

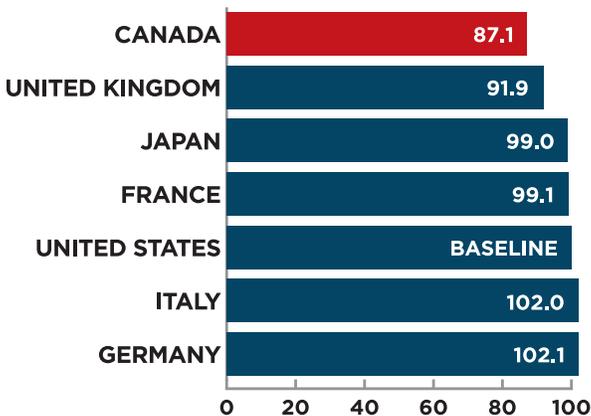
CANADA'S COST AND TAX ADVANTAGES – SOFTWARE DESIGN

Canada's large cadre of highly skilled software development professionals plus free access to the large U.S. software market make Canada an ideal nearshore destination for value-added software development activities. A competitive environment for business costs and business taxes further adds to Canada's advantages.

In its 2014 study of global business locations, *Competitive Alternatives*¹, KPMG found that Canada offers the lowest business cost structure and the lowest business tax burden among the G-7 countries for software firms. Details of these findings are presented below, reflecting business costs and taxes for an independent packaged software development firm.



SOFTWARE DEVELOPMENT COST INDEX, G-7 RESULTS (U.S. = 100.0)



CANADA'S COST HIGHLIGHTS

- Software developers based in Canada benefit from total labour costs that are 13.4 percent lower than equivalent costs in the U.S. Competitive salary levels and lower healthcare costs in Canada contribute to the savings.
- Suburban office lease costs in Canada's major cities are among the lowest in the G-7, with savings of 17 percent compared to the G-7 average for this software firm.
- Power-hungry servers benefit from affordable electricity in Canada, with power costs that are 21 percent below the G-7 average for this software development facility.
- Taxes represent the final component of Canada's cost advantage, as detailed on the next page.
- When all cost factors are considered, Canada has the lowest business cost structure among all G-7 countries, with total business costs 12.9 percent below the U.S.

IMPACT OF EXCHANGE RATES

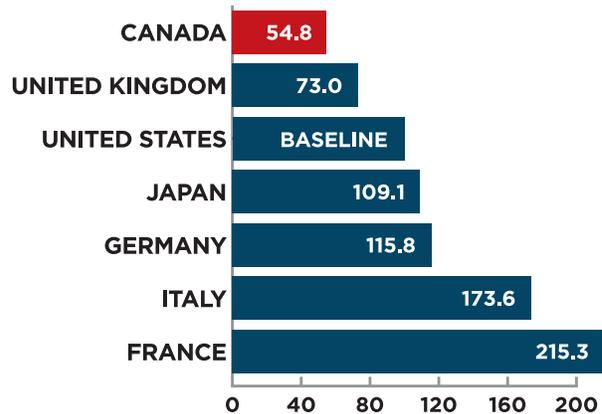
The 2014 edition of *Competitive Alternatives* was released in March 2014. The results from that study, including the results reported here, reflect exchange rates that were in effect in the fourth quarter of 2013. These results are sensitive to exchange rate changes.

During 2014, the U.S. dollar appreciated in value relative to most global currencies, including the Canadian dollar. For the model software development firm, Canada's cost advantage relative to the United States **increases from 12.9 percent to 19.6 percent** at January 2015 exchange rates. The stronger U.S. dollar significantly increases Canada's cost advantage for international software firms.

¹ *Competitive Alternatives, KPMG's Guide to International Business Location Costs and Competitive Alternatives, Special Report: Focus on Tax.* Available for download from CompetitiveAlternatives.com.



SOFTWARE DEVELOPMENT TOTAL TAX INDEX³, G-7 RESULTS (U.S. = 100.)



LOW-COST HOT SPOTS

Business cost index of select Canadian cities (U.S. = 100):

A	City of Québec	81.2
B	Montréal	84.0
C	St. John's	86.3
D	Halifax	86.4
E	Edmonton	88.2
F	Vancouver	89.7
G	Toronto	90.2

CANADA'S TAX HIGHLIGHTS²

- IT firms in Canada can benefit from a number of targeted tax incentives. For this model software development firm, eligibility for a tax credit for e-business jobs in Montréal helps to reduce Canada's effective rate of corporate income tax to 19.7 percent, the lowest in the G-7.
- Canada's statutory labour costs are the lowest in the G-7 and its costs for other corporate taxes are also low, ranking third among the G-7 countries.
- Overall, Canada's total tax index for this software development firm is 54.8 – the lowest among the G-7 countries and reflecting total tax costs 45.2 percent lower than in the United States.

SUMMARY OF OPERATING PARAMETERS

BUSINESS OPERATION: SOFTWARE DEVELOPMENT	
Facilities requirements	
Class A office space leased (2,090 m ²)	22,500 ft ²
Workforce	
Management	8
Sales and administration	38
Dedicated product development	54
Customer support	10
Total employees	110
Other initial investment requirements	
Office equipment – U.S. \$'000	\$3,000
Equity financing – % of project costs	67%
Energy requirements	
Electricity: monthly consumption	60,000 kWh
Other annual operating characteristics	
Sales at full production – U.S. \$'000	\$23,000
Other operating costs – % of sales	10%
Investment in tax-eligible R & D – % of sales	—

² Calculations by MMK Consulting Inc. based on detailed data from *Competitive Alternatives, Special Report: Focus on Tax* as that report only published sector-level tax results.

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