

Supporting the Ability of Canadian Companies to Invest in Foreign Subsidiaries

Many Canadian parent companies strive to expand their operations globally and in doing so, make significant investments in subsidiaries located outside of Canada. To protect these investments and limit risks, the parent company hedges the investment to limit foreign exchange loss that can otherwise accrue.

Any gains and losses that arise from these hedges generally take on the same character as the asset that is being hedged; however, corporations are required to recognize gains and losses in respect of maturing hedges irrespective of the fact that they continue to retain the assets that have been hedged. This can have a negative impact on invested capital and result in volatile swings in taxable income. Allowing for a deferral on tax gains or losses resulting from these hedges while the asset continues to be held would facilitate the global expansion of Canadian-owned companies.

Recommendation

That the federal government allow foreign exchange gains and losses on hedges related to investments in subsidiaries located outside of Canada to be deferred while the asset continues to be held by the Canadian investor and the parent company continues to hedge the investment.