Maksym Stepanenko

Starting a Business in Canada: From Idea to First Contract

Federal and provincial levels, the CRA, GST/HST, and your bank account

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CHAPTER 1

The Canadian Business Climate: What to Know from Day One

Canada is a member of the G7, ranks 23rd in the world for ease of doing business, and has one of the most attractive tax regimes for small corporations among developed countries. But the registration and tax administration system has unique features that often catch newcomers by surprise.

A two-level system: every business in Canada operates at two levels at once, federal and provincial. That means two registrations, two sets of rules, and sometimes two sets of taxes. For a foreign entrepreneur used to a single system (as in most European countries), this takes some adjustment.

Provinces as “states within a state”: Canada is a federation of 10 provinces and 3 territories. Each province has its own corporate law, its own tax system (except for provinces that have delegated administration to the CRA), and its own registration requirements. What works in Ontario may not work in Quebec.

The key regulators: the Canada Revenue Agency (CRA) is the federal tax authority, the equivalent of the IRS in the US. It issues business numbers (BN) and administers GST/HST and corporate tax. Innovation, Science and Economic Development Canada (ISED) handles federal incorporation. Corporations Canada is the ISED division for federal corporations. Provincial registries (ServiceOntario for Ontario, the Registraire des entreprises for Quebec, and so on).

Why immigrants choose Canada for business: the tax rate for a Canadian Controlled Private Corporation (CCPC) on the first $500,000 of active income is only 9–12% (the Small Business Deduction). It is one of the lowest rates in the G7. Double tax treaties with 90+ countries. Government support programs for small business: BDC (the development bank), EDC (the export

bank), and the SR&ED tax credit for R&D.

Special considerations for foreign nationals: a non-resident of Canada can incorporate a company, but a federal corporation requires that 25% of directors be residents of Canada (for most provinces). A bank account without a SIN (Social Insurance Number) is harder to open, though possible. To operate the company, you need a work permit or a status that allows you to run a business (PR, Work Permit categories).

First decisions before registering: which structure (Chapter 2). Which province to register in. Federal or provincial registration. Whether you need a GST/HST number right away.

CHAPTER 2

Sole Proprietorship, Partnership, Corporation: Which to Choose

Choosing a structure is the first and most important decision. It affects taxes, personal liability, your ability to attract investors, and the complexity of administration. For most serious businesses with growth plans, the answer is clear: a Corporation. But there are nuances.

Sole Proprietorship: the simplest structure. Registration is your name plus a business name (trade name) through the provincial registry, $60–$80. Taxes: all of the business's income = your personal income. Personal liability: unlimited, so creditors can take personal property. Drawbacks: high personal tax as income grows (in Ontario, up to a 53.53% marginal rate). No separation between personal and business liability. Advantages: simplicity and low cost. When it fits: testing an idea, freelancing with income up to $50,000/year, a temporary project.

General Partnership: two or more people run a business together. A partnership agreement (not required, but critically important). Taxes are allocated among the partners in proportion to their shares, and each pays as an individual. Personal liability: each partner is fully liable for the debts (including the other partner's debts). Limited Partnership (LP): there is a General Partner (who manages and bears full liability) and Limited Partners (investors only, with liability limited to their contribution). Popular for investment funds and real estate.

Corporation: a separate legal entity. The owners are shareholders, and directors manage it. Limited liability: shareholders' personal assets are protected (with exceptions such as fraud and personal guarantees). Taxes: the corporation pays its own tax (9–12% on the first $500K for a CCPC). Dividends from the corporation are taxed separately (but with tax credits). Advantages: tax efficiency, asset protection, the ability to attract

investors, and a professional image. Drawbacks: more expensive registration ($200–$500), mandatory annual filings, and more complex administration.

Why a Corporation is the best choice for most: at an income of $50,000+, a Corporation starts to save taxes. The difference between 53% (personal tax) and 12% (corporate tax) on $50,000 = $20,500 saved per year. That money stays in the corporation for reinvestment. In addition: the Lifetime Capital Gains Exemption ($1M+ on the sale of CCPC shares) is not available to sole proprietors. You can pay a salary to a spouse or children (income splitting). Access to the SR&ED credit.

Professional corporations (PCs): special rules apply to licensed professionals (doctors, lawyers, accountants). A PC lets you earn income through a corporation, but there are restrictions on shareholders.

Federal vs. provincial corporation: a Federal Corporation (Canada Business Corporations Act, CBCA) operates in all provinces without registering in each (though Extra-Provincial Registration is needed in some). A Provincial Corporation (for example, under the Ontario Business Corporations Act, OBCA) is simpler and cheaper and operates only in that province. Advice: for a business in one province, a provincial corporation. For a multi-province business, a federal one.

CHAPTER 3

Canada Revenue Agency: Business Number, GST/HST, Payroll

A Business Number (BN) is a 9-digit number that the CRA assigns to every business. It is your main identifier in the federal tax system. “Program accounts” are added to the BN as suffixes for different tax programs: GST/HST (RT), Payroll (RP), Import/Export (RM), Corporate Tax (RC).

Getting a BN: you register with the CRA online through canada.ca/en/revenue-agency, or by phone at 1-800-959-5525. When you incorporate through ISED, the CRA is notified automatically. You get the BN at the moment of your first CRA registration, and program accounts are added as needed.

GST/HST: when registration is mandatory: if annual revenue exceeds $30,000, you must register within 29 days. Below $30,000, registration is voluntary (but recommended if you work with other businesses). Once registered: you charge GST/HST to customers (5–15% depending on the province). You pay GST/HST to suppliers but get it back through Input Tax Credits (ITC). You remit the difference to the CRA.

GST vs. HST: HST (Harmonized Sales Tax) is used in provinces that combined the federal GST (5%) with a provincial sales tax. Ontario: HST 13% (5% federal + 8% provincial). British Columbia, Saskatchewan, Manitoba: GST 5% + a separate PST. Quebec: GST 5% + QST 9.975% (a separate system). Alberta: GST 5% only (no provincial tax).

The Quick Method for small business: if revenue is up to $400,000, you can use a simplified method. Instead of an exact calculation, you pay a fixed percentage of revenue (depending on the province and type of business). It is often more favorable than the standard method; check with an accountant.

Payroll (RP account): if you hire even one employee, you need a Payroll Program Account. The CRA regulates contributions to the CPP (Canada Pension Plan) and EI (Employment Insurance) and the withholding of income tax from wages. Payroll remittances (payments to the CRA) are monthly or more often. T4 forms for employees are due annually in February. The PD7A is the monthly remittance form for withholdings.

Corporate tax (T2): every Canadian corporation files a T2 Return within 6 months after the end of its fiscal year. Tax is paid within 2 months (for a CCPC) or 3 months after year-end. Small Business Deduction (SBD): the first $500,000 of a CCPC's "active income" is taxed at a preferential rate (in Ontario: 9% federal + 3.2% provincial = ~12.2%). Income above $500,000 is taxed at the general rate of 26.5%.

My Business Account: an online account on the CRA website. Through it you can view tax obligations, file forms, track refunds, and communicate with the CRA. I recommend setting it up first; it will save time throughout the life of the business.

CHAPTER 4

Ontario Business Registry: Registering in Ontario

Ontario is Canada's largest province. It accounts for 40% of the country's GDP and is home to Toronto (the financial capital), Ottawa (the national capital), Mississauga, and Hamilton. Ontario is the most obvious choice for most immigrants and international entrepreneurs.

The Ontario Business Registry (OBR): ontario.ca/page/ontario-business-registry is the online portal for registering and managing a business in Ontario. Most registration actions can be completed online without visiting an office.

Business Name registration (for Sole Proprietorships and Partnerships): the cost is $60. It is valid for 5 years and then renewed. It registers your trade name in the provincial registry. It does not create a legal entity; it is simply the official "name" under which you do business.

Registering an Ontario Corporation (Inc.): the cost is $300 (online). A Name Search (NUANS report) is $13.80 (mandatory for corporations with a name, not needed for a "numbered company"). A Numbered Company (123456 Ontario Inc.) needs no prior name check. A named corporation (Acme Corp. Inc.) needs a prior check. Articles of Incorporation: the share structure (Authorized Capital), directors, and registered address. After filing, the Certificate of Incorporation is issued online right away (usually within an hour).

After registration, the mandatory steps: Register with the CRA (get a BN). Open a corporate bank account (you cannot mix it with a personal one). Prepare the Organization Minute Book: the Shareholder Registry, Director Registry, Corporate By-Laws, and the first Resolutions. A lawyer does this for $500–$1,000, or you can use a service such as Company Formations. Register for HST (if revenue is $30,000+). Get a Business License if your line of

business requires one.

Extra-Provincial Registration: if your corporation is registered in another province (or another country) and wants to officially do business in Ontario, you need to register as an Extra-Provincial Corporation in Ontario. The cost is $300.

Annual obligations: an Annual Return in the OBR costs $25/year. It is filed online within 60 days after the anniversary date. If you miss it, there is a penalty and eventual dissolution (forced liquidation). A T2 to the CRA every year. An Annual General Meeting (AGM) is not required for private corporations with a single shareholder, but minutes must be kept. Director and Officer resolutions: document all key decisions.

ServiceOntario vs. the Ontario Business Registry: ServiceOntario has physical offices, but most services have moved online to the OBR. Some documents (an Apostille, notarized copies) still need to be obtained in person.

Professional resources: BDC (Business Development Bank of Canada) is a government bank for small business. It offers loans, training, and consulting. Futurpreneur Canada is for entrepreneurs up to age 39, with loans up to $60,000. The Ontario Centre for Workforce Innovation. Chambers of Commerce: the Toronto Board of Trade and the Ottawa Chamber.

CHAPTER 5

A Bank Account in Canada: How to Open One and What to Choose

A bank account is a mandatory step for any Canadian business. Using a personal account for business operations is a gross mistake: it undermines corporate status ("piercing the corporate veil"), complicates tax accounting, and violates the terms of most banks.

The Big Five Canadian banks: Royal Bank of Canada (RBC), TD Bank, Scotiabank, BMO (Bank of Montreal), CIBC. These are the most reliable and widespread. For a new business they are the best choice despite higher fees.

The documents needed to open a corporate account: the Certificate of Incorporation (or Articles of Incorporation). A Corporate Resolution authorizing the account (signed by the directors). A list of directors and shareholders. Two pieces of ID for the director who signs on the account (passport + driver's license). A SIN or proof of tax status. The business address. A description of the business activity.

Problems for non-residents: without a SIN, opening an account is harder, and the bank may refuse or ask for additional documents. Solutions: come to Canada in person (banks are more willing to open accounts for in-person visits). Use a credit union, which is more flexible on requirements. Open a personal account first (with an ITIN or another document) and add the business later. Use fintech: Stripe Atlas, Mercury (for a Canadian business with a US account), Wise Business Account.

Fees and products: basic business accounts at the Big Five: $15–$40/month + transaction fees ($0.25–$1.25 each). For low transaction volumes, credit unions are often a better deal. Alternatives: Tangerine Business (online, no fees), Wealthsimple Cash Business (for startups), Wise Multi-Currency Account (for

international payments).

Merchant Services (accepting payments): for cards: Square (the simplest), Stripe (for online), Moneris (the largest Canadian processor), TD Merchant Services. Interac e-Transfer for business: most Canadian banks support it, with limits from $3,000 to $50,000 per transaction.

Credit cards for business: TD Business Travel Visa Infinite ($149/year) is the best for travel. American Express Business Gold ($199/year) has excellent travel rewards. BMO AIR MILES Business Mastercard has no annual fee. CIBC Aerogold Business Visa is for airline miles.

Financial separation from day one: all business income goes only to the corporate account. All business expenses come only from the corporate account or a corporate card. Pay yourself through official payroll (or dividends, as your accountant decides). Never use corporate money for personal needs without formal documentation. That is “piercing the corporate veil,” the risk of losing limited liability protection.

CHAPTER 6

SR&ED: The Scientific Research and Experimental Development Tax Credit

Scientific Research and Experimental Development (SR&ED) is the most generous tax tool for technology companies in Canada. The government returns up to 65% of R&D expenses. In 2024, about 24,000 companies claimed SR&ED credits totaling $4 billion a year. Most of them are small companies.

What counts as SR&ED: experimental development, which is creating new software, processes, and products. Applied research, which is gaining new knowledge with a specific practical goal. Basic research, which is gaining new knowledge without a specific goal (rare for business). The key criterion: was there "technological uncertainty" that you were resolving? If you did not know in advance what would result, it is probably SR&ED.

What does NOT count as SR&ED: standard development to a ready specification. Testing without a research component. Marketing, sales, administration. Routine updates to existing products.

The size of the credit: for a CCPC (Canadian Controlled Private Corporation): a 35% refundable credit on the first $3M of SR&ED expenditures. This is real cash even if there is no taxable income. A 15% non-refundable credit on amounts above $3M. Provincial credits: Ontario adds another 8–10% (the Ontario Innovation Tax Credit and the Ontario Research and Development Tax Credit). Total for an Ontario CCPC: up to 43–48% of the first $3M of expenditures.

Eligible expenses: wages of employees engaged in SR&ED (up to 65% of salary for overhead). Materials and components used in SR&ED. Contract work (80% of the amount). Equipment rental specifically for SR&ED. The proxy method for overhead: 55% of SR&ED wages as overhead expenses.

The filing process: the SR&ED claim is filed with the T2 (the corporate tax return). Form T661 includes the Technical Narrative: a description of each SR&ED project. Required: the hypothesis, the methodology, the results, and how the technological uncertainty was resolved. The CRA audits large claims, so you need to document the work in real time (git commits, notebooks, meeting minutes, timesheets).

Documentation is the key to SR&ED success: keep lab notebooks and a git history with meaningful commit messages. Record hypotheses, experiments, and failures (failures are proof of uncertainty). Timesheets: who spent how many hours on what. The CRA reviews documents up to 18 months after filing.

SR&ED consultants: most small companies work with SR&ED specialists on a contingency basis (20–30% of the credit received). This is justified, because a properly prepared claim is worth many times the consultant’s fee. Some companies do SR&ED on their own for claims up to $50,000, which is quite realistic with good documentation.

CHAPTER 7

Support Programs: BDC, EDC, IRAP, Ontario Grants

Canada actively supports small business through a range of government programs. Altogether, a Canadian entrepreneur has access to dozens of programs for financing, lending, mentoring, and export support, most of which are much less well known than SR&ED.

BDC (Business Development Bank of Canada): a government bank created specifically for small and medium-sized businesses. It does not compete with commercial banks; it helps where they will not lend. Loans from $10,000 to several million. Features: it accepts startups with 2+ years in business. It finances technology, equipment, and real estate. Advisory services at below-market prices. BDC Venture Capital is for technology startups. BDC Advisory Services covers management, marketing, and finance at preferential prices.

EDC (Export Development Canada): helps Canadian companies export. Insurance of export receivables (if a foreign customer does not pay, EDC compensates you). Guarantees on bank loans backed by export contracts. The Performance Security Guarantee is for tenders that require a Performance Bond. The EDC Account Performance Security Guarantee is for companies performing contracts abroad.

IRAP (Industrial Research Assistance Program): run by the NRC (National Research Council). It funds innovative R&D projects of small and medium-sized companies. Non-financial technical assistance through ITAs (Industrial Technology Advisors). R&D grants, usually $50,000–$500,000. The approach: the ITA assesses your project and recommends funding. The process takes 2–6 months. IRAP + SR&ED: these programs are compatible, so you can receive an IRAP grant AND an SR&ED credit on the same expenses.

Ontario Centres of Excellence (OCE): funds collaborations between business and Ontario universities. The Market Readiness Program (up to $50,000, 50/50 matching). The SmartStart Fund is for student entrepreneurs. The Voucher for Innovation and Productivity (VIP) provides up to $30,000 for services from university researchers.

Futurpreneur Canada: for entrepreneurs aged 18 to 39. Loans up to $60,000 (through BDC) with mentoring. A 2-year mentor from professional business communities. No collateral required. A very accessible program for young entrepreneurs.

CanExport: for entering international markets. Grants up to $75,000 (50% co-funding). It covers market research, trade show participation, product certification, and legal costs in the target country. Apply online at tradecommissioner.gc.ca.

Women Entrepreneurship Strategy: $2.2B to support women entrepreneurs. The Women Entrepreneurship Loan Fund offers loans up to $100,000 on favorable terms. The Women Entrepreneurship Fund provides grants up to $100,000 for innovative women-led businesses.

Ontario provincial programs: the Ontario Small Business Support Grant (historically, for those affected by COVID). The Ontario Innovation Tax Credit, a supplement to SR&ED. Ontario Business Supports is a portal for all provincial programs.

CHAPTER 8

Tax Planning for a Canadian Corporation

Tax planning is the lawful minimization of the tax burden through tools provided by law. In Canada, a private corporation has a wide arsenal of such tools.

Salary vs. dividends, the eternal question: the owner of a CCPC has two main ways to take money out of the corporation. Salary: counts toward RRSP contribution room, creates CPP contributions, is deducted from corporate income, and is taxed as ordinary income for the individual. Dividends: are paid from after-tax corporate profit, receive the Dividend Tax Credit (which makes them partly “preferential”), do not create RRSP room, and are not subject to CPP contributions. The best answer is a combination. The exact ratio depends on income and province, and an accountant does the calculation.

Small Business Deduction (SBD): a CCPC pays a reduced rate on the first $500,000 of active business income. Money left in the corporation (not paid out as salary or dividends) accumulates at a low rate, which is called “tax deferral.” This money can be reinvested in the business or invested inside the corporation.

Lifetime Capital Gains Exemption (LCGE): when CCPC shares are sold, the owner is exempt from tax on capital gains up to $1,016,602 (indexed annually). It is one of Canada’s most powerful tax tools. Requirement: the shares must qualify as “Qualified Small Business Corporation Shares,” a status with specific technical requirements. Start planning several years before the sale.

Income Splitting: paying a salary or dividends to a spouse or children. The TOSI rules (Tax on Split Income) have substantially limited income splitting since 2018; it now works only when the family member is actively involved in the business. Be sure to consult an accountant.

RRSP and Corporate Pension: contributions to an RRSP (Registered Retirement Savings Plan) are deducted from personal income. The limit is 18% of the previous year's income, with a maximum of $31,560 in 2024. Salary creates RRSP room; dividends do not. Individual Pension Plan (IPP): a corporate pension plan for an owner-employee over 40. It allows larger contributions than an RRSP.

The Holding Company structure: creating a Holdco (a holding company) that owns the shares of the operating company, Opco. Dividends from Opco to Holdco are tax-free (an inter-corporate dividend). In the Holdco, money accumulates and is invested. Asset protection: Opco's creditors cannot reach the money in Holdco. The Lifetime Capital Gains Exemption is preserved with the right structure.

Mistakes that cost money: mixing personal and business expenses. Registering for HST late and getting penalties. Not keeping SR&ED documentation in real time. Forgetting to file the Annual Return, a $500 penalty. Not making minimum salary payments and getting a "deemed dividend" in a tax audit. The solution: a professional accountant from the first year. The cost is $2,000–$5,000/year. The savings are many times greater.

CHAPTER 9

International Clients and Exporting from Canada

One of the main advantages of a Canadian corporation is that it is a convenient base for international business. Canada has double taxation treaties with 90+ countries, CETA with the EU, CUSMA (USMCA) with the US and Mexico, and CPTPP with 10 Pacific countries.

Selling services to foreign clients: services (“intangible” exports) are subject to GST/HST at a zero rate. That means a Canadian IT company invoices an American client without HST. This is not a mistake; it is a “zero-rated supply.” The zero rate means you can claim Input Tax Credits on expenses even though HST on revenue is zero.

Transfer pricing: if you have related companies in different countries (for example, a Canadian Holdco and a US LLC), transactions between them must be made at market prices (arm’s length). A violation brings CRA penalties. For serious international structures, Transfer Pricing documentation is mandatory.

Payroll for foreign workers: if you hire Canadian residents, standard payroll applies. If you hire non-residents remotely, different rules apply. A non-resident providing services from abroad is usually an Independent Contractor, with no Canadian payroll. A non-resident physically working in Canada is more complicated and needs a consultation.

Stripe Atlas and international payment infrastructure: many Canadian entrepreneurs use a US LLC (through Stripe Atlas, $500) alongside a Canadian corporation. The US LLC simplifies accepting payments from American clients. The Canadian corporation is for SR&ED and the Small Business Deduction. This is legal and common, but it requires proper Transfer Pricing documentation.

Double taxation and tax treaties: Canada→US: on dividends from a Canadian corporation to a US citizen, Canada withholds 15% tax. In the US it counts as a foreign tax credit. Salary to a non-resident from Canada: 25% withholding, reduced to 15% by treaty. Consult professionals on any cross-border payments.

Export financing through EDC: if your foreign client delays payment, or you need a financial guarantee before a large contract, EDC insures export receivables and gives guarantees to banks. For B2B service companies with large clients, this is a valuable safety net.

A real success story of a typical setup: a Canadian SaaS company founded by an immigrant from Ukraine. An Ontario CCPC. Clients are American and European companies (zero-rated HST). SR&ED credits: $200,000 a year refunded by the CRA. A BDC loan of $100,000 to scale. After 3 years, a sale of shares using the LCGE, with the first $1M of gain tax-free. This is not a hypothetical; thousands of companies work exactly this way.

What next

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