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Canada inhibits angel investors: Ernst and Young

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Brief The Canadian taxation environment imposes barriers on angel investors and is putting upstart Canadian technology companies at a disadvantage, a new study indicates.

Canada inhibits angel investors: Ernst and Young The Canadian taxation environment imposes barriers on angel investors and is putting upstart Canadian technology companies at a disadvantage, a new study indicates.

The Ernst and Young study compared Canada with the United States and the United Kingdom. It recommends tax strategies that would remove disparities between Canada's taxation environment and those of other countries.

"As a global firm, we have identified a disparity in worldwide taxation practices that we feel puts early-stage technology companies in Canada at a disadvantage," said **Peter Cleveland** at Ernst & Young in Ottawa. "We want to encourage government to take a close look at these disparities and make changes to the tax act that would encourage angel investors and subsequently give these technology start-ups the capital necessary to bring their innovations to market."

The study is being presented to Department of Finance officials today.

'Angel investors' are private investors with a high net worth. They invest their personal funds in early-stage companies. They represent the single largest source of start-up capital for entrepreneurs.

In addition to identifying the taxation challenges currently being faced by investors in Canada as compared to the favorable conditions under which investors in the United States and the United Kingdom operate, the report puts forth taxation strategies that would help foster investment in early-stage high technology companies in Canada.

They include:

The reduction in the capital gains tax rate applicable to the sale of shares in early-stage technology start-ups.

Increase the deductibility of losses arising from the disposition of such shares.

Tax-deferral measures that provide rollovers of capital gains from the sale of high technology shares.