Review of the British Columbia International Financial Activities Program

Prepared for:

International Finance Center British Columbia
Mr. Bruce Flexman
President
Suite 1170 Park Place
666 Burrard Street
Vancouver, BC V6C 2X8

Prepared by:

MMK Consulting Inc.
Glenn Mair
Stuart MacKay
Treena Cook

April 21, 2009

Contents

1. Executive summary

British Columbia's International Financial Activity (IFA) program allows companies operating a registered international financial business (IFB) in British Columbia to receive a refund of 100% of BC corporate income taxes paid on income derived from a range of qualifying international financial activities[1]. The objective of the study is to estimate the total provincial economic impacts associated with the IFA program.

In 2007/8, refunds paid by the Province under the IFA program totalled $15 million. Based upon the 12% provincial corporate income tax rate that was in effect in 2006 and 2007, this translates into approximately $125 million of IFB taxable income (or net profit before income tax). Timing differences exist in the payment of IFA refunds due to the 18 month filing window and subsequent audit process, so records of the International Financial Centre BC (IFC BC) were also used to verify the annual level of IFB activity. This figure appears to represent a reasonable estimate of annual IFB activity, correlating closely with the $124 million of total IFB income used to determine IFC BC member participation assessments for the 2007 year.

Based on data drawn from eight separate industry-specific studies, it is estimated that this $125 million in known IFB taxable income is the product of $625 - $833 million in IFB revenue.

The range of economic impacts generated in British Columbia by this volume of IFA-associated business activity has been estimated using the BC Government's economic multipliers for the financial services industry[2]. These economic impacts are estimated as follows:

- $981 million to $1.4 billion in total annual economic output, after counting indirect and induced activity resulting from the direct IFB operations.
- $544 – $775 million in total annual provincial GDP (direct, indirect and induced).
- 2,726 – 3,635 direct FTE jobs in IFB operations, which grows to represent a total of 5,332 – 7,893 FTE jobs after including indirect and induced impacts.

From an economic development perspective, the provincial return on investment from the IFA program can be summarized as follows:

[1] Refunds for patent activities are limited to 75% of tax paid, to a maximum of $8 million.
[2] *2004 BC Provincial Economic Multipliers*, BC Stats, 2008.

- Each dollar of IFA refunds paid is associated with $65.40 - $93.33 in economic activity (output) and $36.27 - $51.67 in provincial GDP. This implies that the IFA program is acting as a strong positive economic stimulus, as these returns far exceed the level of output per dollar ($1.39 - $2.62) or GDP per dollar ($0.28 - $1.19) that could be expected to be generated by direct government spending of $15 million on goods or services from any sector of the economy[3].

- Each million dollars of IFA refunds paid is associated with 355 - 526 FTE jobs.

The IFA program is also generating net positive provincial tax revenues, even after considering the $15 million in IFA refunds paid out in 2007. Provincial tax revenues[4] from direct IFB activities, plus indirect and induced activity, are estimated at $44 - $68 million before IFA refunds, or $29 - $53 million after IFA refunds have been paid.

Including indirect and induced activity resulting from the IFA program, the Province is estimated to collect between $2.93 and $4.53 in gross tax revenue for every dollar of refunds paid, resulting in positive net tax revenue of $1.93 - $3.53 per dollar of refund issued. Based on these ratios, provided that approximately one quarter to one third (22% - 34%) of all IFB activity is incremental, then the IFA program is breaking even for the Province on a purely fiscal basis. (This breakeven point is based solely on BC provincial revenues, and would be significantly lower if federal and/or municipal revenues were included in the analysis.)

In addition to these economic and fiscal impacts, the IFA program is also reported to be further promoting BC business through the attraction of valuable investment and human capital to the province.

This study only reviews IFB activities. However, it is important to consider that the operations of most IFC BC members include significant other business activities (i.e., non-IFB) in addition to their IFB activities. While it is not possible to determine to what extent the IFA program influences these other business activities, the IFA program may have some influence in causing IFA participants to also establish and/or retain other business activities in British Columbia.

---

[3] Based on *2004 BC Provincial Economic Multipliers*, BC Stats, 2008, total output and GDP multipliers with no social safety net, by small industry aggregation.
[4] Including personal income tax from employees, PST, and gross corporate income tax.

2. Background on the International Financial Activities program

British Columbia's International Financial Activity (IFA) program allows companies operating a registered international financial business (IFB) in British Columbia to receive a refund of 100% of BC corporate income taxes paid on income derived from qualifying activities[1]. Qualifying activities include management services, treasury, factoring, administrative services, patents, financial activities, insurance activities, property leasing and film distribution.

To receive benefits under the IFA program, a company must register with the Ministry of Finance (formerly the Ministry of Small Business and Revenue), and must also become a core member of the IFC BC (paying both a membership fee and a participation assessment). As at December 2008, 59 companies are registered in the program[5], including:

- Twelve companies in industry, ranging from forest products to biotech.
- Eight banks or credit unions.
- Thirty-nine companies offering a wide variety of other financial services, ranging from securities trading, to fund management, investment banking, venture capital, foreign exchange, and international payments and collections.

The IFA program also offers a refund of up to 75% of provincial personal income taxes for income earned by registered IFA Specialists – an incentive to reduce the personal tax burden on foreign specialists brought to Canada to work in an IFB. However, this aspect of the IFA program is small relative to the corporate tax refunds, and has not been considered in the analysis included in this report.

To assist with understanding the economic importance of the IFA program, you have asked MMK Consulting to undertake an analysis of the program.

(Additional background details on the IFA program and IFC BC members can be found in Appendix A of this report.)

[5] Based on IFC BC core membership list of 61 members as at December 2008. Two core members at that date were not actually registered in the IFA program.

3. Study objectives and approach

The objective of the study is to estimate the total economic impacts associated with the IFA program. It has previously been posited that a key issue in this regard is the impact of incremental versus non-incremental activities conducted in BC under the IFA program:

- Incremental activities are those that result from a business specifically choosing to locate in BC as a result of the IFA program, to locate additional activities in BC, or to retain business in BC that otherwise may have moved out of BC.

- Non-incremental activities are those that would exist in BC anyway, but which have qualified under the IFA program for tax savings.

While this is an important theoretical distinction, in practice it is not possible to reliably determine what activities currently operating under the IFA are truly incremental versus non-incremental. For example, some pre-existing activities that appear to be non-incremental may have subsequently been transferred out of the province if not for the IFA program. Conversely, the IFA program may not have been the primary decision driver for all new qualifying activities that have located in the province since the IFA program began.

It is also important to consider that for most IFC BC members, their qualifying IFB activities comprise only a portion of their overall business operations in BC. Similar to the challenges regarding incremental activities, it is also not possible to determine to what extent the IFA program influences other business activities in BC. For example:

- A business may originally have been attracted to BC by the IFA program, but may have later chosen to locate additional non-IFB activities here.

- If the IFA program were to cease, a company may choose relocate both IFB and non-IFB activities out of British Columbia.

Due to these challenges, the approach taken in this report is to estimate the total economic impact of all qualifying IFB activities operating under the IFA program, regardless of their incremental nature, but with no reference to related non-IFB activities operated by program participants. These total economic impacts can then be compared relative to the tax revenue foregone by the Province due to IFA refunds.

The approach used for completion of this study is as follows:

- Total refunds actually paid under the IFA program in 2007/8 of $15 million[6] have been used as a starting point for the analysis. This baseline number is:

  - Significantly higher than the $2-5 million refunded under the IFA program in earlier years, as it now reflects newly registered and audited claims for the broader range of IFA activities permitted under the program since 2005.

6 *Budget and Fiscal Plan 2008/9 - 2011/12,* BC Ministry of Finance, February 2008.

- Lower than the $20 million in annual refunds estimated for 2008/9 and future years in the 2009/10 BC Budget.

- Refunds paid under the IFA program are based upon BC corporate income tax paid, at the prevailing tax rate. Therefore, the 2007/8 IFA refunds of $15 million translate into $125 million of IFA taxable income (or net profit before income tax) at the 12% corporate income tax rate that was in effect in 2006 and 2007.

  Timing differences exist between years in the payment of IFA refund claims due to the 18 month filing window and subsequent audit process, so IFC BC records were also used to verify the level of IFB activity. This figure appears to represent a reasonable estimate of annual IFB activity, correlating closely with the $124 million of IFB net income used to determine IFC BC's member participation assessments (0.45% of IFB net income) for the 2007 year.

- Data from eight pre-existing analyses of the financial services industry have been used to determine revenue, salary, expense, and profit ratios for the financial services industry. The studies referred to in this analysis include:

  - *Selecting the Site for an International Financial Services Operation*, MMK Consulting on behalf of the Quebec Ministry of Finance, 2002.

  - *Business Cost Comparison: Downtown Core of Nine Major North American Cities for a Small Financial Services Firm*, MMK Consulting on behalf of the City of Toronto, 2004.

  - *A Comparison of Business Costs in Major North American Cities*, KPMG on behalf of the Quebec Ministry of Finance, 1999 (with reference to the included International Banking Centre operation).

  - *Database of Domestic Banks' Annual Results*, Canadian Bankers Association, 2008.

  - *Bank Revenues and Profits*, Canadian Bankers Association, 2007.

  - *Review of International Financial Business Program*, Ference Weicker & Co. on behalf of the BC Ministry of Finance, 2002.

  - *2004 British Columbia Provincial Economic Multipliers*, BC Stats, 2008 (with reference to multipliers for Medium Aggregation Industry 43: FIRE).

  - *Employment, Earnings & Hours* (by industry), Statistics Canada, 2008.

  These studies vary in geography, age, and the nature of operations covered, but these studies were selected as they all provide valuable insights into specific operational and financial aspects of financial services operations that other studies generally do not provide. We carefully reviewed each study and extracted data from those studies as relevant, after consideration of the following:

  - The studies provide information on diverse types of financial services operations, which is useful to this study where the objective is to analyze the full spectrum of activities being operated under the IFA program.

- The data extracted from these studies have primarily been measured as ratios (e.g., profitability ratios). Based upon our experience analyzing business cost trends across more than a dozen industries and countries over the last decade as part of the KPMG *Competitive Alternatives* study (for more details, refer to www.CompetitiveAlternatives.com), we have observed that key financial ratios within a particular industry are far less susceptible to variations over time and across geography than absolute dollar metrics.

- The only data extracted from these studies in absolute dollar terms was average compensation per employee. These data have been consistently updated to 2007 dollars, based on consumer price indices.

The data and ratios extracted from these eight studies, have then been applied to the estimated 2007 IFB taxable income figure ($125 million) to derive estimates of the total volume of business activity undertaken in conjunction with the IFA program. This analysis is detailed in the following section of this report.

- Using the estimated total business activity, an economic impact analysis has been completed using BC Provincial Economic Multipliers to estimate the direct, indirect, and induced output, GDP, jobs, and provincial tax revenues (including PST and personal income taxes) being generated by IFB activities.

4. Estimated level of business activity associated with the IFA program

As noted in the previous section, total refunds actually paid under the IFA program in 2007/8 of $15 million have been used as a starting point for the analysis. This translates into approximately $125 million of IFA taxable income (or net profit before income tax) on an annual basis.

Due to confidentiality restrictions, actual details of business income and expenses for IFA program participants are not available. Therefore, it has been necessary to develop an estimate of the likely level of qualifying business activity operating under the IFA program, based upon an analysis of other information sources regarding financial services operations. The $125 million of IFA taxable income (or net profit before income tax) noted above has been used as the key input to this analysis.

Eight studies have been identified that provide valuable insights into the relative business cost structure and profitability of the financial services operations in Canada, as referenced in the previous section of this report. The studies cover a wide range of activities that fall within the definition of financial services, with differing degrees of value-added activity and profitability – consistent with the range of qualifying activities under the IFA program. For example, IFA activities such as deposits and loans, insurance, foreign exchange dealing, factoring, property leasing, film distribution, and patent licensing are all capital intensive (and less labour intensive) since they use capital to generate their profit. Other IFA activities, such as letters of credit, asset management, fund administration, financial advice, financial research, administrative support, and management services, are labour intensive activities that do not rely on capital to generate their profits.

Key statistics have been extracted as relevant from the eight independent studies, including profitability ratios, labour cost ratios, numbers of employees, and average labour costs per employee[7]. Table 1 summarizes these key statistics, along with the equivalent values derived therefrom and applied in this study.

Table 1
Comparison of assumptions included in IFA business activity estimates

Assumptions / Measures	Eight Comparison Studies			Applied In This Study
	Low	Average	High	
Net profit before income tax as a % of gross revenue	13%	20%	26%	15-20%
Total labour costs as a % of gross revenue	13%	39%	61%	38-40%
Estimated cost per employee (2007$, including benefits)	$56,542	$88,151	$129,312	$88,151-$91,970
FTE employees per $1 million of gross revenue	1.17	6.25	11.97	4.36

[7] As available from each study. Some studies did not include all of these statistics.

With respect to the assumptions applied in this study, as listed in Table 1, key considerations in determining the final values used included:

- The eight studies display a wide range of variation for some key measures (especially the labour cost ratio and number of FTE employees), reflecting the fact that the financial services industry encompasses a mix of both capital and labour intensive operations, as discussed on the previous page. The operations of the IFA program participants are similarly diverse to the industry as a whole.

  The objective of this analysis is to estimate total IFB income and labour costs for all IFA participants. As data for the diverse range of IFB activities is blended, this will implicitly push the aggregate ratios for the group away from the outlying extreme values and toward the mean. For each of the assumptions applied in this study, a range of values is identified to estimate the likely values for all IFA program participants in aggregate. Naturally, these ranges are much narrower than the broad ranges identified from the eight studies of specific types of financial services operation.

- For net profit before income tax as a percentage of gross revenue (profit ratio), only one study reported a profit ratio in excess of 21%. Therefore, in this study, we have applied profit ratios that fall on the conservative side of the 20% average seen in the eight source studies.

- Three separate approaches were considered to analyze the labour cost ratio (as a percentage of gross revenue), to ensure that the final assumption used is relevant to and reflective of the IFA program participants. These three approaches had a strong degree of correlation, and derived the rather narrow range of 38–40% of gross revenue applied as an assumption in this study:

  - The range identified from the eight separate studies (13–61%) was reviewed to determine that no single outlier was skewing this range, and that all data points were well distributed within the range. This confirmed the average labour cost ratio of 39% derived from the eight studies.

  - We briefly reviewed the mix of IFC BC member companies, as divided between banks, industrial companies, and other financial service providers. Based upon data from the eight individual studies, an appropriate labour cost percentage was applied to each group based on the nature of activities of that group. These results were then weighted to determine an overall estimate for labour costs, at 38% of gross revenue.

  - The direct GDP multiplier for British Columbia's Finance, Insurance, Real Estate, and Renting and Leasing industry is 0.61[9] (or 61% of output). GDP represents value added, and principally comprises profit and labour. Assuming an average profit margin for financial services activities of approximately 20% (as noted above), therefore total labour costs should represent approximately 40% of output.

---

[9] *2004 British Columbia Provincial Economic Multipliers*, BC Stats, 2008.

- For the two remaining labour-related measures (average compensation and number of employees), some disconnect existed between the various source studies as not all studies reported all labour measures. After determining the range for labour costs as percentage of gross revenue (above), the remaining labour measures were derived as follows:

    - Given the specialist nature of IFB activities, estimated compensation per IFB employee is assumed to be slightly higher than the average pay level seen in the eight studies.

    - The multiplier for FTE employees per million of gross revenue for IFB activities was estimated to be 4.36 employees – a more conservative estimate than the average of 6.25 demonstrated from the eight studies considered, but internally consistent with the labour cost and average compensation figures derived above.

The output from this analysis is a range of likely values for each key assumption for use in this study, as detailed in Table 1. We did not define a mean value for each assumption, because confidentiality restrictions regarding financial data of IFA program participants do result in some uncertainty as to the actual income and expenses of IFB activities. Therefore, we believe that a mean value for each key assumption may present an inaccurate, single-value picture of IFB activity. Instead, we have identified a relatively narrow range of likely values for each key assumption, with confidence that the actual values for all IFB activities (in aggregate) lie within each relevant range.

Based upon the ranges for each key assumption identified in Table 1, we then developed both a "low" and "high" estimate of the expected revenues, labour costs and employment for all IFB activities. Both estimates result in $125 million of known IFA taxable income (or net profit before income tax). These estimates of direct IFB activity are detailed in Table 2.

Table 2
Estimated range of direct business activity under the IFA program

	Low Estimate		**High Estimate**	
	$ million	%	$ million	%
Gross revenue	$625.0	100%	$833.3	100%
Labour costs	240.3	38%	334.2	40%
Other costs (excluding income tax)	259.7	42%	374.1	45%
Total costs	500.0	80%	708.3	85%
Net profit before income tax	$125.0	20%	$125.0	15%
FTE employees	2,726		3,635	

As illustrated in Table 2, it is estimated that the $125 million in known annual IFB taxable income (net profit before income tax) is the product of $625 – $833 million in business revenue. Of this total business revenue, it is expected that 38% – 40% is spent on employee compensation, driving a total payroll related to IFB activities of $240 – $334 million and supporting 2,726 – 3,635 direct FTE jobs. This employment is predominantly in moderate-to-high paying professional jobs. The international financial services being provided are likely to be quite profitable, with net profit before tax estimated to be in the range of 15% - 20% of gross revenue.

These “low” and “high” estimates for direct IFA business activity form the basis for the economic impact analysis presented in the following section.

5. Economic impacts of the IFA program

5.1. Economic impact methodology

Expenditures by businesses give rise to a variety of impacts in the economy:

- Expenditures made by businesses represent **direct economic impacts**. The most important impacts include total output, GDP (value added), employment, and government fiscal impacts (taxes collected).
- The expenditures made businesses also give rise to additional activity among the various suppliers of the business. These **indirect economic impacts** help to compound the total economic impact of the original expenditures.
- In the course of operations, employees of both a business and its suppliers also receive income, much of which they then spend on a variety of goods and services. This spending by employees represents **induced economic impacts**.

The methodology for this study has been designed to estimate the direct, indirect, and induced economic impacts generated by IFB activity on the BC economy.

Within this framework, an important consideration is the assumption made regarding a social safety net, as this influences the magnitude of estimated economic impacts (particularly for government revenues). A model with a social safety net assumes that any jobs created are filled by workers who were previously resident in BC and were receiving social assistance, whereas a model with no social safety net assumes that jobs are filled by new entrants to the labour force, most likely moving to BC from outside the province. Given the highly specialized nature of some activities under the IFA program (including the attraction of national and foreign specialists), versus the administrative aspects of other IFB activities, in this study we have analyzed cases both with and without the social safety net assumption when defining the range of economic impacts from IFB activities.

BC Provincial Economic Multipliers[12], have been used for the estimation of direct GDP and fiscal impacts, and for all indirect and induced economic impacts. The relevant multipliers used are those for Medium Aggregation Industry 43: Finance, Insurance, and Real Estate. These multipliers are summarized in Table 3.

Table 3, BC economic multipliers relative to direct output, industry 43: FIRE[12]

	Direct	Indirect	Induced	Total
Output	1.00	0.44	0.13-0.24	1.57-1.68
GDP	0.61	0.19	0.07-0.13	0.87-0.93
Employment (FTE per $M)	4.36[1]	3.11	1.06-2.00	8.53-9.47
Provincial tax revenue	0.046-0.047	0.013-0.014	0.011-0.021	0.070-0.082

1 As estimated for IFB activities, per Table 2 and Section 4 above. For the FIRE industry BC Stats estimates the direct employment multiplier to be only 2.83. This is diminished due to the greater significance of revenue earned from capital than from services in the entire FIRE industry as compared to IFB activities.

12 *2004 British Columbia Provincial Economic Multipliers*, BC Stats, March 2008.

5.2. IFA program economic impacts

Based on the estimated range of IFB activity summarized in Table 1 above, and the economic impact methodology and multipliers described in the previous section, the range of estimated annual BC economic impacts attributable to IFB activity is presented in Table 4.

Table 4
Estimated range of economic impacts from IFB activity

		Direct	Indirect	Induced	Total
Output	$M	625-833	275-367	81-200	981-1,400
GDP	$M	381-508	119-158	44-109	544-775
Employment	FTE	2,726-3,635	1,944-2,592	662-1,666	5,332-7,893
Provincial tax revenue[1]:					
- Gross tax revenue	$M	29-39	8-12	7-17	44-68
- Less: IFA refunds	$M	15	–	–	15
- Net tax revenue	$M	14-24	8-12	7-17	29-53
Ratio of output to IFA refunds paid					65.4-93.3 : 1
Ratio of GDP to IFA refunds paid					36.3-51.7 : 1
FTE jobs per million dollars of IFA refunds paid					355-526 : 1
Ratio of gross provincial tax revenues to IFA refunds paid					2.9-4.5 : 1

1 Provincial tax revenue only. Excludes federal and municipal revenues.

The estimated $625 - $833 million of direct business activity (output) taking place under the IFA program is estimated to generate between $981 million and $1.4 billion in total annual economic output, after counting the indirect and induced activity resulting from the direct IFB activity. In terms of provincial GDP, the direct IFA business activity is estimated to generate $381 - $508 million in annual provincial GDP, which grows to $544 - $775 million in GDP after considering indirect and induced activity.

At this point in time, job creation and/or job maintenance is an especially important consideration. As noted in Table 1 above, it is estimated that 2,726 - 3,635 direct FTE jobs are created or maintained by IFB activity. The financial services sector also shows relatively strong multipliers for indirect and induced job creation, resulting in a total of 5,332 - 7,893 direct, indirect, and induced FTE jobs being supported as a result of IFB activity.

From an economic development perspective, the provincial return on investment from the IFA program can be summarized as follows:

- Each dollar of IFA refunds paid is associated with $65.40 - $93.33 in economic activity (output) and $36.27 - $51.67 in provincial GDP. This implies that the IFA program is acting as a strong positive economic stimulus, as these returns far exceed the level of output per dollar ($1.39 - $2.62) or GDP per dollar ($0.28 - $1.19) that could be expected to be generated by direct government spending of $15 million on goods or services from any sector of the economy[3].

- Each million dollars of IFA refunds paid is associated with 355 - 526 FTE jobs.

Estimated provincial tax revenue impacts are also strongly positive for the Province, even after considering the $15 million in IFA refunds paid out in 2007. Provincial tax revenues from direct IFB activities, including personal income tax from IFB employees, PST, and gross corporate income tax, are estimated at $29 - $39 million annually before the payment of IFA refunds, or $14 - $24 million annually net of IFA refunds. Including both indirect and induced activity, provincial tax revenues grow to $44 - $68 million before IFA refunds, or $29 - $53 million after IFA refunds have been paid.

Including indirect and induced activity resulting from the IFA program, the Province is estimated to collect between $2.93 and $4.53 in gross tax revenue for every dollar of refunds paid, resulting in positive net tax revenue of $1.93 - $3.53 per dollar of refund issued.

Based on these ratios, provided that approximately one quarter to one third (22-34%) of all IFB activity is incremental (i.e., either new to the province or retained in BC due to the IFA program), then the IFA program is breaking even for the Province on a purely fiscal basis. As noted earlier, we are unable to determine what portion of IFA-associated business activity is incremental in nature. However, this analysis suggests that the IFA program pays for itself provided that approximately one quarter (or more) of all IFA-associated revenues are incremental in nature. This breakeven point is based solely on BC provincial revenues, and would be significantly lower if federal and/or municipal revenues were included in the analysis.

The activity generated under the IFA program is helping to create and maintain a substantial number of jobs in the province (up to 7,893 FTE jobs), and is further promoting BC business through the attraction of valuable investment and human capital to the province.

This study only reviews IFB activities. However, it is important to consider that the operations of most IFC BC members include significant other business activities (i.e., non-IFB) in addition to their IFB activities. While it is not possible to determine to what extent the IFA program influences these other business activities, the IFA program may have some influence in causing IFA participants to also establish and/or retain other business activities in British Columbia.

6. Limitation of results

The results presented in this report are subject to the following limitation of which the reader should be aware. Due to privacy and confidentiality restrictions, actual details of business income and expenses for IFA program participants are not available, and therefore the volume of business activity taking place under the IFA program has had to be estimated based on the known value of IFA refunds issued and other industry-relevant studies, as described in section 4 of this report.

Appendix A

Additional background on the IFA program

International Financial Center

The International Financial Center, British Columbia (IFC BC) is a non-profit society, established in 1986, that promotes British Columbia as a centre for international financial business. The IFC BC encourages corporations to take advantage of the favourable tax treatment granted under the International Financial Activity Act (IFAA).

The IFAA is intended to aid the development of international financially-based business in British Columbia. The IFC BC is therefore tasked with the job of reaching out to professionals in the business community and communicating the tax advantages available to companies under the IFAA.

In addition to bringing new companies into the province, the IFC BC acts as a liaison between the government and IFC BC members. Members who have issues they wish to raise with provincial officials can bring them to the IFC BC to present on their behalf. The IFC BC also works with its members and the BC business community to lobby for new legislation or changes to the existing legislation.

The IFC BC team works with key business leaders and government to promote the objectives and the work of the Centre. Through fostered relationships with the business community and the provincial government, the IFC BC aims to bring commercial benefits to all British Columbians.

Specific services provided by IFC BC to its members include:

- Advocating on behalf of members by serving as the liaison with government.
- Consultation and direction on how the IFAA can benefit members.
- Relevant financial research and policy information.
- Information on law firms, accounting firms, real estate and other service providers.
- Conferences and special events to educate and connect business leaders from Canada and around the world.
- A wide range of publications including membership directories, quarterly newsletters, and information pamphlets.

International Financial Activity Program

The International Financial Activity Act (IFAA) provides the legislative framework for the International Financial Activity (IFA) program.

The IFAA, which took effect on September 1, 2004, allows a company, incorporated in Canada with a permanent establishment in British Columbia, to register for a refund of up to 100% of its corporate income taxes paid to the Province of British Columbia on qualifying activities. The legislation establishes the registration requirements, refund information, and other matters concerning the IFA program.

Effective January 1, 2006, the IFA program was expanded to include refunds of provincial corporate income taxes on income derived from certain patents, such as those stemming from life science and film.

The IFA program is administered by the BC Ministry of Finance (formerly the Ministry of Small Business and Revenue).

Program history

The IFC BC was established by the Federal Government in response to concerns that an increasing number of jobs, specifically those related to international departments of leading Canadian banks, were being located offshore. Further study showed that Canada was losing not only jobs, but more importantly, the expertise associated with those jobs.

As a result, the Minister of Finance introduced legislation for Canadian banks to take deposits from and make loans to non-residents from a base within Canada; profits earned on such activities would be exempted from Federal taxes. Minister Wilson recognized that the measure would only be really attractive if such activities were also free from provincial taxes as well. As a result, Ottawa designated Montreal and Vancouver as an IFC.

In 1988 the Province of British Columbia passed two pieces of legislation: the International Financial Business Act and the International Business (Tax Refund) Act. These acts allowed financial institutions, such as banks, trust companies, brokerage firms, and money managers, to carry on specified international business from a base in the lower mainland. In the fanfare surrounding the creation of the IFC Vancouver, a number of companies registered.

Federal government financial support for the IFC's was successfully challenged, and as a result, the initial promise of the IFC was not fulfilled. In addition, firms found the legislation far too restrictive to be attractive to a broad range of global financial players. For instance, the previous legislation dictated that all transactions had to be done at arm's length. In addition, banks were restructuring and exiting certain businesses, including trade finance and foreign exchange. The new firms offering these services were not eligible to register with the IFC.

In late 2002, an independent review of the IFC BC recommended that the Provincial Government expand the scope of the IFC BC program to at least make it competitive with its counterpart in Montreal. In response, the International Financial Activities Act (IFAA) was proclaimed into law and became effective September 1, 2004.

The IFAA introduced two substantial changes to the IFA program. First, any type of company, not only a financial institution, became eligible for registration. All companies that meet the criteria can qualify based on their international financial activities. Second, companies registering under the program are able to deal with related parties and subsidiaries.

Companies registered under the IFA program can receive up to a full refund of provincial corporate income taxes paid on qualifying activities.

International Financial Centre members

Core members

Membership in the IFC BC has grown significantly over the last five years. Most core members of the IFC BC are registered in the International Financial Activity (IFA) program. These companies comprise an array of businesses from financial institutions to companies in the life sciences and manufacturing business. In addition to paying annual membership dues of $1000, core members pay an annual participation assessment fee on the income earned by the international financial business in the preceding year. The fee is currently set at 0.45% of the earned IFA income, to a maximum annual fee of $80,000. This fee is pro-rated for patent activity. The revenues from these fees go towards supporting the functions of the IFC BC office.

As at December 2008, IFC BC had 61 core members, as follows:

- AbeBooks Inc.
- Angiotech Pharmaceuticals, Inc.
- Babcock & Brown Canada
- Bank of Montreal
- BASF Finance Canada Inc.
- Canaccord Capital Corp.
- Chexx (Americas) Inc.
- Chrysalix Energy
- CIBC
- Citizens Bank of Canada
- Coast Capital Savings Credit Union
- Connor, Clark & Lunn Financial Group
- Custom House Ltd.
- Custom House (Online) Ltd.
- Custom House (Retail) Ltd.
- Ecowaste Industries Ltd.
- Ethical Funds Company
- First Resolution Management Corporation
- Genus Capital Management
- Global Futures Corporation
- Global Securities Corp.
- Graymont Capital Inc.
- Haywood Securities Inc.
- Haywood Securities (USA) Inc.
- HSBC Bank Canada
- HSBC Capital (Canada) Inc.
- HSBC Investment Funds (Canada) Inc.
- HSBC Global Asset Management (Canada) Ltd.
- International Forest Products Limited

- International Tracing Search Inc.
- JP Morgan Asset Management (Canada) Inc.
- Mackenzie Cundill Investment Management Ltd.
- Macquarie Capital Markets Canada Ltd.
- Macquarie Metals & Energy Capital (Canada) Ltd.
- Mondiale Asset Management Inc.
- Neuromed Technologies Inc.
- North Growth Management Ltd.
- Northstar Trade Finance Inc.
- Oakridge Accounting Services Ltd.
- Orbis Client Services (Canada) Limited
- PI Financial Corp.
- PI Financial (US) Corp.
- Pacific Network Services Ltd.
- Phillips, Hager & North Invest Mgmt.
- QLT Inc.
- Raymond James Ltd.
- RBC Dominion Securities Inc.
- Royal Bank of Canada
- Salman Partners Inc.
- Salman Partners (USA) Inc.
- Scotiabank
- Scotia Capital
- TD Bank Financial Group
- Teck Cominco Ltd.
- Tolko Finance Ltd.
- UBS Bank (Canada)
- Vancouver City Savings Credit Union
- West Fraser International Ltd.
- West Fraser Mills Ltd.
- Windsor Building Supplies Ltd.
- Wolverton Securities Ltd.

Associate members

Associate members represent the infrastructure of the business community in British Columbia. Drawn from the legal, accounting, consulting, and other professional sectors, these firms assist the IFC BC by informing their clients and associates about the benefits available to them under the IFA program. Associate members pay an annual fee of $300. The revenues from these fees also go towards supporting the functions of the IFC BC office.

As at December 2008, IFC BC had 45 associate members, as follows:

- Aon Insurance Managers (Vancouver)

- Bank Vontobel AG - Rep. Office
- BC Film Commission
- BC Innovation Council
- BC Investment Management Corporation
- Borden Ladner Gervais LLP
- Boughton Law Corporation
- Business Council of British Columbia
- Canada Pacific Russia Trade Centre
- Canadian German Chamber of Industry & Commerce
- Canadian Manufacturers & Exporters
- Central 1 Credit Union
- Chamber of Shipping of BC
- Computershare Trust Co. of Canada
- Deloitte & Touche LLP
- EFG Wealth Management (Canada) Limited
- Ernst & Young LLP
- Farris, Vaughn, Wills & Murphy LLP
- Gowling Lafleur Henderson LLP
- Grant Thornton LLP
- ICICI Bank Canada
- Integro Canada Limited
- Investment Industry Association of Canada
- Jardine Lloyd Thompson Canada Inc.
- KCS Fund Strategies Inc.
- KPMG LLP
- Life Sciences BC
- Liquid Capital Pacific Corp.
- McCarthy Tetrault
- Merck Frosst Canada Ltd.
- Mitsubishi Canada Ltd.
- Odlum Brown
- Pacific Corridor Enterprise Council
- Pacific Northwest Economic Region
- PricewaterhouseCoopers LLP
- SME Bancorp Inc.
- SmytheRatcliffe LLP
- State Bank of India
- Tamarack Capital Advisors
- Thorsteinssons LLP, Tax Lawyers
- Union Securities Ltd.
- Van Arbor Asset Management Ltd.
- Vanderluit & Associates, Inc.
- Vancouver Board of Trade

- Vancouver Economic Development Commission

International Financial Centre governance

As at February 2009, IFC BC's Board of Directors is comprised of 23 individuals, as follows:

- Bruce Bailey, JP Morgan Asset Management (Canada) Inc.
- Steven Bow, Northstar Trade Finance, Inc.
- Ron Bozzer, Borden Ladner Gervais LLP
- Neal Clarance, Ernst & Young LLP
- Martine Cunliffe, UBS Bank (Canada)
- Cris Da Silva, Mitsubishi Canada Limited
- Chris Duggan, Royal Bank of Canada
- Robert Fairweather
- Bruce Flexman, IFC BC
- Peter Gustavson, Custom House Global Foreign Exchange
- David Hall, Angiotech Pharmaceuticals, Inc.
- Colin Hulford, HSBC Bank (Canada)
- Rodger Hutchinson, West Fraser International Ltd.
- Glenn A. Ives, Deloitte & Touche LLP
- Brad Kotush, Canaccord Capital
- Tony Martin, KPMG LLP
- Len A. McFarland, Connor, Clark & Lunn Financial Group
- Anne Meyer, Raymond James Ltd.
- Andrew Parkinson, Van Arbor Asset Management Ltd.
- Donald Rose
- Ian Russell, Investment Industry Association of Canada
- Bradley Sakich, PricewaterhouseCoopers LLP
- John Wiebe, Globe Foundation

In addition to the Board of Directors, IFC BC also has a six-member Executive Committee, consisting of the following individuals:

- Ron Bozzer, Chair
- Andrew Parkinson, Vice Chair
- Bruce Flexman
- Colin Hulford
- Glenn Ives
- Anne Meyer