



## Vancouver's ranking as a global financial centre rises

The March 2009 Global Financial Centres Index ranked Vancouver 25th as a global financial centre—well above the September 2008 position of 30th.

(Global Financial Centres Index, 2009)

## Thanks to sponsors of the IFC BC's 14th Annual Golf Tournament:

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## Highlights of the Member IFA Program Session

The IFC BC recently held an information session for members that covered certain aspects of the IFA program, such as compliance and administration. Questions were addressed by a panel made up of representatives of four accounting firms: Chris Gimpel from Deloitte, Tony Martin from KPMG, Jas Hayre from E&Y, and Marco Cavasin from PWC. Here are some of the questions that were asked and their responses.

*Is there a requirement for a registrant to file a return for a year when there is a loss and no BC tax payable?*

If there is no BC tax payable, the registrant is not required to file a IFA return. However, the Province can demand that a return be filed and then it is a requirement to file. In situations where there is a loss carryback, we understand that the Province will ask that returns be filed for loss years.

*If a registrant has a loss year, but elects under Section 110.5 of ITA to utilize Foreign Tax Credits, can an IFA Refund claim be made?*

A Section 110.5 election will create taxable income and therefore BC tax payable. If there is BC tax payable, an IFA Refund claim can be made. If losses are not in the IFB, the rate of IFB business to non-IFB business may be higher.

*Is a registrant required to keep books and records in BC?*

This is a requirement under the *International Financial Activity Act (IFAA)*. However, companies

with head offices outside BC can obtain approval from the Province to keep books and records outside BC as long as they agree to make them available in BC, particularly during audit. With the ability to transfer information electronically, this should not be a constraint.

*What are some of the traps involved with maintaining registration where a registrant has been involved in a corporate reorganization?*

Registration in the IFA program is for a specific company, so any new company that is formed must be registered. In general, there are three situations: 1) an amalgamation of IFA registrants—the registration carries through to the new entity; 2) an amalgamation with a non-registrant—there is a 90-day notification requirement; 3) a windup of a registrant—a new registration is required for the continuing entity. In situations of a name change, registrants can notify the Province on the next return.

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## Independent Report Finds IFA Program Has Substantial Impact on BC's Economy

A study by MMK Consulting, released in April 2009, examined the impact of the International Financial Activity (IFA) program on BC's economy. The objective of the study was to estimate the total provincial economic impact associated with the IFA program without reference to either incrementality or related non-qualifying activities operated by program participants.

The study found that the program was a significant contributor to British Columbia's economy.

• The program contributed \$1/2 billion to \$3/4 billion to British Columbia's GDP. That figure

represents .28% to .4% of British Columbia's 2007 GDP.

- The program supported between 5,000 and 8,000 FTE jobs in 2007.
- Each \$1 of IFA refunds paid yielded from \$36 to \$52 in provincial GDP.
- The IFA program generated net positive provincial tax revenues. The Province collected from \$3 to \$4.50 in gross tax revenue for every dollar of IFA refund paid.



*For a copy of the report, please email Robyn at [ralcock@ifcbc.com](mailto:ralcock@ifcbc.com) or [info@ifcbc.com](mailto:info@ifcbc.com).*

## IFA Program Session, continued

*How can the functional currency election simplify compliance under the IFA Act?*

A registrant has the ability to elect to use certain foreign currencies (US dollar, Euro, or British Pound) for filing income tax returns. Electing to file under a functional currency avoids the need to hedge foreign currency and minimizes compliance by maintaining books in US \$ or another allowed currency. The Province has indicated that they will allow the use of foreign currencies as allowed by the ITA. Since the IFA refunds rely on ratios of amounts as determined for filing the federal T2, there should not be any issue with the calculations using foreign currencies as permitted under the ITA. The amount of BC tax will be converted at the relevant exchange rate into Canadian dollars on the same basis as federal income taxes.

*What should a registrant do to file an IFA Claim if the CRA has not assessed the return within the 18 month filing period after the taxation year?*

The registrant should file the return within the specified time based on the T2 information. The CRA Assessment should be provided as soon as possible since interest will not start until it is received.

*Many registrants carry on both qualifying and non-qualifying activities in the same legal entity. What methodologies are registrants using to allocate costs such as overhead and salaries in calculating IFB income?*

Registrants must deduct all amounts which relate to the IFB. Costs must be reasonable and substantiated by audit trails. There are a variety of allocation methods available including OECD branch allocation guidelines, revenue allocation, and other methods that may apply to a business. Non-arm's length costs are allocated at FMV. It is important that allocation methodologies are revisited periodically to ensure the basis of allocation is still appropriate.

*Some registrants have non-arm's length charges as part of their arrangements to utilize the IFA Program (e.g., a captive factoring arrangement). What are the documentation requirements under the IFAA for non-arm's length charges?*

It is the responsibility of the registrant to justify the methodology for transfer pricing. The Province will generally allow what the CRA accepts for transfer pricing. While there is no formal documentation requirement, a registrant must be able to substantiate that reasonable efforts were undertaken to avoid the 10% penalty on IFB income adjustments. Again, registrants should review non-arm's length charges regularly for changes e.g., discount rate for factoring arrangements.

*What happens to the calculation of interest when all of the information, including the CRA Assessment is filed and subsequently, the registrant received a CRA Reassessment?*

Interest is normally payable starting 61 days after the return is filed with required information. It could be later if the claimant

has not filed proof of payment of BC and Federal taxes. After a recent appeal, the Province agreed to pay interest starting 61 days after the original return was filed and the CRA Assessment provided—and not 61 days after the Notice of Reassessment was provided.

*If a registrant starts claiming for new activities under the IFA Program, which were not part of the original registration, is there a requirement to make a new registration request?*

No, it is not necessary to amend or renew registration for new activities. However, the information required in filing the tax refund claim requires registrants to advise of any changes in qualifying activities, related or affiliated corporations, directors and contact information ( See 'Appendix 3' of the Province's *Guide To Filling Out Either the IFA Tax Refund of a Corporation or the IFA Tax Refund of a Life Science Corporation.*)

*Is the IFA refund taxable in calculating taxable income in a subsequent year?*

Under paragraph 12(1)(x), the IFA refund would be included in income when received as a government subsidy. However, there is the ability to elect under subsection 12(2.2) such that there is no net income inclusion. Election must be made with respect to the year a refund is received, although there is the ability to late-file the election for up to 10 years. A specific form is not prescribed, and a registrant can attach the election to the T2 return.

*A registrant is assessed by CRA, which results in an increased tax liability and an increase in the IFA refund available. The registrant decides to appeal the CRA Assessment and pays only 50% of the tax owing. What is the registrant required to do with respect to the IFA Refund Claim?*

Registrants must advise the Province of a CRA Reassessment made within 90 days of the date the CRA Reassessment was issued. The Province will not pay the refund until the registrant demonstrates that both federal and BC tax have been paid within 3 years. Registrants who fail to pay within 3 years will need an extension from the Province.

*Panelists were asked: what areas of the program are being underutilized?*

- Many registrants are not claiming all of the activities they can claim. The list of IFA activities should be reviewed on a regular basis to determine if any aspects of a business qualifies.
- Review transfer pricing methodology on an annual basis.
- There are underutilized cost allocation opportunities.
- The IFA Specialist category is not being used by most registrants. If your business can benefit from bringing someone from outside Canada to transact IFA business, the employee can qualify for a 75% refund of their BC taxes for a five-year term. Note this does not apply to patent, administration, back-up operations, and management services activities.

