



ISSUES RELATING TO FOREIGN INVESTMENT

CANADA - QUEBEC Blake, Cassels & Graydon LLP

CONTACT INFORMATION

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1. Is provincial governmental permission required for foreign investors to acquire real estate? If so, please identify.

No. All movable and immovable property located in Quebec may be taken, acquired, held and disposed of by a non-Canadian citizen in the same manner as by a Canadian citizen.

2. Are there other provincial restrictions imposed on ownership of real estate by foreign investors? To acquire interests in entities which own real estate? If so, please identify.

Foreign registered or foreign-controlled entities should be aware that an acquisition of Canadian real estate may need to comply with merger control provisions contained in the *Investment Canada Act* (Canada) and anti-trust provisions contained in the *Competition Act* (Canada). The anti-trust provisions contained in the *Competition Act* (Canada) are triggered if: (a) on a combined basis, the parties have assets in Canada or gross revenues from sales in, from or into Canada of over CDN\$400 Million; and (b) the assets or target firm being bought are valued over, or generate gross revenues from sales in or from Canada of over CDN\$70 Million.

The Province of Quebec prohibits the acquisitions by non-resident of any interest in agricultural land without the prior consent of the government. In addition, Quebec imposes certain restrictions on the ownership of classified cultural properties.

Otherwise, there are generally no restrictions imposed on foreign investors, although certain tax, reporting and registration provisions may apply. For example, *An Act respecting the legal publicity of sole proprietorships, partnerships and legal persons* requires foreign registered or foreign-controlled entities to obtain licenses to carry on business in the province. This may include an interest (other than by way of security) in real estate.

3. Are foreign investors required to invest with a local partner? If not, is investment with a local partner advisable?

A local partner is not required.

4. What provincial taxes are levied solely on foreign individuals or entities acquiring or transferring real estate or interests in entities which acquire real estate?

Direct ownership of Canadian real estate by an investor not resident in Canada will lead to taxation of income either on a withholding basis or, if the activity amounts to carrying on of a business, on a basis generally equivalent to the taxation of a Canadian resident.

A source withholding tax of 25% non rental payments to non-residents is imposed. There is no reduction of this rate under the Canada-U.S. Tax Convention.

The Canadian government imposes a withholding tax of 25% on various payments by Canadian residents to foreigners. Bilateral tax treaties between Canada and the investor's country may help by setting a lower withholding tax rate. Canadian withholding tax on arm's length interest payments (other than interest on certain participating debt) by Canadian resident borrowers to foreign lenders was eliminated as of January 1, 2008.

Moreover, pursuant to the new Protocol to the Canada-U.S. Tax Treaty (which has not yet been ratified), withholding tax on non-arm's length payments of interest to U.S. residents entitled to the benefits of the Canada-U.S. Tax Treaty will be eliminated gradually over the next few years, following ratification of the Protocol.

If the vendor of Canadian real estate is not a resident of Canada, a clearance certificate is required from the Canadian government pursuant to Section 116 of the *Income Tax Act* (Canada), failing which the purchaser may hold back from the closing proceeds an amount equal to 50% of the purchase price. A similar clearance certificate notification and withholding procedure is applicable under Quebec income tax legislation.

Although not imposed solely on foreign investors, a foreign investor should be aware of the following: (a) a land transfer tax is payable upon the transfer of ownership of real property. The land transfer tax is imposed at graduated rates, but for most commercial

transactions, it is approximately 1.5% of the total consideration for the transfer of the real property in the Province of Quebec. In addition, real estate located within the City of Montreal is also subject to an additional land transfer tax equal to about 0.5% of the value of the real property transferred; (b) if the purchase of real estate is accompanied by the purchase of certain goods, such as furniture or appliances, provincial retail sales tax is payable by a purchaser at a rate of 7.5% of the value of the tangible personal property acquired; and (c) a federal goods and services tax of 5% is payable on a “supply” of real property in Canada, unless otherwise exempted under the *Excise Tax Act* (Canada). A supply includes the sale of real property, as well as a lease, license or other similar arrangement. If the foreign investor is registered under the *Excise Tax Act* (Canada), the federal goods and services tax would not in fact be payable.

5. Describe reporting requirements for reporting the acquisition, ownership or disposition of real estate which relate solely to foreign direct or indirect owners of real estate.

The Investment Canada Act (Canada) applies to all non-Canadian seeking to acquire control of existing Canadian business or establish new Canadian businesses, whether through the acquisition of assets or shares. A transaction will be “reviewable” if its value exceeds CDN\$5 Million in case of a direct acquisition, CDN\$50 Million in the case of an indirect acquisition (share acquisition), or, at the discretion of the Canadian government, if the business in question falls into a class related to Canada’s cultural heritage or national identity. Reviewable transactions require a determination that the investment is likely to be a “net benefit to Canada”. Transactions involving investors who are residents of World Trade Organization (WTO) member countries related to direct acquisitions by or from a WTO investor have a review exemption threshold of CDN\$299 Million as of 2010, adjusted upward for inflation annually. Indirect acquisitions involving a WTO investor are not reviewable. If the transaction is not reviewable, it will be “notifiable”, requiring filing of information about the parties, the nature of the business and the value of the assets with the applicable governmental agency within 30 days after the close of the transaction.