

Government incentives strengthen B.C.'s gateway status, for now

International regional offices can be lured to B.C., but the province needs to stay vigilant in keeping pace with increasing competition overseas

By Richard Chu

For **Bruce Flexman**, it's been relatively easy to promote British Columbia as a prime location to house international business activities.

At a **Hong Kong-Canada Business Association** event last week, the president of B.C.'s **International Financial Centre (IFC BC)** noted that in the past 10 to 15 years, Vancouver has moved from being a relatively high tax jurisdiction to being an extremely competitive tax jurisdiction.

According to an **OECD** study, Canada's combined corporate tax rate has moved from being one of the highest in the OECD at 51.55% in 1987 to 33.5% in 2008. And corporate tax rates continue to fall in Canada despite the global recession and financial crisis. By 2012, the combined federal and provincial corporate tax rate in B.C. will fall to 25%, making it among the lowest corporate income tax jurisdictions among the G-7 countries.

Businesses involved in international transactions that qualify under the IFC's program could see their tax rates fall to 15% in 2012 with qualified international activities receiving a full rebate of the provincial corporate tax.

"We can now lead with taxation as an advantage," said Flexman, "as opposed to something we're embarrassed to talk about."

These kinds of tax movements bode well for B.C. as a potential head office jurisdiction. **Walter Pela**, partner in charge of tax for **KPMG's** Greater Vancouver offices, noted that these changes have had significant impact on the region's business competitiveness internationally.

In a **KPMG** study released in May, Vancouver topped the ranking of 41 cities with a population greater than two million for having the lowest corporate tax costs. Vancouver moved up from fourth in 2008's study and now outranks Montreal (4th) and Toronto (5th) after taking into account income tax, capital taxes,

sales tax, property taxes, local business taxes and labour costs.

These changes complement B.C.'s other competitive advantages like its culturally diverse and educated workforce, high quality of life and stable economy and financial system. More accessible immigration policies, tax incentives and other economic strengths have also attracted several global firms to B.C., including **Microsoft**, **Pixar**, **Canon** and subsidiaries of Australia's **Macquarie Bank**. "Fifteen years ago, all we would have been talking about is who's leaving," said Pela.

Flexman noted the IFC program has also attracted international operations, including Swiss logistics giant **Kuehne & Nagel Services Ltd.** and **Orbis Client Services (Canada) Ltd.**, an administrative arm of a Bermuda-based investment management firm.

But governments should not rest on their laurels, Pela said, because the recession has not stopped other countries from moving in the same direction to entice business to their own cities. He noted New Zealand cut its corporate taxes in May to 28% from 30%, and Australia introduced a 45% refundable R&D credit for small businesses. Even the U.K. plans to cut its corporate tax rates despite its fiscal situation.

"The world keeps evolving," said Pela, "and we need to make sure we adopt policies that continue to support a business and continue to keep Vancouver a competitive place in the long term."

Flexman noted the government seems to be signaling to the global business community through the IFC program the areas it is keen



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Walter Pela, partner in charge of tax for KPMG's Greater Vancouver offices: Canada and B.C. need to continue to enhance competitive advantage to draw international business

to develop. Over the past few years, Victoria has expanded the program several times. The number of eligible activities has grown to include film distribution; life-science patents; green-tech patents; head office management services for non-resident businesses; digital media publishing and distribution; clean technology; investment fund management; and companies providing services related to certifying and trading carbon credits to non-residents.

In the March budget, the government expanded the program further to allow Schedule III banks, or branches of foreign banks operating in Canada, to participate in the program, which will now be

called the International Business Activity (IBA) program.

Whether companies decide to participate in the IBA program or not, Flexman noted, its existence can still help all eligible businesses under the program. While some companies, including life science firms or green-tech businesses, may not make a profit for several years, the program can help boost a company's valuation when it comes to raising capital.

"You value a company based on how much money it's going to make in the future, and a proper valuation is on an after-tax basis," Flexman said. "If you're going to earn those profits in a jurisdiction with taxes at 15% versus a jurisdiction with 40% taxes, like the U.S., you can see the kind of difference in value you're going to get for the company."

"It's actually a hidden gem that's available to companies in a start-up phase, so they still would have gotten help from this program." ■
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