

Effect of Lower US Corporate Tax Rates on Canadian US Cross-border Structures

By Jennifer Kobylarz

Tax reform was a key part of President Donald Trump's 2016 election campaign. Although no reform bills have been passed, the President has stated he wants the federal corporate tax rate cut from 35% to 15%.

The US corporate tax rate is the third highest in the world. This has caused many companies to consider moving their tax home to another country, a process called corporate inversion. Many US corporations have looked to move to Canada, where the federal corporate tax rate is only 15% (provincial rates range from 11-16%). By strategically employing the US/Canadian tax treaty, companies could decrease their tax liability while only marginally disrupting business operations and logistics.

If the 15% corporate tax rate is adopted, Canada may see a shift in its cross-border commerce with the US. While the federal rates of both countries would be on par, the state tax rates (which vary from 0-12%) would push the combined US corporate tax rate under the Canadian combined rate. This would essentially stop US corporate inversions to Canada and could cause Canadian companies to look at the US as a potential new tax home. Companies that have shifted operations to Canada may consider moving back to the US. Lastly, international investors, who currently favour Canada's lower tax rate, may begin to favor the US. The direct effect of a lower US corporate tax rate may not be seen immediately as companies wait to see if a 15% tax rate can withstand the US' always changing political climate.



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