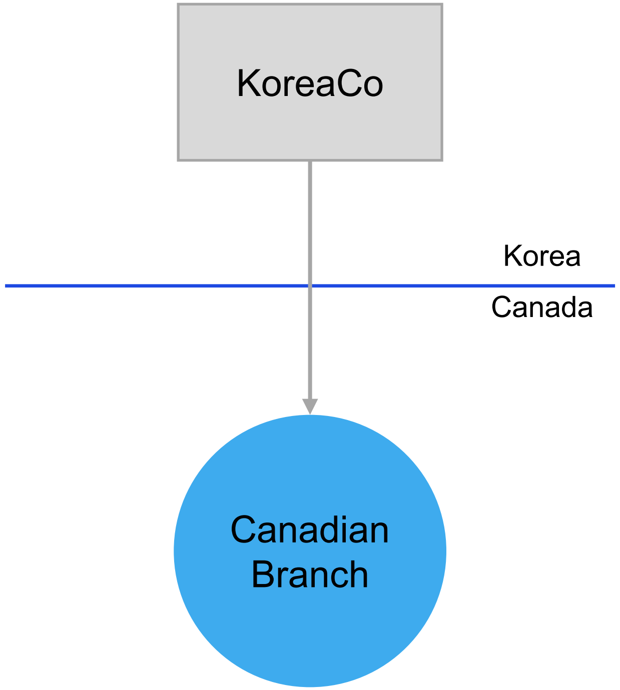
- **Overview of CRA policy**
  - The CRA's policy on the meaning of the term is set out in Policy P051R.
  - In that policy the CRA indicates that the determination of whether a non-resident is CoB in Canada is based on a variety of factors, generally based on the case law.

Common Investment Structures

Common Approaches

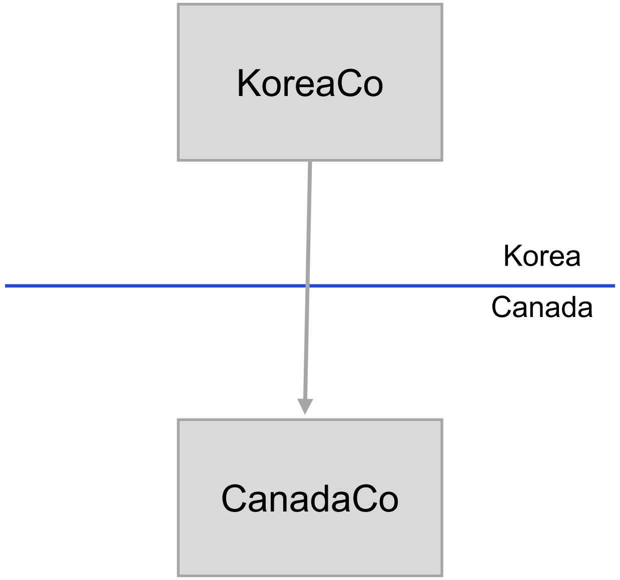
- Organic Growth
- Acquisition Growth

Organic Growth - Branch



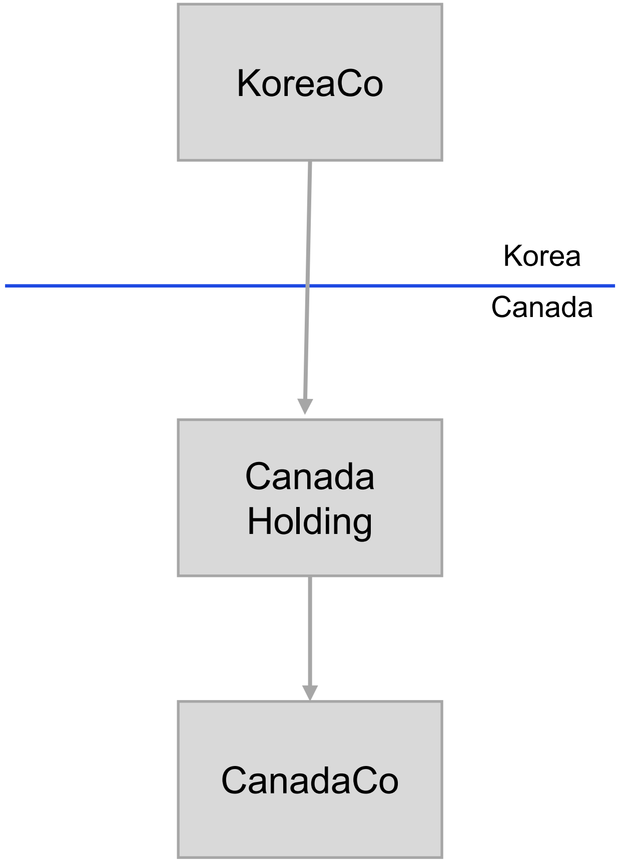
- Korean company operates in Canada through a Canadian branch
- No legal entity in Canada
- PE - Income earned in Canada subject to Canadian Tax (i.e. 2024 in B.C. – 27%)
- Repatriation of funds to Korea subject to Canadian Branch Tax
- Withholding tax requirements for Canadian customers
- Legal Liability – consult with both Canada and Korea legal counsel
- Asset sale - subject to Canadian Tax

Organic Growth – Canada Corporation



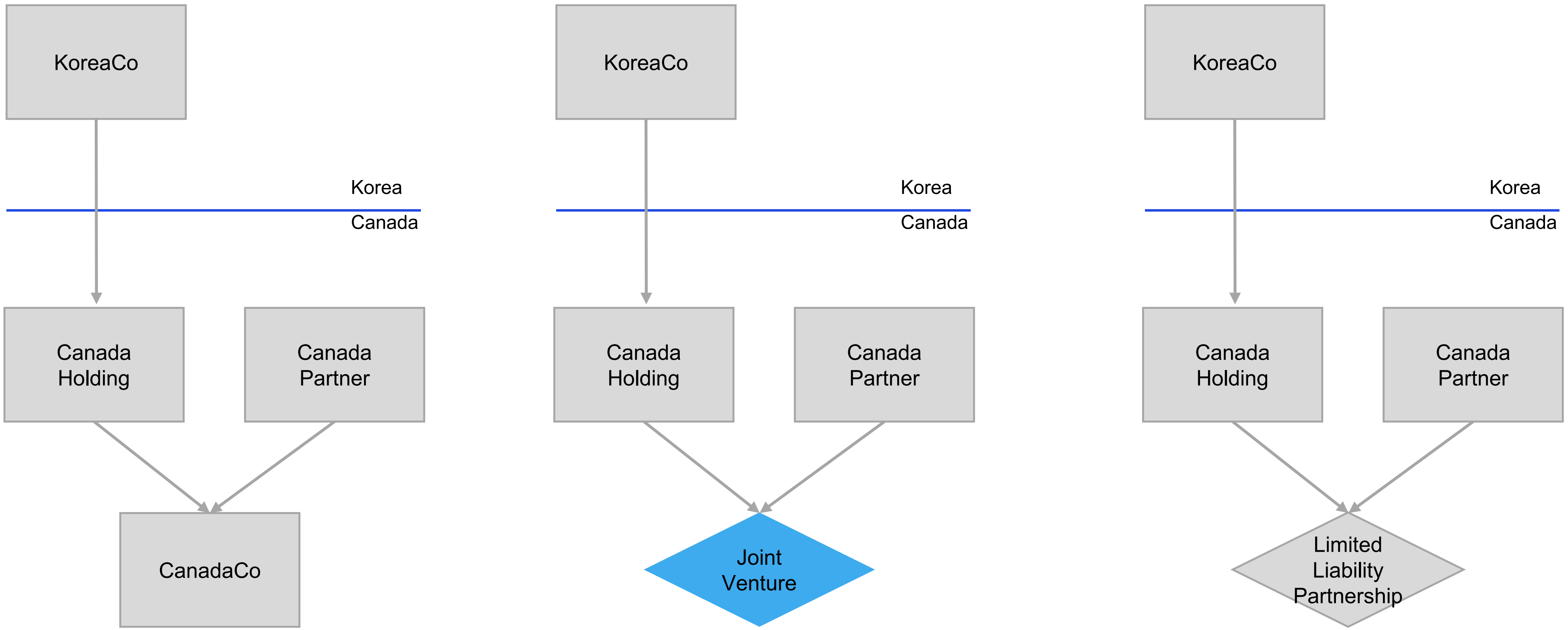
- Korean company incorporates a Canadian corporation
- Income earned in Canada by CanadaCo subject to Canadian Tax (i.e. 2024 in B.C. – 27%)
- Repatriation of funds to Korea subject to withholding tax – reduced with tax treaty (5 – 15%)
- Sale of shares of CanadaCo by KoreaCo may not be subject to Canadian Tax

Organic Growth – Canada Holding Corporation

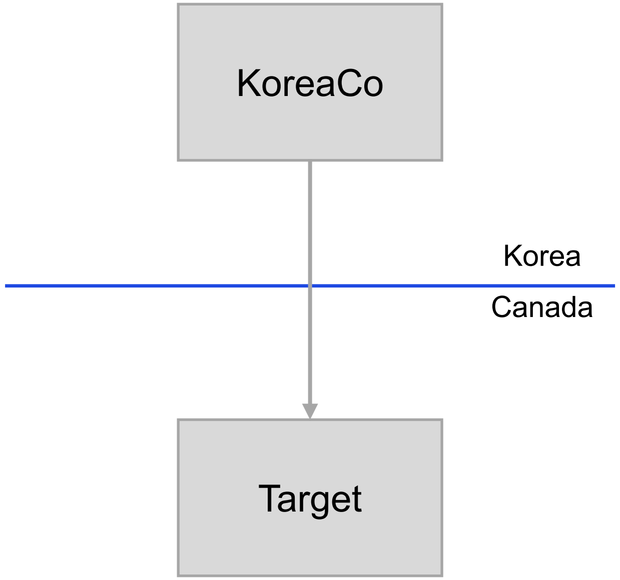


- Korean company incorporates a Canadian Holding corporation and Canadian Holding incorporates CanadaCo
- Income earned in Canada by CanadaCo subject to Canadian Tax (i.e. 2024 in B.C. – 27%)
- Dividend from CanadaCo to Canada Holding may be tax-free intercompany dividend – Separate cash from business operation
- Repatriation of funds by Canada Holding to Korea subject to withholding tax – reduced with tax treaty (5 – 15%)
- Sale of shares of CanadaCo by Canada Holding subject to Canadian capital gains Tax (i.e. 2024 in B.C. – 13.5% → 18%)

Organic Growth – with Canadian Partner

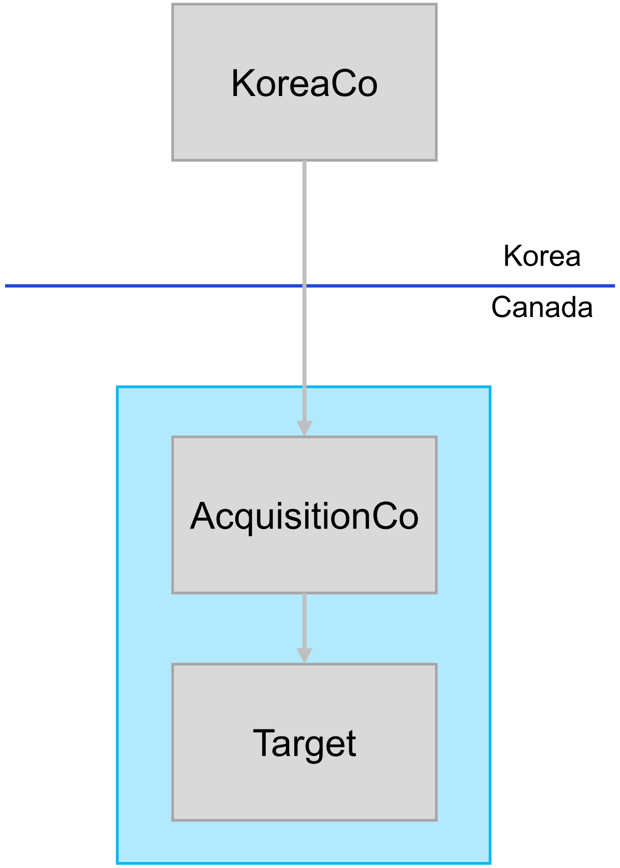


Acquisition Growth - Base



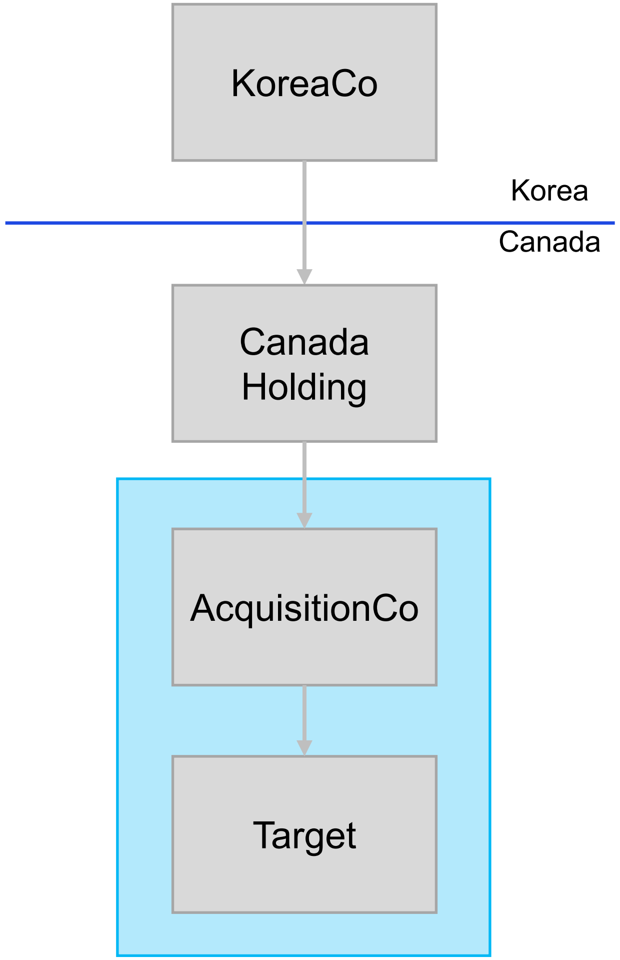
- Korean company acquires Canadian Target company
- Income earned in Canada subject to Canadian Tax (i.e. 2024 in B.C. – 27%)
- Repatriation of initial purchase price to Korea subject to withholding tax except for vendor's original PUC
- Repatriation of funds to Korea subject to withholding tax – reduced with tax treaty (5 – 15%)
- Sale of shares of CanadaCo by KoreaCo may not be subject to Canadian Tax – ACB benefit in Korea

Acquisition Growth – Acquisition Company



- Korean company incorporates and makes investment to AcquisitionCo
- AcquisitionCo uses the funds received from KoreaCo and acquires Target
- AcquisitionCo and Target Merge together (Amalco) - Bump
- Income earned in Canada subject to Canadian Tax (i.e. 2024 in B.C. – 27%)
- Repatriation of initial purchase price to Korea – No Withholding Tax
- Repatriation of funds to Korea subject to withholding tax – reduced with tax treaty (5 – 15%)
- Sale of shares of Amalco by KoreaCo may not be subject to Canadian Tax

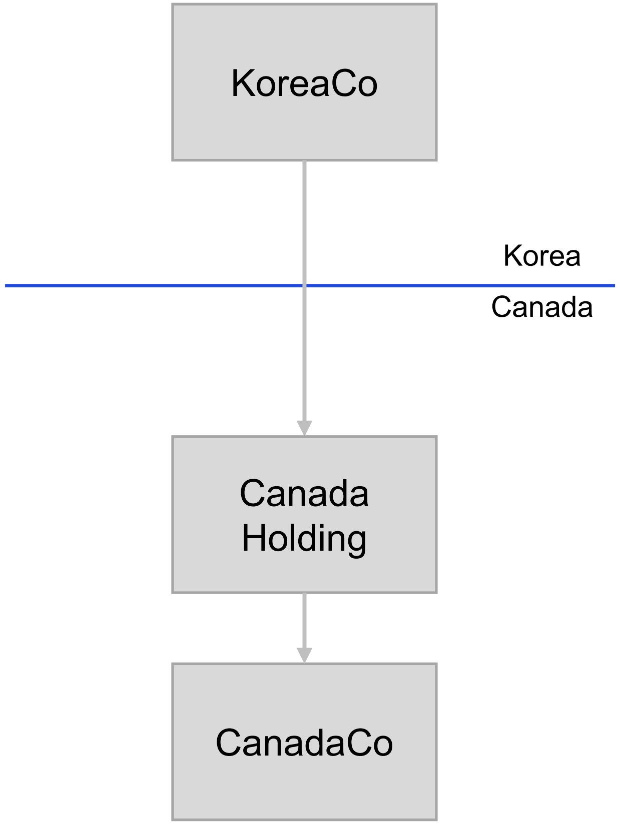
Acquisition Growth – Canada Holding



- Korean company incorporates and makes investment to Canada Holding and Canada Holding invests in AcquisitionCo
- AcquisitionCo uses the funds received from Canada Holding and acquires Target
- AcquisitionCo and Target Merge together (Amalco) - **Bump**
- Income earned in Canada subject to Canadian Tax (i.e. 2024 in B.C. – 27%)
- Dividend from Amalco to Canada Holding may be tax-free intercompany dividend – Separate cash from business operation
- Repatriation of initial purchase price to Korea – **No Withholding Tax**
- Repatriation of funds to Korea subject to withholding tax – reduced with tax treaty (5 – 15%)
- Sale of shares of Amalco by Canada Holding subject to Canadian capital gains Tax (i.e. 2024 in B.C. – 13.5% → 18%)

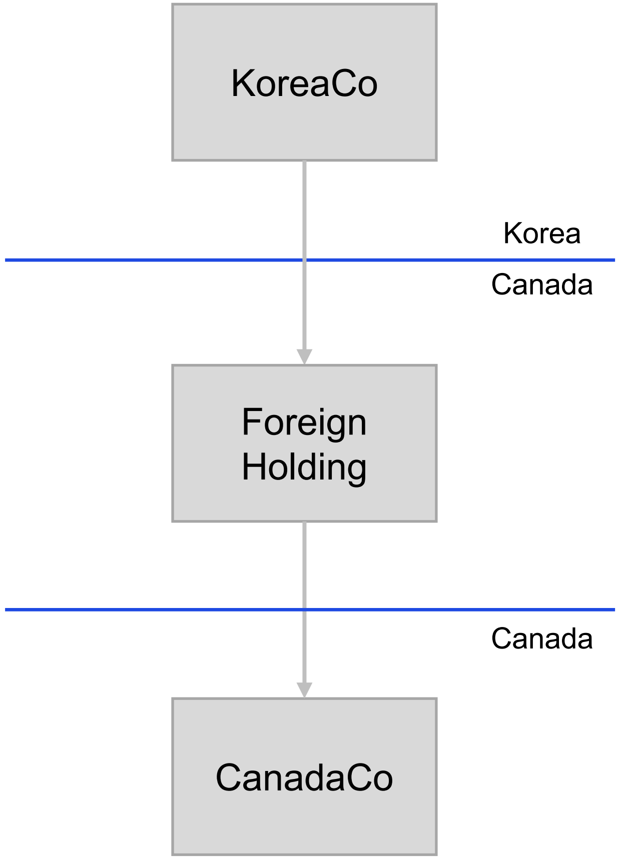
Canadian Tax Considerations

Repatriation of Funds



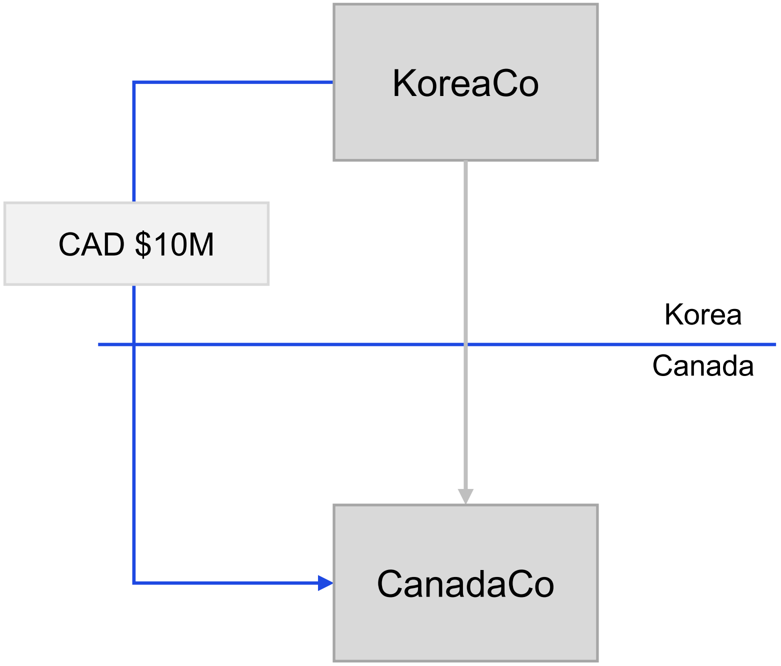
- Funds leave Canada as dividend is subject to Canadian withholding tax
- Normally 25% but tax treaty reduces to 5-15%
- Initial equity investment when incorporating = Paid-up Capital ("PUC")
- PUC return should not be subject to withholding tax
- IMPORTANT to structure it right when acquiring Canadian company

Repatriation of Funds – Foreign Corporation



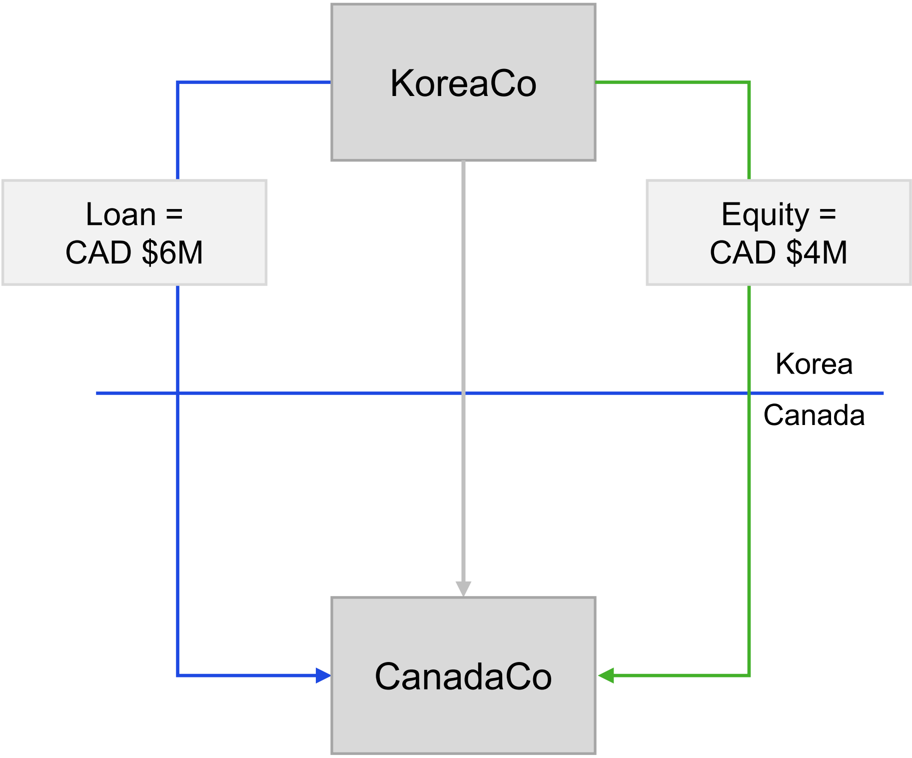
- Funds leave Canada as dividend is subject to Canadian withholding tax
- Normally 25% but tax treaty reduces to ?%
- Favorable tax rate under tax treaty between Korea and other country
- Tax on sale of share of CanadaCo in foreign country
- Residency of Foreign Holding
- Treaty shopping and Multilateral Instrument (MLI)

Thin Capitalization



- KoreaCo invests in CanadaCo $10M by a way of loan
- CanadaCo pays interest to KoreaCo
- By paying the interest, profit is moved from Canada to Korea
- Debt to Equity = 1.5:1 ratio

Thin Capitalization



- KoreaCo invests in CanadaCo $10M by a way of loan
- CanadaCo pays interest to KoreaCo
- By paying the interest, profit is moved from Canada to Korea
- Debt to Equity = 1.5:1 ratio

Limitations on Interest Deductibility - NEW

Who?

- Corporations, trusts, certain non-resident taxpayers, and indirectly in respect of partnerships.
- Exclusions:
  - Associated groups (CCPCs and corporations associated with that CCPC) have a aggregate taxable capital employed in Canada of less than $15 million;
  - Groups (corporations and trusts) that have aggregate net interest expense among their Canadian members of $250,000 or less; and
  - Certain standalone Canadian-resident corporations and trusts.

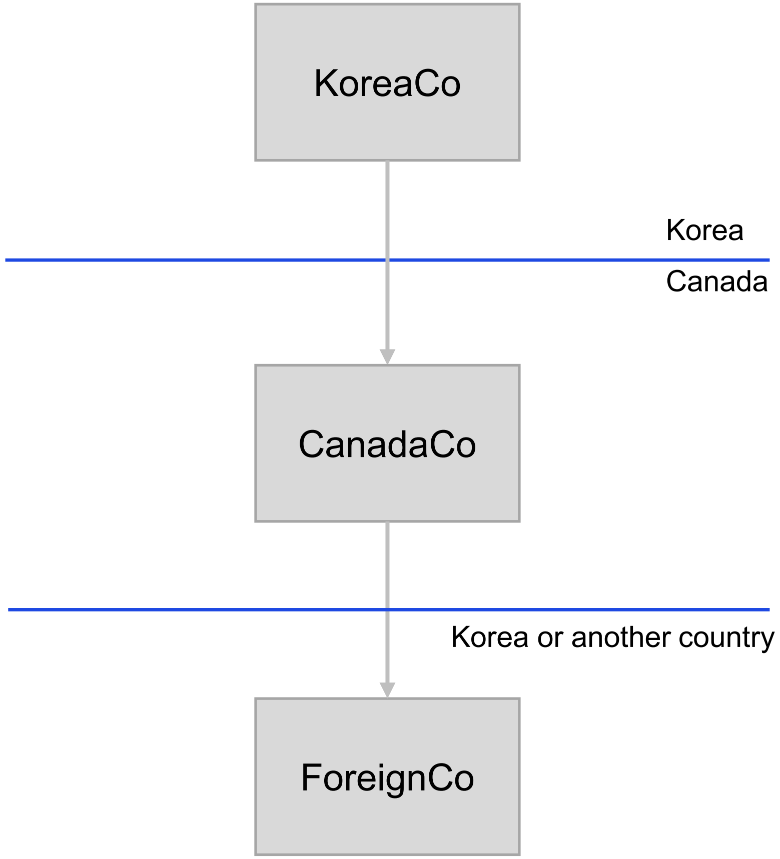
What?

- Interest is deductible up to 30% (40% in the first year of application), of “adjusted taxable income” (effectively EBITDA).
- Group ratio rule included for consolidated approach.
- 3-year carryforwards are available for unused capacity (transitional rules to include unused capacity from the 3 years before the new rules apply).
- Interest denied by the new rule can be carried forward and be deducted in a year that has capacity for up to 20 years.
- Ordering: these new rules apply after existing limitations (such as the thin capitalization rule).

When?

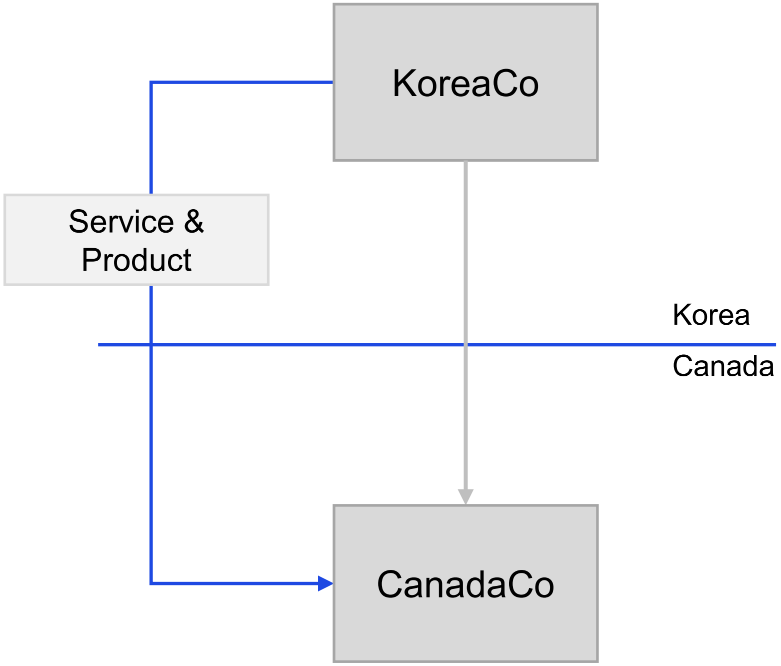
- Effective now.

Foreign Affiliate Dumping



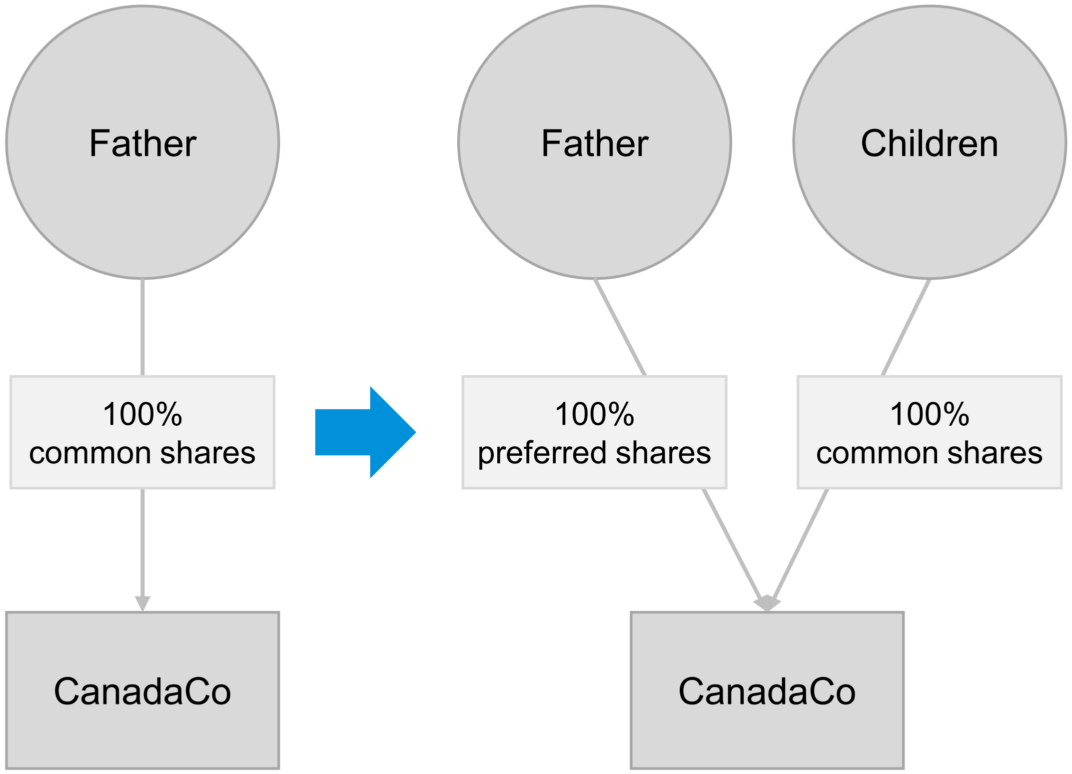
- Canada views the investment CanadaCo makes to its foreign affiliate companies as funds repatriated from Canada
- Withholding tax
- PUC reduction
- Careful consideration of tax consequences is required

Transfer Pricing



- KoreaCo provides services or sells products to CanadaCo
- How much to charge?
- Transfer pricing study

Estate Tax Planning In Canada



- Deemed disposition at fair market value upon passing
- Limit estate tax by exchanging shares to special shares
- Future growth of CanadaCo goes to Children

KPMG
Private Enterprise

kpmg.com/ca/privateenterprise