
FineAnswers

Answers to questions on tax, finance and management

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Tax Savings for Manufacturers and Exporters

Our company is a manufacturer and exporter, how can we utilize a Barbados corporation?

If you have a marketing and sales operation that can be located in Barbados or under certain circumstances a country with which Canada has a tax treaty you can incorporate a subsidiary in Barbados and take advantage of low taxes in Barbados.

What are the tax savings?

Income generated in the Barbados company through the re-export of the Canadian products is subject to the low tax in Barbados, which is currently 2.5%, while Canadian taxes are much higher.

When I bring in the profit from Barbados to Canada is it subject to tax?

If the Barbados company is your subsidiary and its income was from the resale of the goods the parent exported to it, then profits repatriated to its Canadian parent is not subject to tax.

How about if exports by the parent are not from goods manufactured by the parent.

Unless manufactured by a company related to the parent the benefit of repatriating the profits tax free will not accrue to such income. In fact the income of the subsidiary may be considered FAPI and subject to tax in the hands of the parent as it is earned by the subsidiary

What about profit generated from the export of goods manufactured by the Barbados company can that be repatriated to Canada tax free?

Yes, subject to all other matters being in order

Is incorporation sufficient or do we need to have local directors?

The majority of directors should be resident in Barbados and they should convene their meetings in Barbados. Also, the Barbados company should have substance and not just be a shell company managed by its Canadian parent.

See also Offshore News Letter