


British Columbia: The Competitive Advantage







British Columbia offers the international business community a well-educated cosmopolitan population, a world-class infrastructure and a gateway location between North America and Asia.

Message from Bruce Flexman, President of AdvantageBC International Business Centre · Vancouver

AdvantageBC (formerly the International Financial Centre British Columbia) promotes British Columbia on the world stage by communicating the advantages of doing business here. Strategically located on North America's west coast, British Columbia is a major player in the Canadian economy. Its stature as a location for international business holds considerable opportunity for local and global enterprises.

British Columbia offers a unique tax benefit to companies engaged in a qualifying international business. Companies registered under the *International Business Activity Act* (IBAA), formerly the *International Financial Activity Act* (IFAA) and carrying on international business from a base in British Columbia can receive up to a full refund of provincial corporate tax paid on income of qualifying activities (75% for patent activities). A number of Canadian and multinational companies have established operations in British Columbia to carry out such eligible activities as international treasury business, factoring international receivables, international financial activities and investment management for the benefit of a non-resident.

Vancouver is a tax competitive location, a fact that makes it even more attractive to the international business community. In 2012, a company registered in the International Business Activity (IBA) program will incur only the federal corporate income tax rate of 15% on qualifying international activities (excluding patents).

Vancouver was ranked **first** for tax competitiveness of 41 major international cities evaluated in KPMG's *Competitive Alternatives 2010 Special Report: Focus on Tax*. Vancouver is even more competitive when the reduced tax rates available through the IBA program are factored in. Vancouver's already low Total Tax Index (TTI) for Corporate and IT Services, which dropped from 77.0 in 2008 to 58.4 in 2010, is estimated at 42.8 for companies that fully utilize the tax incentive program. This favourable tax regime is attributed to falling corporate income tax rates at both the federal and provincial level.

I encourage you to find out more about the many advantages British Columbia offers by contacting AdvantageBC or visiting our website at www.advantagebc.ca.

AdvantageBC promotes the legislated fiscal incentives designed to attract global business to British Columbia. Established as a non-profit Society in 1986, AdvantageBC communicates the many advantages British Columbia offers as a location for business including competitive tax rates, a welcoming business climate, a lower cost environment and a quality of life unsurpassed in North America.

By registering in the International Business Activity (IBA) program, a company can claim up to a full refund of provincial tax on income earned on its qualifying activities and incur only federal corporate income tax at the rate of 15% in 2012.

Canada's Tax Advantage

- In 2012, Canada's corporate income tax rate of 15% is the lowest of the G7 nations.

British Columbia's Tax Advantage

- British Columbia's corporate income tax rate is 10%.
- British Columbia's capital tax on financial institutions was eliminated April 1, 2010. (Capital tax on non-financial institutions was eliminated in 2002.)

Vancouver's Tax Advantage

*KPMG Competitive Alternatives 2010
Special Report: Focus on Tax*

Location	Total Tax Index (Services)
Vancouver (IBA company)	42.8
Vancouver, BC	58.4
Montreal, QC	60.6
Toronto, ON	68.4
London, UK	87.1
San Diego, CA	102.3
San Francisco, CA	105.8
Seattle, WA	106.8
Frankfurt, GE	130.9
Paris, FR	249.0

KPMG Competitive Alternatives 2010, Special Report: Focus on Tax. Total Tax Index includes all taxes levied on corporations, including taxes on income, capital, sales, property, local business, and wage-based taxes.

CASE STUDY: Maximizing Your Company's Value With AdvantageBC

Many business people think the benefits available under the International Business Activity Act (IBAA) are only applicable once their company is profitable and paying British Columbia's corporate income tax. And that is indeed true. But there is another sound reason to establish and grow a business in a low-tax jurisdiction like Vancouver: an increase in the value of the business. How does this work?

Business valuation is a means of estimating the value of a company. The value can be used by investors seeking to invest in the company, financial institutions planning to lend to the company, and shareholders looking to sell the company. The method for valuing a service-based company will almost always use an income-based approach. This method uses expected future earnings as the basis for the calculation even though there are risks associated with the earnings potential. Proper valuation methodology also requires that taxes be considered because after-tax earnings will typically form part of any valuation. It is intuitively obvious; all other things being equal, a company incurring taxes at a rate of only 15% should be worth more than a company incurring taxes at a rate of 40%. But how much is this lift worth?

A simple example can demonstrate the incremental value that may be associated with the International Business Activity (IBA) program. Let's assume the following:

- *A hypothetical company has determined its normalized future annual pre-tax earnings is \$100. Its prospects support an after-tax multiplier of 5.*

A company operating under a future 15% tax regime (the rate on qualifying activities that is paid by a company registered in the IBA program) would be valued at \$425:

- *Before tax earnings of \$100 less corporate income tax of \$15 ($\$100 \times 15\%$) times 5 = \$425.*

The same company operating in a 40% tax jurisdiction (the rate paid by most companies in the U.S.) would only be worth \$300.

- *Before tax earnings of \$100 less corporate income tax of \$40 ($\$100 \times 40\%$) times 5 = \$300.*

In this simple example, the "lift" from the IBA program increases the value of the enterprise by 42%! Naturally the impact will differ depending on the nature of the earnings and the applicable earnings multiple—but only by a matter of degrees. In my experience, many start-ups accessing equity financing may not be adequately reflecting the value of the IBA program in their enterprise value. As the IBA program not only includes life sciences, but may also be expanded to digital media, clean technology and carbon credit certification and trading, many start-ups or companies that are years from profitability may find that being able to include expected tax savings in their valuation is beneficial in raising capital. For many of these companies, raising capital is normally a critical factor for success. Taking the lower tax rates available under the IBA program into consideration can assist these companies in properly valuing their company, which will result in greater success in raising equity capital.

Bruce Flexman, President, AdvantageBC



Most qualifying business activities are international in nature; one side of the transaction is with, for, or on behalf of a non-resident.

What international business activities qualify?

- International digital media distribution (announced in 2010, but not yet effective).
- International carbon trading and certification business (announced in 2010, but not yet effective).
- International clean technology business (announced in 2010, but not yet effective).
- Dealing in foreign exchange other than on the corporation's own account (applies to banks and companies with a primary business in foreign exchange).
- Making loans to or taking deposits from a non-resident (arm's length only).
- Factoring or collecting trade receivables from a non-resident where receivables have been purchased without recourse.
- Managing foreign exchange or investments for a non-resident.
- Property leasing to a non-resident by direct financing lease.
- Insuring risks, other than life, sickness or accident relating to non-resident persons and relating to property or events outside Canada (includes captive insurance).
- Managing investments in securities for residents where the securities were issued by a non-resident and are not listed on a Canadian stock exchange.
- Distributing film and television rights outside Canada.
- Trade financing, including letters of credit.
- Providing financial advice and financial research to a non-resident.
- Acting as principal in acquiring, disposing of, subscribing for or underwriting securities for a non-resident (securities corporations only).
- Acting as agent for a resident in making or offering to make with a non-resident person an agreement for acquiring, disposing of, subscribing for or underwriting securities, except securities that are listed on a stock exchange prescribed in section 3200 of the *Income Tax Regulations* (Canada) (securities corporations only).
- Managing international investment funds.
- Acting as principal in making or offering to make with a non-resident person an agreement for acquiring or disposing of prescribed securities (non-securities corporations).
- Acting as agent for a non-resident in making or offering to make with a person resident in Canada or another non-resident person an agreement for acquiring, disposing of, subscribing for or underwriting securities.
- Selling, assigning, or licensing an eligible patent; and selling a good or service where the revenue flows from an invention for which an eligible patent is owned by the corporation. Eligible patents include life science and certain green-related patents (wastewater, fuel cell, power generation—wind, solar, and tidal). The benefit is a 75% refund to a maximum of \$8 million.
- Providing administrative support services directly related to a financial activity of a non-resident financial business.
- Providing back-up services, equipment and premises for a non-resident in the event primary equipment or premises become temporarily unusable.





International Business (IB) Specialists and Executive Specialists are employees of registered companies that are entitled to claim a refund of British Columbia tax on employment income.

IB Specialists

- Employees of companies in the IBA program and carrying on international financial business, administrative support and back-up services, and film distribution can register to claim a refund of their B. C. tax paid on qualifying employment income.
- The refund is 100% for Years 1 and 2; 75% for Year 3; 50% for Year 4; and 25% for Year 5.
- To qualify, the employee must earn a minimum annual compensation of \$100,000.
- The IB Specialist must be transferred from outside Canada to provide specific expertise and have an employment agreement in place before arriving in Canada.
- The IB Specialist must spend at least 70% of his or her time on the qualifying international financial business. There is no time requirement for employees in administrative support and back-up services.
- For a related group of program participants, only four employees in administrative support and back-up office services may qualify.

Executive Specialists

- A member of executive management of a company registered in the IBA program (including international patent business) can register to claim a refund of B.C. tax on qualifying employment income.
- The refund is 100% in Years 1 and 2; 75% in Year 3; 50% in Year 4; and 25% in Year 5.
- To qualify, the employee must earn minimum annual compensation of \$250,000.
- This compensation must be included in calculating the program participant's international financial business income.
- For a related group of program participants, only two Executive Specialists may qualify.
- The employee must have been a non-resident before entering into the employment contract. The employee must apply for registration by December 31 of the year in which he or she becomes resident of Canada.
- The employee, and any person related to him or her, must deal at arm's length with the registered corporation.

IBA Program Registration

The IBA program is administered by the BC Ministry of Finance. To register, a company must:

- be incorporated in Canada*
- not be exempt from income tax under the *Income Tax Act* (Canada)
- maintain a permanent establishment in British Columbia
- establish and carry on an international financial business within 90 days of registration
- join AdvantageBC as a member within 90 days of registration

* *British Columbia announced that branches of foreign banks operating in Canada (Schedule III banks) will qualify for B.C.'s IBA program; however, the regulations to implement this change have not yet been made effective.*

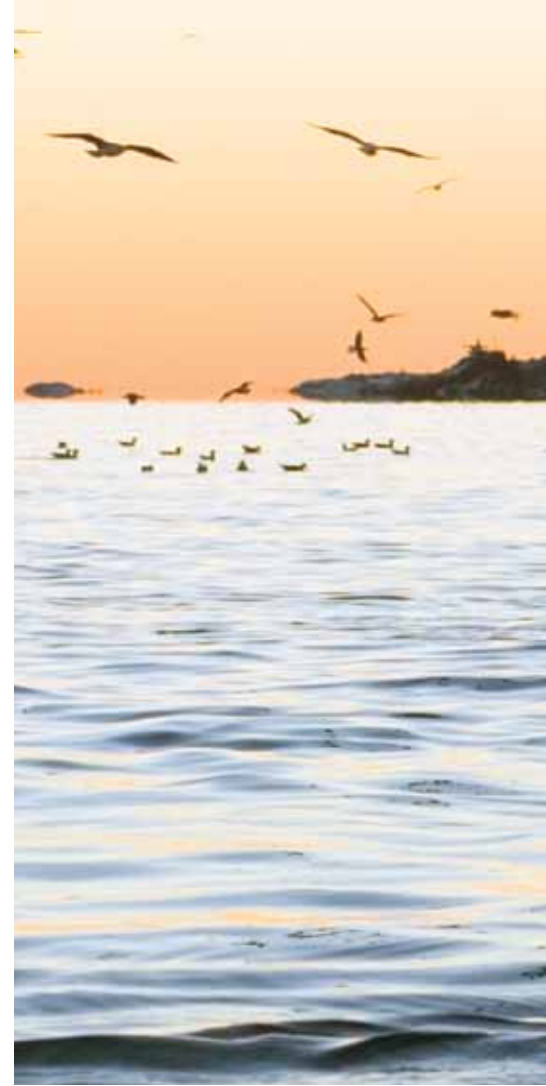
Costs

- A one-time registration fee of \$5,000 is paid to the Ministry of Finance.
- An annual Membership Fee of \$1,000 is paid to AdvantageBC.
- An annual Participation Assessment fee (0.45%) based on the net income of the qualifying business is paid to AdvantageBC.

As Canada's Pacific Gateway, British Columbia is one of North America's most competitive business environments.

British Columbia's innovative and skilled workforce, rich natural resources, unrivaled quality of life and gateway location between North America and Asia provide the foundation for almost unlimited economic opportunities.

- *Thriving financial sector.* Vancouver was ranked #17 as a financial centre in the March 2012 *Global Financial Centre Index*, published by Z/Yen. The survey ranked Vancouver #11 as a centre for Wealth Management.
- *Vibrant cities.* Vancouver is British Columbia's major commercial and financial centre with strong trading, transport and economic links to the rest of the world. Other key urban centres in British Columbia ideally suited for conducting business include Victoria, Kelowna, Kamloops, Prince George, and Nanaimo.
- *Global access.* Vancouver has an excellent transportation infrastructure. YVR provides direct service to some 121 destinations in Canada, the U.S. and around the world.
- *Abundant natural resources.* British Columbia benefits from reliable, renewable, and low-cost hydroelectric power. Resource industries such as forestry, oil and gas, and mining have been traditional contributors to the provincial economy. Nevertheless, B.C.'s economy has been maturing into a more diverse, less resource-dependent structure.
- *West Coast location.* British Columbia's location on the west coast of North America makes it possible to do business with Asia, Europe and North America in the same business day.
- *Canada's Asia Pacific Gateway.* With the shortest transportation routes from Asia to North America, B.C. has up to a 58-hour shipping transport lead over other West Coast ports.
- *Access to U.S. markets.* With ready access to the North America Free Trade zone and the United States, the world's largest market, businesses in British Columbia can take advantage of duty-free access under the North American Free Trade Agreement.



- *Low cost location.* Vancouver with an index of 96.5 ranks #1 for overall costs (analysis of all 19 operations) in a comparison of Pacific US/Canada cities in the 2012 KPMG *Competitive Alternatives*.





Well-Educated, Diverse Workforce

- British Columbia's labour pool of 2.4 million has continuously expanded to meet the needs of growing sectors.
- 27% of the B.C. labour force (aged 15 and over) has a university degree; 71% have some post-secondary education (including those with college and/or trade certificates)
- Since 2001, British Columbia has created more than 36,700 new full-time post-secondary student spaces in the province's 11 universities, 11 colleges, and three provincial institutes.
- B.C. has the strongest growth rate in Canada of employees in the high-tech sector.
- 342,000 people speak Chinese as a first language and over 400,000 can communicate in Chinese. Other Asian languages in use are Korean, Hindi, and Japanese.

Responsible Fiscal Policy

- The 2010-2011 *Global Competitiveness Report* rated Canada's banks as being the most sound in the world.
- In November 2009, Moody's Investor Service affirmed B.C.'s credit rating (Aaa) citing the province's low debt burden, fiscal track record and its large, diversified economy.
- In January 2010, Standard and Poor's affirmed the province's rating (AAA) citing the capacity to respond to the economic downturn due to debt reduction in previous years and good cash/investment balances with solid access to capital markets.
- B.C.'s taxpayer-supported debt to gross domestic product (GDP) ratio fell from 20.6% in 2001/02 to 16.4% in 2011/12, a decrease of approximately 21%. (*Government of B.C., 2012*).

Living in B.C.

- The *Mercer 2011 Quality of Living Survey* ranked Vancouver fifth worldwide and first in North America for its quality of life.
- The 2012 *Global Livability Report* ranked Vancouver as one of the most livable cities in the world. (*EIU, 2012*)
- British Columbia offers an unrivaled natural environment. Even in major cities, people are close to unspoiled lakes or the ocean, pristine forests or spectacular mountains.
- As of 2012, B.C. has the lowest provincial personal income taxes in Canada for individuals earning up to \$120,000 annually.

Core Members

Core members comprise an array of businesses from financial institutions to companies in the life sciences and manufacturing business.

Alectos Therapeutics Inc.	HSBC Bank Canada	Raymond James Ltd.
Angiotech Pharmaceuticals, Inc.	HSBC Capital (Canada) Inc.	RBC Dominion Securities Inc.
Bank of China (Canada)	HSBC Investment Funds (Canada) Inc.	RBC Global Asset Management Inc.
Bank of Montreal	HSBC Global Asset Management (Canada) Ltd.	Royal Bank of Canada
Bank of Nova Scotia	International Tracing Search Inc.	Ritchie Bros. Financial Services Ltd.
Canaccord Genuity Corp.	JP Morgan Asset Management (Canada) Inc.	Red Twister Productions Inc.
Cay Solutions Limited	Kuehne & Nagel Services Ltd.	Salman Partners Inc.
Chexx (Americas) Inc.	Mackenzie Financial Corporation	Salman Partners (USA) Inc.
Chrysalix Energy	Macquarie Capital Markets Canada Ltd.	Scotia Capital
CIBC	Macquarie Metals & Energy Capital (Canada) Ltd.	Shoreline West Asset Management
Citizens Bank of Canada	Mondiale Asset Management Inc.	Snow Globe Productions Inc.
Coast Capital Savings Credit Union	Nerd Corps International Distribution Inc.	Sunstone Advisors (U.S.) Inc.
Colliding Pictures Inc.	Northstar Trade Finance Inc.	Tolko Finance Ltd.
Counting House Services	Oakridge Accounting Services Ltd.	Toronto-Dominion Bank
Doomsday Productions Inc.	Orbis Client Services (Canada) Limited	UBS Bank (Canada)
Ecowaste Industries Ltd.	Pacific Network Services Ltd.	Vancouver City Savings Credit Union
Exchange Corporation Canada	PI Financial Corp.	Vancouver Bullion & Currency Exchange
First Resolution Management Corp.	PI Financial (US) Corp.	Water Street Releasing
Genus Capital Management	Protiva Biotherapeutics Inc.	Western Union Business Solutions ULC
Global Securities Corp.	QLT Inc.	Western Union Business Solutions (Online) Ltd.
Graymont Capital Inc.		Western Union Business Solutions (Retail) Ltd.
Haywood Securities Inc.		West Fraser International Ltd.
Haywood Securities (USA) Inc.		Wolverton Securities Ltd.

Associate Members

Associate members represent the infrastructure of the business community.

Aon Insurance Managers (Vancouver)	Contessa Capital Ltd.	Liquid Capital Pacific Corp.
Asia Pacific Foundation of Canada	Deloitte & Touche LLP	McCarthy Tétrault LLP
BC Film Commission	DigiBC	Merck Frosst Canada Ltd.
BC Innovation Council	Economic Development Association of British Columbia	Mitsubishi Canada Ltd.
BC Investment Management Corp.	Ernst & Young LLP	MMK Consulting Inc.
BDO Canada LLP	Farris, Vaughn, Wills & Murphy LLP	MNP LLP
Borden Ladner Gervais LLP	Fasken Martineau DuMoulin LLP	Newport Law Corp.
Boughton Law Corporation	Gowling Lafleur Henderson LLP	Odlum Brown
British Columbia Film + Media	Grant Thornton LLP	Pacific Corridor Enterprise Council
Business Council of British Columbia	Hong Kong-Canada Business Association	Pacific Northwest Economic Region
Canada China Business Council	Hungerford Tömyrn Lawrenson and Nichols	Pinnacle Canada Fund Administration Ltd.
Canada Pacific Russia Trade Centre	ICICI Bank Canada	PricewaterhouseCoopers LLP
Canadian Captive Insurance Association	Integro Canada Limited	SmytheRatcliffe LLP
Canadian German Chamber of Industry & Commerce	International Forest Products Limited	State Bank of India
Canadian Manufacturers & Exporters	Investment Industry Association of Canada	Teck Resources Ltd.
Central 1 Credit Union	Jardine Lloyd Thompson Canada Inc.	Thorsteinssons LLP, Tax Lawyers
Chamber of Shipping of BC	KPMG LLP	Vanderluit & Associates, Inc.
Clear View Systems Ltd.	Life Sciences BC	Vancouver Board of Trade
		Vancouver Economic Commission



Further information

AdvantageBC International Business Centre • Vancouver (formerly the International Financial Centre British Columbia) was established in 1986 to attract international business to British Columbia by promoting the legislated tax incentive available through the International Business Activity (IBA) program. AdvantageBC communicates the tax incentive program as well as the many advantages British Columbia offers as a location for corporate investment, including an educated and multilingual workforce, an outstanding telecommunications infrastructure, clean and competitive energy, and a high quality of living. For further information, please visit the website of AdvantageBC at www.advantagebc.ca.

The International Business Activity (IBA) program is administered by British Columbia's Ministry of Finance. To qualify, companies must meet certain criteria; please refer to the Ministry's website at www.sbr.gov.bc.ca/business/Income_Taxes/International_Business_Activity/iba.htm for details.

The information contained herein is provided for convenience and guidance only and is not a replacement for the legislation. Businesses considering accessing the benefits under the *International Business Activity Act* (IBAA) should consult with their professional advisors on the applicability of the legislation to their particular circumstances.

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