

the **PAYROLL** edge

**DIFFERENCES
TO EXPECT
WHEN
EXPANDING
INTO CANADA**

www.ThePayrollEdge.com

Call Us: 1-800-720-5318

Your business is entering an exciting time, and you are thinking of expanding your business operations into Canada. Are you aware of the **challenges** you may face when moving into a new market? One of the most daunting aspects may be how little you and your team know about Canadian business and the employment processes.

You probably guessed that the Canadian market would be different from other markets you have entered. There are many factors to take into consideration, including a competitive business opportunity and different tax incentives. Have you had a chance to stop and think about some of the obstacles you may encounter? In fact, some of them may be surprising, and others can be so subtle you will miss them if you aren't looking.

The best thing you can do before you enter the Canadian market is to conduct research. You can start with the following guide where you will learn about 12 differences you can expect when you expand your operations to the Great White North.



1 The Canadian Market

Canada consists of 10 provinces and three territories, grouped into several regions. Depending on where you decide to expand your business operations, the needs and expectations of the Canadian market can be different from province to province or territory.

If you plan on using an employer of record (EOR) service in Canada, similar to a PEO service, you can eliminate the hassle of registering a business in Canada. In Canada, you must register a business federally first, and then you must register individually for each province you wish to enter. This process can become very complicated, especially if your company is a Limited Liability Company (LLC) in the US as Canada has no similar status and has different rules depending on the province or territory.



Similar to most countries, market trends are different per region. Toronto tends to be a bustling hub of technological innovation, and Bay Street is the Canadian equivalent of New York's infamous Wall Street. Five hours north, in Sudbury, you'll see small-town living centered around mining. It is important to do your research to be sure you are choosing the right territory for your business needs.

2 Workers' Compensation

Unlike the US, the workers' compensation program in Canada is government run. Every employer in Canada must register for a workers' compensation account in every province they plan on having employees in, and each province has different rules as far as the registration process.

For example, in Ontario you cannot apply for a workers' compensation account until you actually have an employee start date; in Nova Scotia, you don't register for an account until you have at least three workers; and in Alberta, you can pre-register regardless of whether you have employees or not.

Lack of experience in Canada can lead to hefty fines for non-compliance, so it's important that US companies engage in Canadian expertise or rely on an experienced employer of record when expanding their workforce to Canada.

3 The Laws Change from Province to Province



Most legislative frameworks change from state to state in the US, and Canada is similar. If laws seem simple in one province, another province may have yet another set of regulations.

Each province and territory has different employment legislation, hourly wages, and government **burdens**. Although the federal government does have a fair amount of oversight and The Canada Revenue Agency oversees Canadian payroll deductions, there are still differences by province.

The federal government sets out nationwide law, but in many areas, the provinces have the final say on how business will be conducted.

A good example is sales tax. For goods or services sold in Canada, every company must pay and charge applicable provincial sales tax and reconcile these debits and credits to then pay or report to the Canada Revenue Agency. Every province has a different rate and some even have a different name for the tax. In Ontario, it is called HST (Harmonized Sales Tax) and the rate charged is currently 13%, while in Alberta that rate is 5% for its GST (Goods and Services Tax).

The situation can quickly become confusing. Always be sure to check the regulations in each province in which you operate.

4 Handling Holidays and Holiday Pay

Canadian holidays are not the same as those in the United States. It might surprise you to learn that Canada legislates vacation time on both a federal and provincial level.

There are **nine federal holidays** in Canada. However, each province can provide other holidays outside of the federal holidays, and these vary from province to province. For example, all provinces except Manitoba, Ontario, Quebec, and Nova Scotia provide a paid holiday for employees on Remembrance Day (November 11th).

Each province has different rules in regards to **statutory holiday pay** eligibility. Don't let yourself get caught not knowing the differences.

5 Mandatory Vacation Pay and Lengthy Maternity Leaves



In each Canadian province, you'll be expected to **calculate annual vacation pay** for your employees. Under the law, employees are entitled to a certain amount of paid vacation time each year.

In most provinces, vacation entitlements are equal to 4% vacation pay (two weeks), and they can choose to accumulate it or have it paid out with each pay cheque. However, vacation entitlements can vary from province to province, and vacation time may increase as the length of service increases.

Maternity leave in Canada allows 15 to 18 weeks of unpaid pregnancy leave and then 61 weeks of unpaid parental leave for a total of 79 weeks in total. Although these leaves are unpaid, employees must be allowed to return to their previous job, or a comparable one, with no loss in pay or responsibilities. Employers who do not let an employee return to work after a parental or maternity leave may be ordered to pay compensation, and, in some cases, ordered to return the employee to their job.

The employee on parental or maternity leave does not go without income during this time as the government will provide a percentage of wages as part of the Employment Insurance Program.

6 Take a Close Look at Other Payroll Regulations



Vacation pay and holiday pay aren't the only surprises in [Canadian payroll administration](#). There are many other regulations you'll need to understand.

For instance, minimum wage varies between provinces, but there is no national standard. Currently, Alberta has the highest minimum wage at \$15.00/hr, with Ontario placing second at \$14/hr.

Employers may also need to give special thought to overtime. Provinces often legislate what qualifies as overtime, and they define the rate of pay. In Canada, there have been a rise in Ministry of Labour claims due to companies misclassifying employees as managers in order to avoid paying them overtime. Determining whether an employee is exempt from overtime pay takes much more due diligence than just giving them a management job title. You will need to pay attention to the detail or use a professional to help navigate.

7

There Is No “At Will” Employment, and Ending Employee Relationships Must Be Conducted Properly



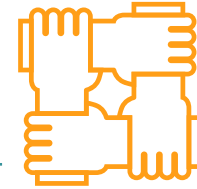
In the US, many employment relationships are considered to be “at will,” or in other words, can be terminated by either party without cause or notice without the worry of retribution. In Canada, no such relationship exists. Canadian law states that an employer can terminate an employee without cause, but they are required to provide “reasonable notice” or compensation in lieu of this notice. Minimum requirements for “reasonable notice” vary from province to province and will depend on the tenure of the employee.

If the employee has been with the company for five or more years, they are entitled to “severance pay,” which is compensation that is paid to a qualified employee who has their employment “severed.” It compensates an employee for losses (such as loss of seniority) that occur when a long-term employee loses their job. Severance pay is not the same as termination pay. Both will be owed to the employee.

This is a huge change for employers who come from countries where severance is entirely optional. Make sure you have the **experts** in your corner to help you manage termination, termination pay, and severance properly.

8

Canadian Human Rights Law Makes Some Activities Illegal



In Canada, you have the right to live free from discrimination, and Canadian law has enshrined many fundamental rights in what's known as the Charter of Rights and Freedoms. It's part of the Canadian Constitution.

From the Charter, the provinces have also created their own human rights legislation. This is sometimes even more expansive than the federal Charter.

There are differences between provinces, but overall, Canadian provinces seek to end discrimination in employment. Employers may realize that **some interview questions** they ask in other countries are considered discriminatory in Canada.

A good example is a question that asks about marital status. Questions that address health conditions could also be considered a form of discrimination.

New employers need to stay abreast of employment standards. Unlike in the US, Canadian employees lodge complaints and claims against employers who do not adhere to these standards through their provincial government. In comparison to disgruntled employees in the US, it is very rare to see a lawsuit between these two parties as much of the investigation and adjudication is through this Canadian governing body.

With this in mind, employers need to understand that an employment agreement not only outlines the duties and responsibilities of the worker but can also protect them from certain liabilities. A properly laid out agreement needs to meet with government compliance when it comes to the employment standards of the province the employee is working in.

9 Compliance Requirements May Be Different



Ensuring compliance is a big job for any business operating in any market, but it can be especially difficult for employers who are new to the Canadian market. Not understanding these differences and making adjustments to the hiring and employment process that your current company has in place can lead to non-compliance with the Canadian government.

There may be numerous regulations you are expected to comply with. You may be asked to demonstrate how your company has met those standards—not only with the federal or provincial government body, but also with the Canada Revenue Agency.

An example is [record keeping for payroll and taxes](#). Keeping poor records is a problem for a number of reasons, but in Canada, it may earn you a fine or a criminal charge.

10 Pay Attention to the Tax Code



All Canadian businesses must file a corporate tax return with the Canadian government. This corporate tax return (T2) is due within the six months after the end of the company's fiscal year.

Record keeping is vital when it comes to payroll and payroll taxes, as the Canada Revenue Agency (CRA) monitors businesses to ensure all tax compliance is being met. The CRA uses this information to assess your taxes owed for the year.

International companies need to pay strict attention to the Canadian tax code, since there are significant nuances. For example, you may not be able to write off certain expenses, even though you could write them off in your home market.

Another tax to be aware of as a foreign company is the possibility of the 15% withholding tax. If a US company chooses not to register a Canadian business

presence but does engage in a sales transaction with a client north of the border, the client must withhold and remit 15% of any payment for services rendered in Canada.

Reduce your worry by engaging with an employer of record to help you stay compliant.

11

Background Checks and Drug Testing



These two often go hand in hand in the US and are a precursor to employment. In Canada, however, the rules and perception surrounding drug testing and background checks are different.

Drug testing a potential employee is rarely permitted in Canada and is not worth the legal risk with the Human Rights Commission. Although this issue has seen more press as of late, the majority of Canadian employers are not permitted to maintain policies in regards to pre-employment drug testing and random drug testing during employment. The exceptions are safety-sensitive positions where an accident or incident has occurred or where being “under the influence” could cause irreparable damages or death.

Background checks in Canada have become more of a common practice, especially on employees who may be engaged in a job working directly with merchandise, money, or highly sensitive information.

12

The Job Market and Benefits



Before entering a new market, your company will want to research the job market in any foreign country to ensure you are offering the appropriate wages and benefit packages to attract the right candidate to be an ambassador for your company. The Canadian population tends to be very highly educated. Even so, certain skills may be scarce in your chosen market. You may need to offer higher wages or other incentives to find the workers you need.

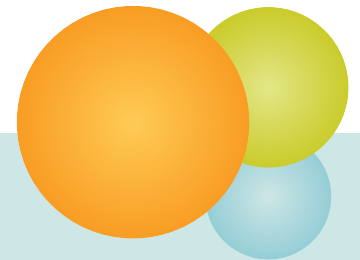
In Canada, the healthcare system is government run with the funding coming from employer taxation. All Canadian citizens can register for a health card and are eligible to have their basic medical needs covered under this program. Each province has its own system, but in its simplest form, it means that Canadians do not pay out of pocket for doctors' visits, emergency care, surgery, most diagnostic testing, and short-term medical leave.

Many Canadian companies offer employees a benefit program that offers coverage for those medical needs that are not part of this government system, such as prescriptions and dental care. When a US company looks to match their US employee benefits with those being offered to a Canadian employee, this is an important differentiator that needs to be considered.

About

the **PAYROLL** edge

The Payroll Edge, one of North America's leading professional employer organizations, helps international companies looking to manage payroll, human resources, and government compliance in Canada and the United States.



Call Us: 1-800-720-5318 | www.thepayrolledge.com

The Payroll Edge

A People 2.0 Company

181 Queen St. East Brampton, ON L6W 2B3

Info@thepayrolledge.com