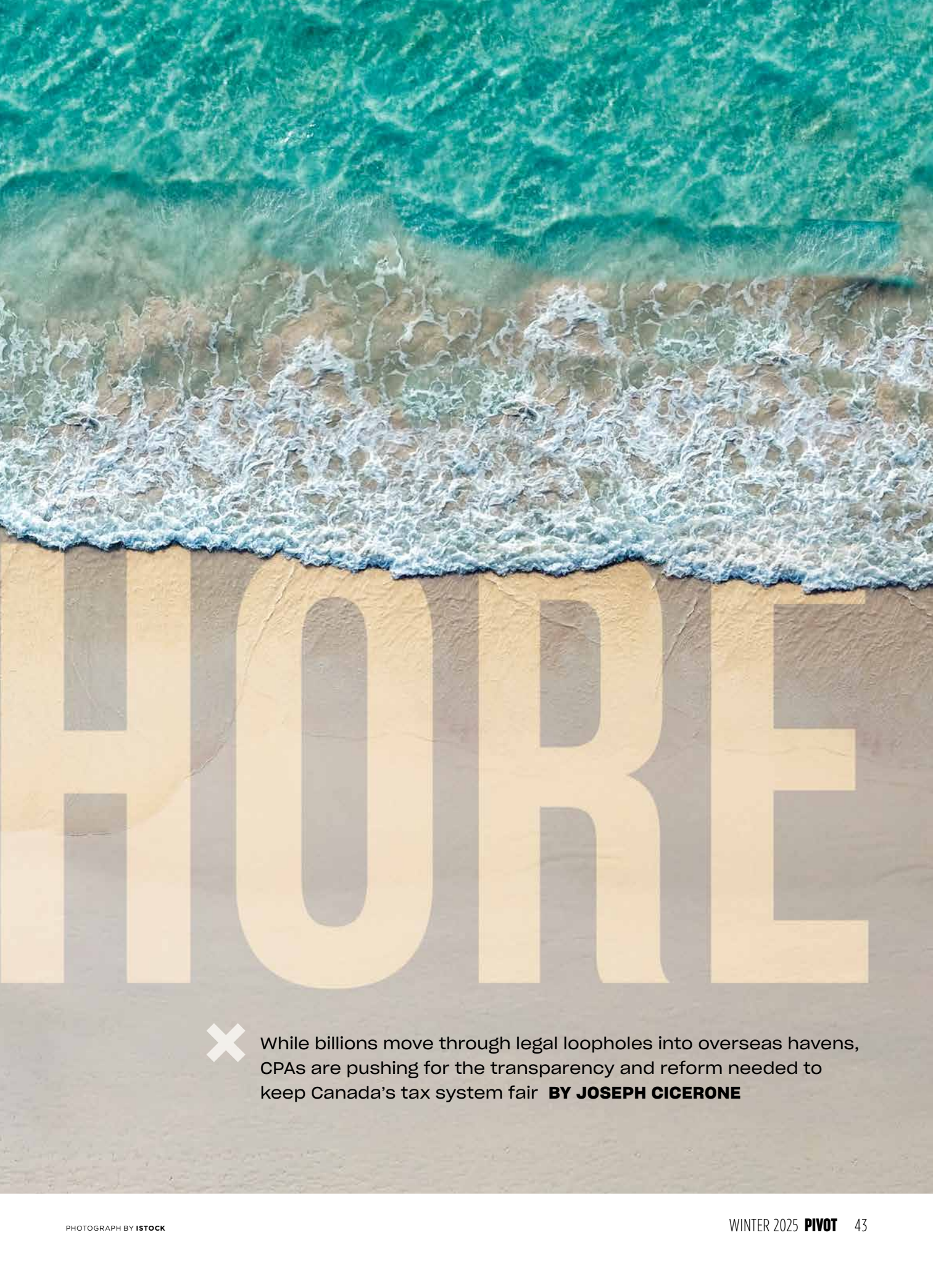




LUCRATIVE AND LAWFUL, YET

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✕ While billions move through legal loopholes into overseas havens, CPAs are pushing for the transparency and reform needed to keep Canada's tax system fair **BY JOSEPH CICERONE**

Every year, billions of dollars quietly flow out of Canada and into tax havens around the world. The money doesn't vanish—it's diverted through legal but opaque channels that keep profits offshore.

According to a July report by Canadians for Tax Fairness (C4TF), a non-profit advocating for progressive tax reform, Canada's biggest corporations and wealthiest individuals hold at least \$682 billion in offshore jurisdictions as of 2024, a 165 per cent increase since

2014. These funds aren't hidden in briefcases or anonymous shell companies; they're parked in subsidiaries registered in low-tax jurisdictions such as the Cayman Islands, Barbados and Singapore.

The Canadian tax system and its loopholes, in tandem with countries that offer ultra-low rates, strict secrecy laws and minimal disclosure, create a system that allows companies to legally reroute profits earned in Canada to more lenient environments abroad.

In some cases, the use of the tax havens can be beneficial for Canada—for

instance, if Canadian companies pay less tax on their foreign profits, bring that money back to Canada and then pay it out as taxable dividends to Canadians, says Ryan Minor, director of taxation at CPA Canada. Canada doesn't tax the profits of foreign affiliates that run active businesses, so they can compete fairly with others, adds Minor. "Whether capital is invested in a big market through a foreign affiliate directly, or indirectly through an investment in a tax haven, Canada wouldn't tax the income regardless," he says.



Canada has an agreement with 15 of the top tax-haven destinations, including the Cayman Islands

While offshore tax havens are legal and offer some benefits, Canada's CPAs—tasked with interpreting cross-border tax rules—are increasingly at the forefront of efforts to bring transparency and accountability back into the system. They see how loopholes form, how they're used and how reforms could make the playing field fairer for everyone. "Since Canada's tax base encompasses worldwide income of resident taxpayers, it is essential that taxpayers accurately disclose any assets and income held beyond the jurisdiction of the Canada Revenue Agency (CRA), minimizing the potential erosion of our Canadian tax base," says John Oakey, vice-president of taxation at CPA Canada.

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A tax haven is any jurisdiction that levies little or no corporate tax and allows companies to register with limited public reporting. C4TF found that 46 of the TSX 60—Canada's largest publicly traded firms—maintain subsidiaries or related entities in at least one haven.

Well-documented examples include Brookfield Asset Management, which has registered investment funds in Bermuda and the Cayman Islands, and Loblaw Financial Holdings, which operated an offshore bank in Barbados called Glenhuron. The company excluded Glenhuron's income from its Canadian tax filings, claiming it was exempt under the Income Tax Act. The Minister of National Revenue denied the exemption, and the Tax Court agreed—but both the Federal Court of Appeal and, ultimately, the Supreme Court of Canada sided with Loblaw Financial Holdings in 2021, according to the case brief published by the Supreme Court of Canada. Both cases show how Canada's rules can make it lawful, even routine, for companies to shift profits abroad without breaking any laws.

C4TF estimates that companies listed on the TSX 60 avoided roughly \$7 billion in taxes in 2024 through what it calls "foreign tax rate differences." These can be buried in financial filings or spread



“TRANSPARENCY ENSURES THAT TAXPAYERS CONTRIBUTE THEIR FAIR SHARE”

JOHN OAKEY
Vice-president of taxation,
CPA Canada

across layers of subsidiaries. Without clear disclosure, it can be difficult to determine how much tax is paid where. "If corporations were required to publicly disclose where they book their profits and how many employees they have in each country, we'd see immediately how much is being shifted from Canada to tax havens," says Silas Xuereb, economist and policy analyst at Canadians for Tax Fairness.

Even when offshore structures are legal, tracing where profits are booked and taxes are paid is essential to ensure companies are complying with disclosure rules, paying the right amount in the right jurisdiction and not exploiting unintended loopholes. Some CPAs have begun pushing for standardized reporting templates and digital registries that make it easier for auditors, investors and regulators to follow the flow of money across borders. The challenge lies in advancing transparency while ensuring the system remains practical and proportionate.

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How does a country known for regulatory rigour allow this kind of capital flight? One way, notes the C4TF report, is through the foreign affiliate exemption, which lets corporations repatriate "active business income" from subsidiaries tax-free if Canada has a tax treaty or Tax Information Exchange Agreement with the host nation. Canada now has such agreements with 15 of the top tax-haven destinations, including Barbados, the Netherlands and Luxembourg. Although originally meant to ensure transparency of information in support of tax enforcements, some of these agreements can achieve the opposite—allowing profits to escape tax altogether.

Multinationals, however, use mechanisms like transfer pricing, which shifts profits offshore through internal pricing. According to C4TF, foreign tax rate differences have helped drive Canada's effective corporate tax rate of 26.5 per cent down by 4.5 percentage points, reducing it further once offshore profit shifting is

factored in. Its report points to the CRA's \$353-million reassessment of Wheaton Precious Metals, which it accused of allocating profits to a subsidiary in the Cayman Islands through transfer pricing. According to an article by Xuereb and Jared Walker for *The Breach*, the dispute was settled for \$11.4 million in taxes and penalties, a fraction of the original claim. This illustrates how difficult it can be for the CRA to recover revenue lost through profit-shifting arrangements.

If a Canadian and international company agree to buy or sell goods or services with one another, these transactions must be priced properly to ensure the appropriate amount of profit is reported in Canada and taxed accordingly.

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In 2013, the Organisation for Economic Co-operation and Development (OECD) and G20 countries adopted an action plan to address Base Erosion and Profit Shifting to curb tax avoidance. Its latest phase, Pillar Two, established a global minimum corporate tax rate of 15 per cent, which Canada adopted in 2024. Other legislative changes, such as enhancement of mandatory disclosure rules and implementation of excessive interest and financing expense limitation rules, allow Canada to work better with international partners and strengthen tax enforcement of multinationals that may be avoiding paying taxes owed in Canada.

Compared to other jurisdictions, the E.U. has gone further to ensure transparency by requiring country-by-country tax reports. Australia and the United States have also expanded ownership registries and tightened rules on hybrid arrangements (transactions where the United States treats payments as interest or royalties for tax purposes, but the foreign country does not). All share a theme: transparency matters as much as the rate itself.

Xuereb cautions that Canada's recent moves may undercut global progress. "Until recently, Canada was at least keeping pace with international reforms," he says. But by voting against a new UN-led tax convention and agreeing to

exempt U.S. corporations from OECD rules, he says we may be undermining efforts to create a fairer global framework.

C4TF's report points out that although governments bear responsibility for closing tax loopholes, professional gatekeepers, including lawyers and bankers, play a critical role. For Canada's CPAs, that means applying both technical precision and ethical judgment to restore balance to the tax system. "Professional accountants uphold integrity by remaining informed about evolving legislation

and tax system administration, thereby assisting taxpayers in understanding and complying with its regulations," says Oakey. "Through CPA Canada committees, ongoing feedback is provided to both the Department of Finance and the CRA in an effort to promote fairness and equity within Canada's tax system."

CPA Canada publicly supports beneficial ownership registries, greater international co-operation and clearer reporting standards—many of the same reforms cited by C4TF as essential to



closing offshore gaps. Through consultations with the Department of Finance Canada, CPAs can help translate policy ideas into workable practice, advising on how global rules like the OECD's Pillar Two can be implemented without creating new inequities.

"CPA Canada is held in high regard by both the Department of Finance Canada and the Canada Revenue Agency," Oakey says, which enables it, through its volunteers and committees, "to contribute to constructive improvements within



Loblaw Financial Holdings previously operated an offshore bank in Barbados



"THIS ISN'T A TECHNICAL PROBLEM—WE KNOW WHERE LOOPHOLES ARE AND HOW TO FIX THEM"

SILAS XUEREB

Researcher and policy analyst,
Canadians for Tax Fairness

Canada's complex tax system." Oakey adds that CPAs are bound by a professional code of conduct grounded in integrity, objectivity and professional competence—standards that "enable CPAs to discern when legitimate tax planning may overstep into aggressive tax avoidance or tax evasion." That ethical foundation, he says, helps keep both individuals and corporations "on the right side of tax planning."

The profession's influence extends into financial reporting, ESG assurance and public-sector accountability. By strengthening how organizations measure and communicate value, CPAs can help build the transparency that underpins both capital markets and civic trust. When Canadians can see where profits are made, taxes paid and value created, confidence follows. "Transparency ensures that taxpayers contribute their fair share while minimizing erosion of Canada's tax base," notes Oakey.

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Tax havens didn't arise by accident—they were built through decades of deliberate policy choices. The numbers in the C4TF report are daunting, but they clarify where reform could begin. If Canada hopes to better identify and recover lost profits driven by corporate use of tax havens, it may look to CPAs to help with what they've always done: apply precision, independence and ethics in service of the public interest.

As Oakey emphasizes, "CPAs must follow rules of professional conduct, which provide ethical guidelines to ensure CPAs act with integrity, objectivity and competence, while upholding public trust." This includes maintaining independence, protecting client confidentiality and acting with due care and professional behaviour.

"This isn't a technical problem—we know where the loopholes are and how to fix them," Xuereb says. "If we want a fair tax system, we have to be prepared to hold strong against the threats of capital flight and insist that corporations pay what they owe." ♦