Vancouver Cross-Border Investment Guide

Essential legal, tax and market information for cross-border investment into Vancouver, Canada

Digital Download

VANCOUVER ECONOMIC COMMISSION

Vancouver Cross-Border Investment Guide

Current update (2.0) published 2023 (Version 2.0).
First published October 2020 (1.0). Subsequently updated (1.2) January 2021.

About the Vancouver Economic Commission

The Vancouver Economic Commission (VEC) serves one of the world's fastest-growing, low-carbon economies. As the economic development agency for Vancouver's businesses, investors and citizens, VEC works to strengthen Vancouver's economic future by supporting local companies, attracting high-impact investment, conducting and publishing leading-edge industry research, and promoting international trade. VEC collaborates with key partners to position Vancouver as a global destination for innovative, creative, diverse and sustainable development.

This report was published by the Vancouver Economic Commission (VEC), working on the unceded territory of the xʷməθkʷəy̓əm (Musqueam), Skwx̱wú7mesh (Squamish), and səl̓ilw̓ətaʔɬ (Tsleil-Waututh) Nations.

These Nations have cared for the lands and waters of "Vancouver" since time immemorial, sustaining strong economies while thriving in balance with the natural world.

Vancouver is a City of Reconciliation, and VEC – an agency of the City – commits to forming long-lasting relationships of mutual respect and understanding with First Nations and other local urban Indigenous communities.

VEC pledges to better understand the full breadth of truth and reconciliation and to work alongside local Indigenous communities to support and collaborate on building economic prosperity for all.

VANCOUVER ECONOMIC COMMISSION

www.vancouvereconomic.com
@VanEconomic
500-555 W 8th Ave Vancouver, BC V5Z 1C6

Acknowledgements

The Vancouver Economic Commission thanks its partner for their valuable contributions.

FASKEN

Contents

#1

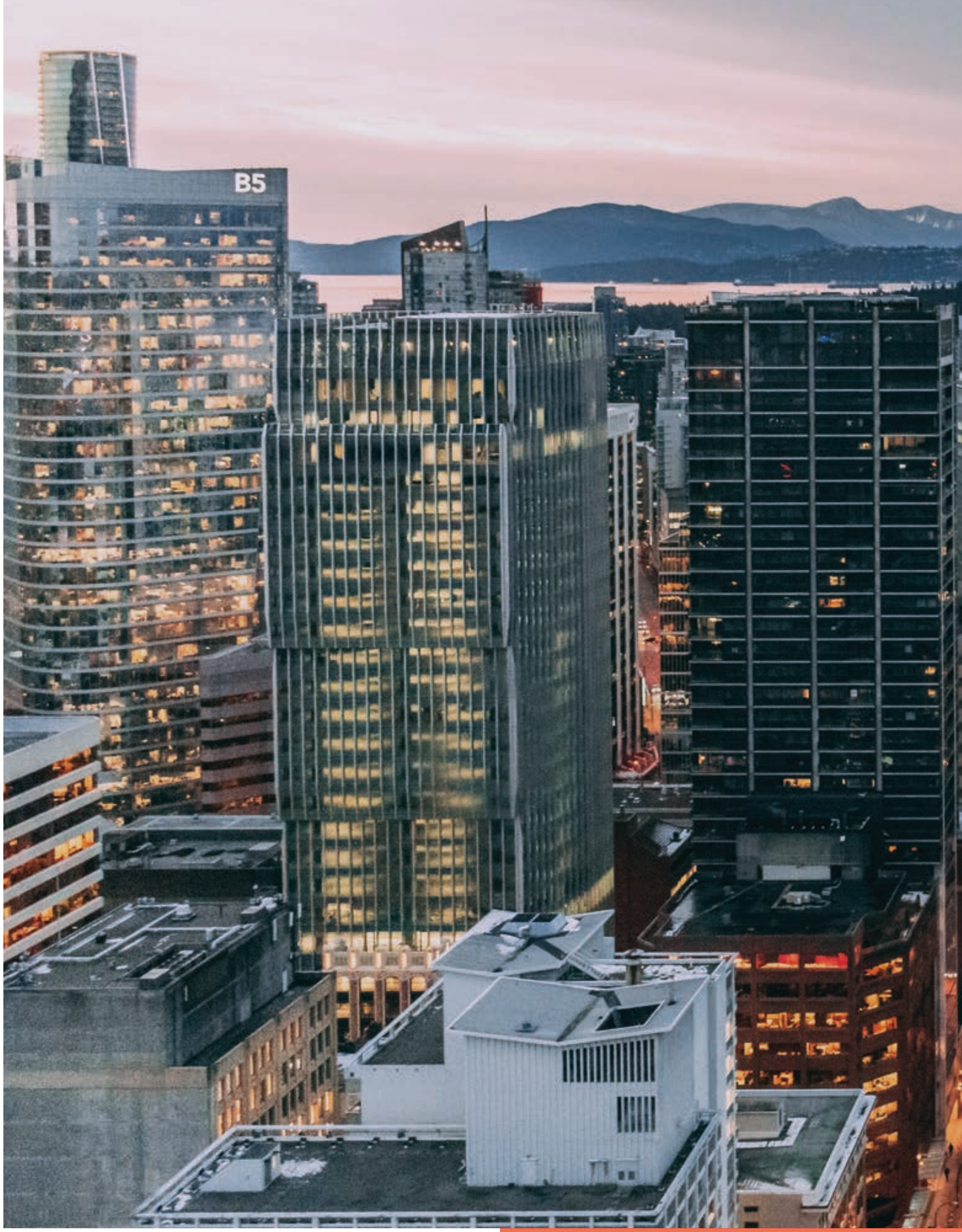
Tech talent growth rate in North America

CBRE, 2023

10TH

Most sustainable city in the world

Corporate Knights, 2023



Prolific

Vancouver generated 13 unicorns ($1 billion-or -more valuation) in the last three years

VanTech Journal

Resilient

Vancouver ranks among the most resilient tech markets in North America, best positioned for renewed growth

CBRE, 2022

TOP 30

Best startup ecosystem in the world

Startup Genome, 2023

Why Invest in Vancouver

Designing the future, today

Vancouver's competitive advantage lies in its highly skilled and culturally diverse workforce; a supportive government offering generous incentive programs; and world-leading universities and research and development programs. Here, entrepreneurs and innovators enjoy space and freedom to think outside the box without the limits or restrictions they might face elsewhere.

The city's collaborative energy motivates businesses to consistently push boundaries and deliver the newest ideas and latest advances. In essence, Vancouver's resident businesses and professionals have cultivated an enviable ecosystem of innovation, creativity and sustainability – a truly smart city designed for the demands of the 21st century.

Vancouver:

A Values-Centered Investment Destination

A city for those seeking to build more **reciprocal**, **impactful** and **values-aligned** business relationships.

Unparalleled talent, geographic advantages, supportive immigration policies and some of the lowest operating costs and taxes of any major global city are a few of the reasons that many of the world's leading companies call Vancouver home. Vancouver's environmental ethos, multiculturalism, and a regulatory environment committed to a net-zero emissions future make the city fertile ground for impactful enterprises grounded in social and environmental causes.

Companies and investors committed to building or investing in businesses that center their values may look to Vancouver's strong performance against **environmental, social and governance measures**. These range from energy and airport sustainability to climate action, some of the best multimodal transportation networks in North America, and **gender pay equity**.

Environment

Vancouver has unique advantages for companies and investors prioritizing environment-related values, with some of the lowest business and household electricity prices in the world, and both public and private commitments for the transition to a net-zero emissions future.

Impactful Innovation

The region's research institutions continue to deliver groundbreaking innovations on health care, advanced digital technologies, clean energy, cybersecurity, and more.

Public Infrastructure and Accessibility

With the adoption of its Accessibility Strategy in July 2022, the city also demonstrates its commitment to fostering easy access and participation of individuals with disabilities in public spaces.

Fast-growing Indigenous Economy

Vancouver is a leading jurisdiction in which to invest in reciprocal and impactful business relationships by participating in the fast-growing First Nations and Indigenous economy.

Spotlight:

Indigenous Ventures and UNDRIP

While not focused entirely on Business, it is important to consider that the City of Vancouver's implementation of the **United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP) Strategy** is an innovative collaboration that will continue to shape the city's foundational relationship with Musqueam, Squamish, and Tsleil-Waututh, including their economic prosperity and continued business development. As a sign of leadership in Indigenous relations, the next phase of UNDRIP implementation will shape engagement with the diverse Indigenous populations living in the city.

Vancouver's adoption and expansion of UNDRIP is the latest of numerous market signals communicating the value of Indigenous entrepreneurship and the full and empowered participation of Indigenous founders, investors and communities in the Vancouver economy. Investors may look forward to business conditions that continue to nurture a dynamic and fast-growing Indigenous economy.

Best practices on relationship-building

There are more than 200 distinct First Nations in British Columbia, each with their own wealth paradigms and unique opportunities for economic growth and development. Universally, building respectful relationships with Indigenous businesses requires an understanding and appreciation for Indigenous values, cultural protocols, and today's social as well as historical context.

There are numerous resources available to those interested in investing in Indigenous-led companies. Prepare yourself with resources on how to:

- Build and innovate due diligence processes that are inclusive of Indigenous practices;
- Build and design strong relationships with Indigenous entrepreneurs;
- Recognize Indigenous histories and contexts as business factors; and
- Refer to leading initiatives that are innovating financial instruments and mechanisms for investing in Indigenous enterprises.

Keep Reading

Having an awareness and respect of the culture and context in which Indigenous entrepreneurs operate will be integral to building strong, trusted relationships.

Best Practices Guide →

Featured Companies

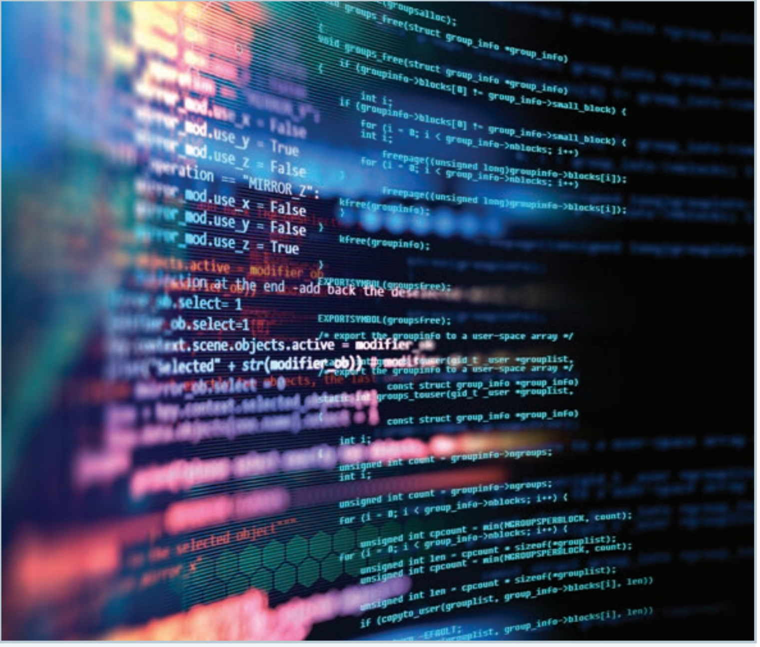
Examples of B.C.-founded Indigenous businesses and ventures

Senakw
Largest First Nations-led economic development project – and largest net-zero emissions residential project – in Canadian history

Animikii
Values-driven tech serving the needs of Indigenous communities

Cascadia Seaweed
Seaweed-derived products for nature-based agricultural solutions

Salish Soils
Compost and soil innovation from waste streams



Frontier Tech

Vancouver's emergence as a frontier tech center stems from its robust research and development infrastructure, strategic location, and conducive business environment. Technology remains the city's fastest-growing sector, with more than 75,000 tech professionals based in and around the city.

Vancouver-founded companies are leveraging the transformative potential of artificial intelligence, bioprinting, metaverse, and quantum computing to revolutionize industries from climate science to communications while striving to address global challenges with real-world solutions.

- **Slack** – Revolutionized enterprise communication
- **D-Wave Systems** – First commercialized quantum computer
- **Aspect Biosystems** – 3D printing human tissue
- **Finger Food Studios** – Leading VR/AR developer for enterprise applications

SANCTUARY AI

RECENT DEAL
$22 million

Developer of intelligent robots that utilize a proprietary AI control system. The company focuses on the creation of human-like intelligence for general-purpose robots to help address increasing labour challenges.

Notable Investors

- Verizon Ventures
- DCVC
- Saltagen Ventures
- Evok Innovations

LayerZero.

RECENT DEAL
$89 million

Developer of blockchain interoperability protocol that enables the realization of cross-chain applications with a low-level communication primitive. This results in a more secure way to make crypto transactions.

Notable Investors

- Andreessen Horowitz
- Sequoia Capital
- Samsung Next
- BOND Capital

OneFeather

RECENT DEAL
Undisclosed

Indigenous technology company focused on protecting Indigenous data and creating opportunities that improve access to Indigenous rights, including dedicated Indigenous banking solutions, online status card renewals, and digital voting.

Notable Investors

- Raven Indigenous Capital
- Varshney Capital
- SDTC*
- Innovation Island

Up & Coming

ForwardAI – Developer and provider of financial software and financial data designed to help banks and fintech make better decisions for small business lending.

Clean & Climate Tech

Vancouver is one of the world's top 10 cleantech clusters. It is home to hundreds of cleantech companies leveraging global and cross-sectoral expertise, as well as supportive government policies and programs promoting new wave thinking.

The city is at the forefront of global innovation, especially in fuel cell solutions, power electronics, and waste and wastewater treatment technologies; and is home to numerous world-leading companies. Even young cleantech startups have established far-reaching commercial relationships and investments from multinational venture capital firms.

- **General Fusion** – Commercially viable nuclear fusion
- **Ostara** – Nutrient reclamation from wastewater
- **Semios** – All-in-one precision agriculture platform
- **Saltworks** – Water and chemical treatment supplier for industrial water and lithium

IONOMR INNOVATIONS

RECENT DEAL
$15 million

Developer of ion-exchange membranes and polymer technology intended for use in energy storage and clean energy generation applications, including fuel cells, carbon gas, and industrial electrochemical systems.

Notable Investors

- Pallasite Ventures
- Chevron Tech. Ventures
- Shell Ventures
- Finindus

NEXII

RECENT DEAL
$35 million

Green construction technology company that designs and manufactures high-performance and green building products to be sustainable, cost-efficient and resilient, and to significantly reduce construction timelines.

Notable Investors

- Horizon Tech. Finance
- Honeywell Ventures
- Trinity Capital Inc.
- Beedie Capital

moment energy

RECENT DEAL
$2.8 million

Developer of clean, affordable, and reliable battery energy storage systems through repurposing retired electric vehicle (EV) batteries. The company works with Nissan North America, Mercedes Benz Energy and other world-renowned automakers.

Notable Investors

- Fika Ventures
- MCJ Collective
- Version One Ventures
- Overture VC

Up & Coming

elibird aero – Leader in the advanced air mobility space that aims to be one of the first all-electric flight training units in Canada. The company is actively exploring electric and hydrogen aircraft, immersive technologies, remotely piloted aircraft systems and airspace integration and robotics.

Entertainment & Interactive Tech

Vancouver is a visual effects (VFX) and animation powerhouse, North America's third-largest film and production center, a top 10 global games development hub, and top-ranked for its virtual and augmented reality and metaverse sector. Thanks to the famously collaborative nature of the city's film and tech industries, ideas and projects flow freely between content creators and platform developers.

The city's expansive pool of creatives has overseen VFX for top-grossing features like Star Wars, Avengers and Spiderman, and popular household names like FIFA and Gears of War.

- **Ziva Dynamics** – Technology behind rapid creation of scalable, accurate characters
- **Bardel Entertainment** – Animation production for Ricky & Morty, Teen Titans Go!
- **Image Engine** – VFX for Game of Thrones, The Mandalorian, and The Book of Boba Fett
- **Archiact** – Leading developer of VR/AR games

precisionos

RECENT DEAL
$1.1 million

Developer of an orthopedic VR medical simulator designed to improve the expertise of surgeons. The immersive platform enables hospitals & universities, to train medical professionals more effectively.

Notable Investors

- Western Tech. Investment
- Parvizi Surgical Innovation
- XR Invest
- Somel Investments

Web3Games

RECENT DEAL
$4 million

Developer of a blockchain gaming platform designed to provide solutions for improving gaming and ownership of digital assets. They offer decentralized facilities that allows users to play to earn game asset NFTs.

Notable Investors

- TI Capital
- MetaWeb Ventures
- GBV Capital
- TK Ventures

Motive.io

RECENT DEAL
Undisclosed

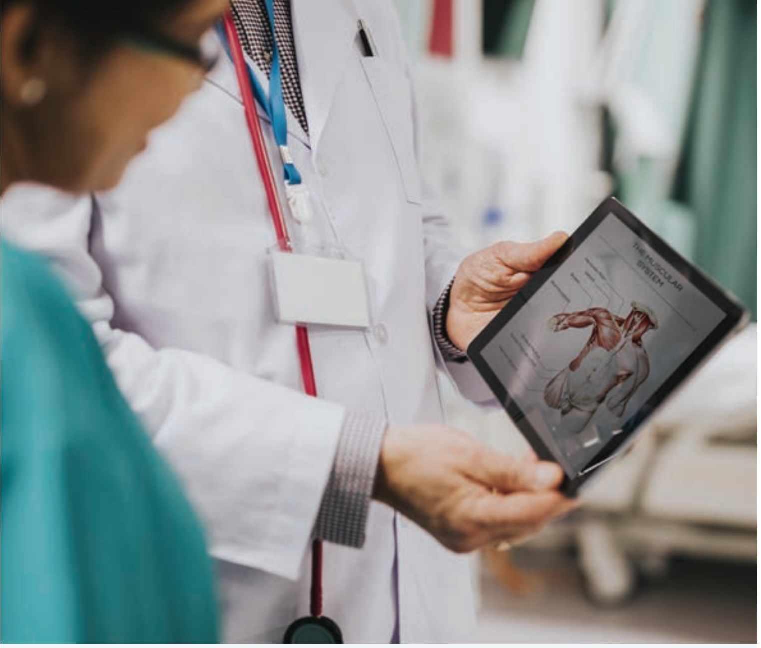
Developer of a VR training platform that gives training departments the power to create and control their education content. The Motive Training Platform makes it easy to create and deploy AR and VR content for training at scale.

Notable Investors

- Maple Leaf Angels
- Government of Canada
- N49P

Up & Coming

Anomotion – Developer of artificial intelligence-based natural motion technology that facilitates the creation of cinematic and character-driven experiences.



Life Sciences

One of the fastest-growing life sciences clusters in North America, Vancouver is known for biotech and biopharmaceuticals; the industry has generated billions in research funding, aided in the development of vaccine and therapeutic treatments during the COVID-19 pandemic, and continues to attract new investments for product development.

The UBC–Broadway Corridor, AbCellera's city-block-sized HQ and biotech lab space, and the new 18-acre St. Paul's Hospital and health campus are all world-class hubs enhancing IP development, commercialization, and the thriving of new startups and scaleups.

- **Stemcell Technologies** – High-quality cell culture media
- **Zymeworks** – Novel therapeutics for hard-to-treat cancers and diseases
- **Abcellera** – Antibody discovery and development engine
- **Precision Nanosystems** – Genomic medicines, including mRNA vaccines
- **MetaOptima** – Intelligent dermatology

Abdera Therapeutics

RECENT DEAL
$110 million

A precision oncology company developing proprietary, next-generation targeted radiation therapies for patients with relapsed, refractory, and metastatic cancers.

Notable Investors

- Versant Ventures
- venBio
- Viking Global Investors
- RTW Investments

SaNOtize

RECENT DEAL
$24 million

Developer of nitric oxide-releasing solution designed to treat upper respiratory and dermal infections. The technology provides first-line non-antibiotic antimicrobials for use against bacteria, viruses, & fungi.

Notable Investors

- OurCrowd
- Horizons Ventures
- ImpactAssets
- United States Department of Defense

Gandeeva Therapeutics

RECENT DEAL
$40 million

A precision biotechnology company integrating the power of cryogenic electron microscopy (cryo-EM) and machine learning to develop differentiated therapeutics by targeting and modulating key protein-protein interactions.

Notable Investors

- Obvious Ventures
- Lux Capital
- Amgen Ventures
- Leaps by Bayer

Up & Coming

Variational AI – Developer of a generative AI-based drug discovery for novel kinase inhibitors. The company's software generates novel molecular structures using algorithms trained on a set of compounds screened against drug targets from both experimental and computational sources.

Incentives and Tax Credits

Government support to help your investment succeed

Program Name	Program Description
SR&ED (Government of Canada)	Federal tax incentive program that encourages Canadian businesses to conduct research and development
SR&ED (Province of British Columbia)	Provincial tax incentive program for BC-based businesses designed to encourage research and development
NRC-IRAP	Federal program that engages in cost-shared research and development projects with qualified SMEs in Canada
Sustainable Development Technology Canada (STDC)	Federal funding program that supports Canadian SMEs advancing innovative technologies related to climate change, clean air, clean water, and clean soil
Strategic Innovation Fund	Federal fund that provides major investments in innovative projects that will help grow Canada's economy for the well-being of all Canadians
InBC	Provincial strategic investment fund with CA$500 million to invest in opportunities where there is both measurable social impact and financial outcome
Venture Capital Catalyst Initiative (VCCI)	Federal government initiative that dedicates CA$450 million over three years to increase the amount of late-stage venture capital available to scaling Canadian companies
Canada Media Fund	Not-for-profit corporation that delivers CA$353 million in funding annually to support the Canadian television and digital media industries
Interactive Digital Media Tax Credit (BC)	Provincial tax credits that incentivize digital media production by reducing the net cost of creating, marketing and distributing interactive digital media products
National Aboriginal Capital Corporations Association (NACCA)	National association for a network of Aboriginal Financial Institutions, or AFIs; supports and offers financing to First Nations, Métis, and Inuit businesses and communities.
Mitacs	Not-for-profit national research organization that partners with eligible employers to deliver research and training programs in fields related to industrial/social innovation
Business Scale Up & Productivity Program (BSP)	Pacific Economic Development Canada (PacifiCan) makes strategic investments into growing companies in both established and growing sectors.

Clean Economy Incentives

In addition to the above listed government incentives, Budget 2023 includes new and enhanced measures designed to help Canada compete on the world stage and to advance its clean economy. The clean economy proposals include five specific focus areas: clean manufacturing, clean hydrogen, clean technology, cleaner transition fuels, and carbon capture and underground storage. These programs have not yet been legislated by the time of writing.

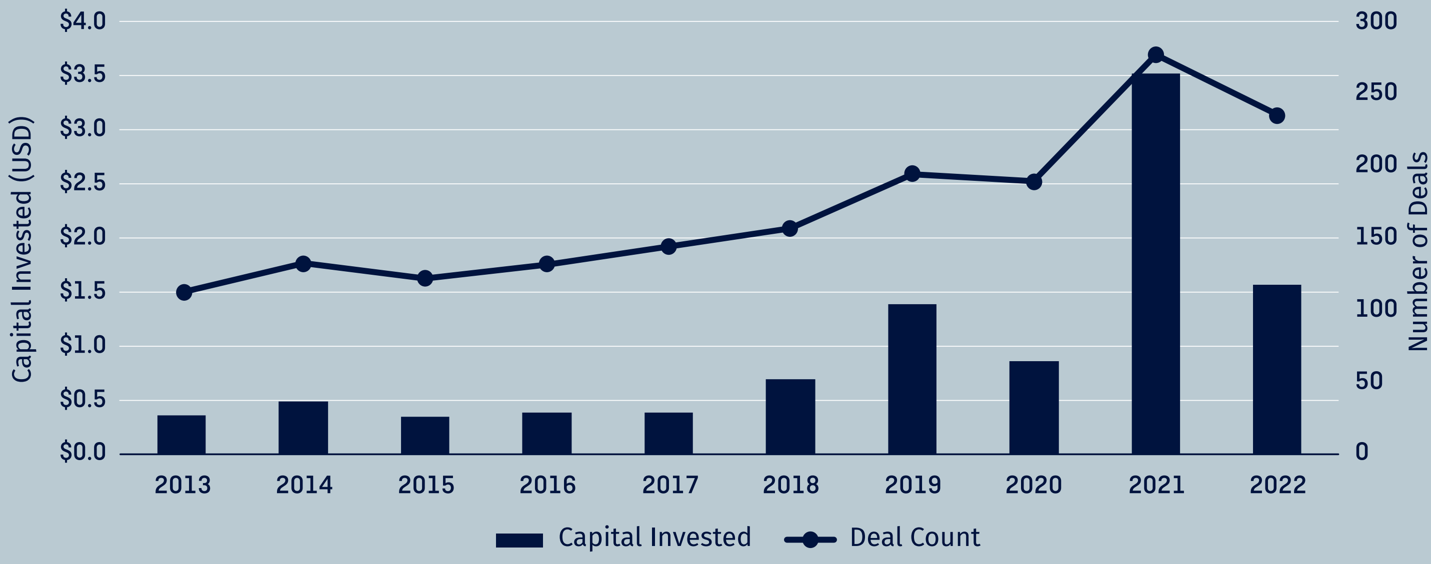
Program Name	Program Description
Clean Technology Manufacturing Investment Tax Credit (CTMITC)	A 30% refundable tax credit designed to support companies investing in new machinery and equipment for manufacturing and processing key clean technologies, as well as for extracting, processing or recycling key critical minerals.
Clean Hydrogen Investment Tax Credit (CHITC)	Where labour requirements are met, CCHITC provides a 15–40% refundable tax credit to encourage investment in a growing energy source, with rate of refund depending on the lifecycle carbon intensity of hydrogen. Also, a **15% refundable tax credit** for the equipment needed to convert hydrogen to ammonia, if the ammonia production is associated with the production of clean hydrogen. Details on the labour requirements are forthcoming and, per Budget 2023, will come into effect on October 1, 2023.
Clean Technology Investment Tax Credit (CTITC)	A 30% refundable tax credit in cases where labour requirements are met. Technology includes – but is not limited to – zero-emissions electricity generation technologies, electricity storage system, geothermal energy, and non-road zero-emission vehicles that are fully electric or powered by hydrogen.
Carbon Capture, Utilization, and Storage Investment Tax Credit (CCUSITC)	A federal funding program that supports Canadian SMEs advancing innovative technologies related to climate change, clean air, clean water, and clean soil.
Canada Growth Fund	A $15 billion fund that aims to attract private capital and encourage investment in low-carbon projects, technologies, businesses, and supply chains through the use of investment instruments that absorb certain risks to investors.
Critical Minerals Infrastructure Fund	A $1.5 billion fund for incentives to support clean energy and transportation infrastructure projects needed to unlock critical mineral deposits; details forthcoming.
Reduced corporate tax rate for zero-emission technology manufacturers	Corporate income tax rates are temporarily reduced by 50% on eligible income on zero emission technology manufacturing and processing activities. This reduces the rate to 4.5% on income otherwise eligible for small business deduction, and 7.5% for other active business income.

Vancouver Investment Activity

Historic investment activity and trends at a glance

Vancouver Investment Activity

2013–2022 Disclosed VC Investment Deals – Greater Vancouver, Pitchbook*



Capital Invested

Venture capital (VC) investment into Vancouver has increased significantly over the last 10 years, averaging a rate of 46 percent annual growth from 2013 through 2022. Investment rebounded dramatically in 2021 after the slowdown experienced throughout the world due to COVID19 in 2020, and 2023 investment levels are currently on track to match or surpass 2022.

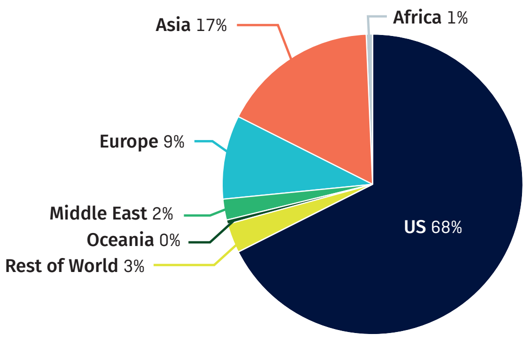
Investment Deals

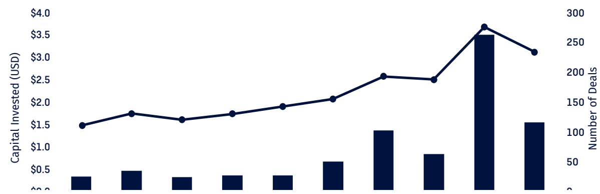
The past four years saw a notable uptick in the number of venture capital investment deals into Vancouver, with a high of 278 in 2021 – a peak attributable to pent-up demand from COVID19 interruptions in 2020. Deal numbers remained high in 2022 with 236 disclosed deals completed.

*Since the previous version of this report, Pitchbook updated its venture deal methodology for data pulls to require venture-backed statuses to be current, as well as to exclude pre-angel and pre-seed deal types. Given this, private equity growth deals are no longer included in this venture dataset, which has resulted in aggregate deal tallies that differ considerably from the previous version.

Foreign Direct Investment

2022 Disclosed Foreign Direct Investment Based on Investor Primary HQ – Greater Vancouver, Pitchbook

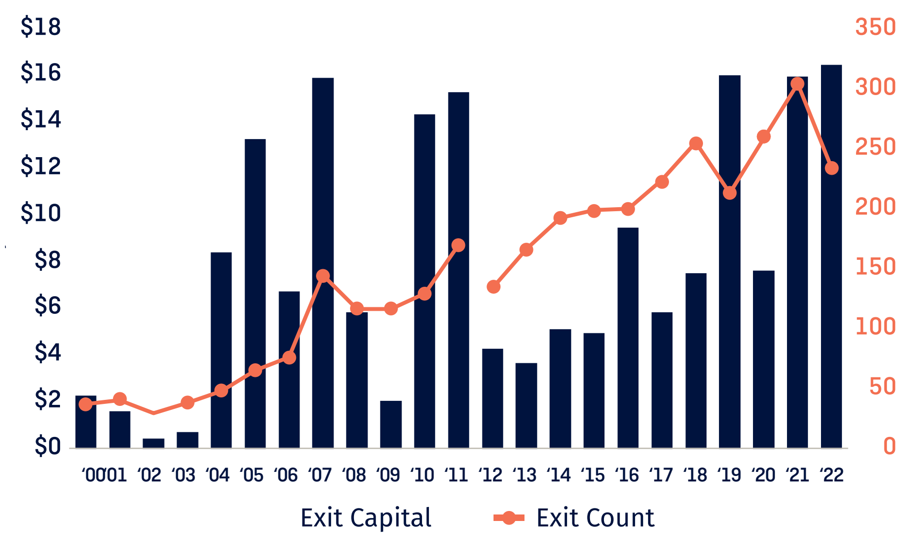




The United States accounts for the largest volumes of foreign direct investment into Vancouver by far. This is unsurprising given its proximity to Canada, similarities in business environment, cultural ties, ease of cross-border investment, and a favorable exchange rate.

US Investment into Vancouver

2013–2022 Disclosed US VC Investment Deals - Greater Vancouver, Pitchbook

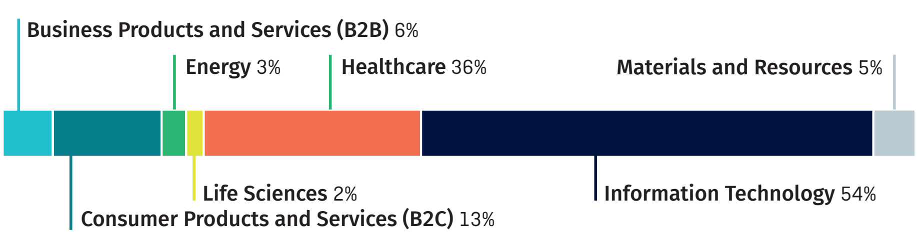


Investment Activity

US venture capital investment into Vancouver has remained substantial year over year. 2021 was an especially active year due to pent-up investor demand from COVID19, with numerous large deals totaling almost $2.5 billion.

US Investment into Vancouver by Sector

2022 Disclosed US VC Investment by Sector Based on Deal Count – Greater Vancouver, Pitchbook

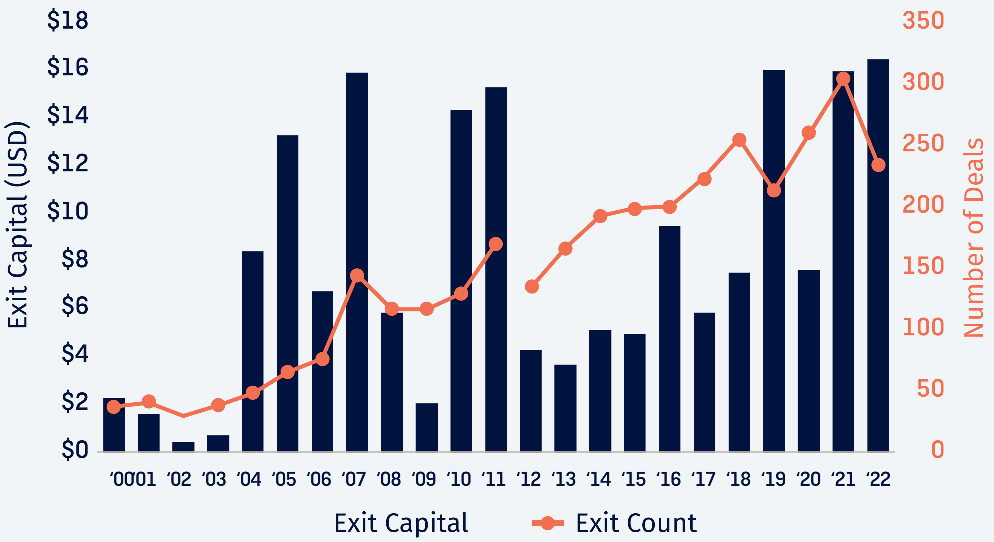


Greater Vancouver Disclosed Exits

2000–2022 Disclosed Exits – Greater Vancouver, Pitchbook*

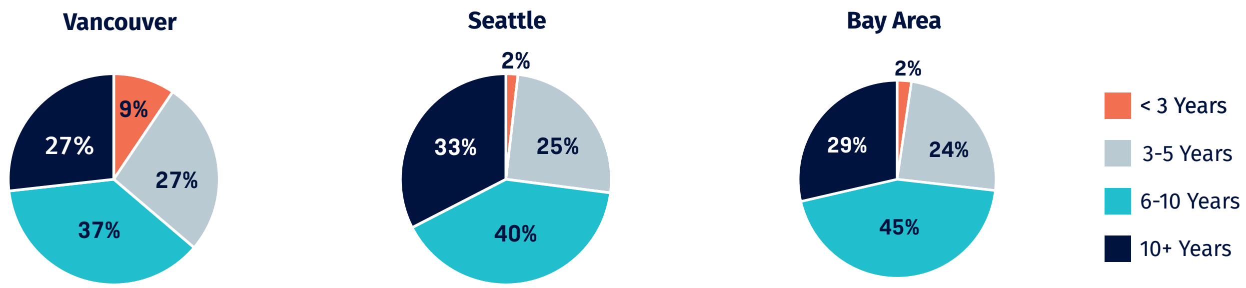
Resilience in Innovation

Vancouver rebounded quickly from the dot-com bubble burst of the early 2000s and has maintained a large volume of exits and exit value over the past decade. This healthy exit activity is largely due to global interest in acquiring Vancouver companies' unique and profitable IP.



Time to Exit

2019 Disclosed Exits – Greater Vancouver, Greater Toronto, Greater Seattle, Bay Area, Pitchbook



The IP Advantage

Vancouver startups have the proven ability to rapidly develop valuable IP and build early relationships with both financial and strategic buyers. This translates to quicker exits and earlier returns. In fact, nearly 10 percent of Vancouver companies that exited in 2018-2022 did so in under three years – a significant portion when compared to other notable innovation hubs.

*Exit values for initial public offerings (IPOs) are based on the pre-valuation of the company's total shares outstanding at the time of the offering, including the offering itself. Exit values for acquisitions or buyouts are based on the overall worth of the buyout as that corresponds to the company's value.

Vancouver Exit Highlights

A summary of notable deals and returns over the past decade, Pitchbook

Startup	Industry	Founded	Raised	Exited	Exit Type	Years to exit	Amount* (USD)	Acquirer
Sierra Wireless	Connectivity products	1993	n/a	2022	ACQ	29	$1.3B	**Semtech**
Carbon Engineering	Cleantech	2009	$100M	2023	ACQ	14	$1.1B	**Occidental**
Galvanize	Business productivity software	1987	n/a	2021	ACQ	34	$1B	**Dilligent Corporation**
Kabam	Entertainment software	2006	n/a	2017	ACQ	11	$1B	**Netmarble Games**
Avigilon	Security services B2B	2004	$113M	2018	IPO	14	$974M	**Motorola Solutions**
Absolute Software	Network management software	1993	n/a	2023	IPO	30	$870M	**Crosspoint Capital Partners**
Plentyoffish Media	Media and information services B2B	2003	n/a	2015	ACQ	12	$575M	**Match.com**
Abcellera	Biotechnology	2011	$115M	2020	IPO	9	$555M	**n/a**
SmartSweets	Food products	2016	n/a	2020	ACQ	4	$360M	**TPG**
Aritzia	Clothing manufacturing	1984	$351M	2016	IPO	32	$351M	**n/a**
Recon Instruments	Wireless comms. equipment	2008	$26M	2015	ACQ	7	$175M	**Intel Corporation**
Bit Stew Systems	Automation/workflow software	2005	$22M	2016	ACQ	11	$153M	**General Electric**
Phoenix Labs	Entertainment software	2014	n/a	2020	ACQ	6	$150M	**Sea**
Thinkific	Educational software	2012	$25M	2021	IPO	9	$128M	**n/a**
Ziva Dynamics	Multimedia and design software	2015	$15M	2021	ACQ	6	$128M	**Unity**
Beanworks	Fintech	2012	$19M	2021	ACQ	9	$91M	**Quadient**
Anandia	Biotechnology	2013	$14M	2018	ACQ	5	$89M	**Aurora Cannabis**

ACQ = Acquisition, UND = Undisclosed

*The exit amount for IPOs in this table are the size of the initial offering itself

Leonard Brody
Investor, Los Angeles

“Vancouver is famous for a lot of things, which may be why its innovation ecosystem is so seldom given its due. However, as one of the key pillars of the Pacific Northwest, the innovation economy in Vancouver is thriving. This is evident by some of the recent big exits by local firms in the high tech and VFX/Animation sector.”

The Canadian Advantage

And how it enhances investment, business and innovation

Canada's strong regulatory banking framework has made it one of the world's most recognizably resilient economies, and the country's strong banking and financial services sector offers a welcome environment for cross-border investment, particularly during uncertain economic times. Canada's world-leading economic immigration policies enable companies to attract and retain the highest-quality talent from around the world.

When these assets are considered alongside the Canadian government's proven financial dedication to supporting innovation, it is clear there are few better regions in which to invest and conduct business.

Secure
One of the soundest financial systems in the world, ranking #2 in G7 and #4 in G20, and #10 out of 63 countries

IMD World Competitiveness Center, 202

Protected
Levels of investor protection that exceed that of the United States

World Bank, 2022

Affordable
At 13.0%, Canada's tax treatment for new business investment is the lowest in the G7, below the OECD average and significantly lower than the US (17.8%)

Finance Canada, 2022

Growing
Highest employment and population growth rates in the G7, projected to maintain this position in 2023 and 2024

Global Affairs Canada, 2022

Stable
Consistently ranked as one of the most politically stable countries in the world says Marsh and WGI

Competitive
Canada's ability to create and maintain a conducive environment for the competitiveness of companies is rated #2 ranking among G20 countries

IMD World Competitiveness Yearbook, June 2022

#4

least complex business environment among G20

TMF Group's Global Business Complexity Index

#3

in the world for ease of starting a business

The World Bank

> **“Canada shines as a beacon of political, economic and social stability”**
>
> **Ranstad**

Mark Deutschmann
Investor, Nashville

“My investments in Vancouver have been for me both financially rewarding and personally meaningful; I get to see a lot of great socially responsive organizations grow and succeed. Knowing that these investments are serving a community that is committed to being one of greenest cities in the world is very satisfying. I will continue to find ways to invest in this remarkable city!”

Joel Solomon on what it means to invest in a global solutions city

Joel Solomon is an influential American investor based in Vancouver and a founding partner of Renewal Funds, Canada's largest mission venture capital firm with over $200 million in assets under management.

Leveraging Renewal Funds, and through his own personal investments, Solomon has strategically invested in a variety of notable Vancouver companies, including:

- **Terramera**
- **Happy Planet Foods**
- **Aquatic Informatics**
- **Sustainable Produce Urban Delivery (SPUD)**
- **Lunapads**
- **Cascadia Windows & Doors**
- **Horizon Distributors**
- **Capers**
- **Fresh Prep**

Candid insights from Joel Solomon

What was it about Vancouver that initially captured your interest as an investor?

I found ripe opportunities for broad innovation as a result of Vancouver's business, cultural and physical environment. The city is a dream combination of early leadership in sustainability, social entrepreneurship, climate justice and reconciliation with First Nations peoples, paired with robust economic potential and an enviable location on the edge of a vast and relatively intact natural world.

What motivates you to continue to invest in Vancouver startups?

Our city is one of the youngest and most forward-thinking in North America. It's a hub full of explorers of what's possible, challenging the status quo. Our deep multiculturalism and easy access to Asia are likewise hard to match. As an early-stage city, there are significant challenges to solve, and that opens up an entire world of potential and possibilities. People here are uniquely positioned to make an impact and contribute to the future of the city and far beyond.

Photography: Britney Berrner

Can you share any insights you've gained through investing in Vancouver companies?

Opportunities abound in Vancouver! Vancouver is a hotbed of new and creative thinking, where values-driven entrepreneurs create enviable investment options, tackling global challenges. Despite the number of investors who have trained their eyes on Vancouver, the city's potential is still barely realized.

Anything else you would like to share?

There is a robust entrepreneurial explosion underway in Vancouver, with Canada rising above competitors as an intelligent, modern nation. Creative solutions to global challenges are in the air, water and heartbeat of the city. The scale is digestible. The talent is passionate. I invite businesses, investors and entrepreneurs committed to these goals to join us as we continue building a global solutions city.

Legal Considerations

The following non-exhaustive list sets out certain key features of Canadian corporate law under the federal Canada Business Corporations Act (CBCA) and the provincial Business Corporations Act in the Province of British Columbia (BCBCA).

Corporate Law

Corporate Statutes
Canadian corporations can be incorporated federally under the CBCA or under provincial business corporation statutes; in British Columbia, this would be the BCBCA. While very similar in most respects, there are several important, noteworthy differences, some of which are detailed below.

Director Residency Requirement
CBCA mandates that at least 25 percent of the company's directors be Canadian residents. This residency requirement does not apply to a BCBCA company. While in most cases this is not an issue, it is a consideration if non-Canadian investors wish to nominate directors to the board, or if non-Canadian organizations wish to establish a Canadian company.

Director Duties
Directors of Canadian companies are bound by fiduciary duties of care and loyalty and are required to act in the best interest of the company and to exercise a level of diligence and care in arriving at their decisions that a prudent person would exercise in comparable circumstances. Generally, under Canadian law, the "best interest of the Company" requires the broader consideration of other stakeholders – such as creditors, employees, customers, governments, and the environment to inform their decisions – and in some cases, the interests of those other non-shareholder stakeholders are paramount to that of shareholders.

The BCBCA allows for the incorporation of a "benefit company." The directors and officers of a benefit company must act honestly and in good faith; conduct the business in a responsible and sustainable manner; promote the public benefits specified in the Company's Articles; and must balance these duties with the overall duties as note above.

Rules with respect to director conflicts as well as director duties should be carefully considered by investors appointing nominee directors to Canadian companies as directors wear multiple hats (both as fiduciaries to the company and as representatives of the shareholders that has appointed them). Care must be taken for directors to avoid or manage conflicts of interest.

Authorized Capital
Companies in Canada can have an unlimited number of authorized shares, and most companies establish their authorized capital in this manner to enjoy the benefits it offers. There is no "franchise tax" concept in Canada. Investor protections to mitigate against the risk of a large number of additional shares being issued is often addressed by the board's gatekeeper role, and through protective provisions in the articles, or a shareholders' agreement between the company and its shareholders.

Shares in Class vs Series
Under BCBCA and CBCA, shares can be issued in classes or in series. Classes of shares can be set to have equal priority or seniority to other classes of shares. Within a class, shares can be issued in series. Each series must have the same fundamental rights of other series and cannot have priority over other series in respect of payment of dividend or return on capital or payments in the event of a sale of the company or any other distributions. In Canada, no one series of shares has priority over other series of shares in the same class. However, a class of shares can be structured to have priority over other classes of shares.

Voting Shares vs. non-Voting Shares
Shares of the same share class can be authorized as voting shares or non-voting shares. Generally, non-voting shares do not have a right to vote on the company's annual business typically addressed at an Annual General Meeting (AGM) – such as setting the number of directors for the ensuring year, electing directors, or the appointment of an auditor or waiver of the appointment of an auditor. Under both the CBCA and BCBCA, non-voting shares have voting rights on all matters requiring shareholder vote by special resolution (i.e. fundamental changes). A series of a class of shares can be designated as a non-voting series, whereas other series of the same class of shares can be designated as a voting series.

Shareholder Approval Rights
If shareholder approval is required under the BCBCA or CBCA in any of the various situations that may call for it (including fundamental changes such as the amendment of company articles to create a more senior class of shares in connection with a financing), the unanimous written consent resolution of all shareholders must be obtained. This written consent may be obtained via a power of attorney granted by the shareholder to a director or officer of the company. Alternatively, a meeting of shareholders needs to be held wherein two-thirds of the shareholders that cast a vote (in person or by proxy) at the meeting to approve the matter.

Voting
Generally, where shareholders have voting rights, and when matters arise that "prejudice or interfere with" the rights of the holders of a class or a series shares, then each such class or series of shares are entitled to vote separately as a class or a series (as applicable) to approve the proposed matter. The required threshold is two-thirds of shares of the affected class or series that vote in person or by proxy to approve the proposed matter. Each share is entitled to the same number of votes unless the right associated with such shares in the Articles of the company provide otherwise. In Canada, super-voting shares – which have multiple votes for each share held – are possible if such shares are in a different class. It is not common for Canadian companies to have super-voting shares.

Practically, the creation of next senior class of shares is deemed to prejudice or interfere with the rights of other classes of shares. Care must be taken by investors to ensure that the implication of these statutory rights is contractually mitigated.

Shareholder Right to Dissent and Appraisal
For companies incorporated under the CBCA, dissent rights exist and may be exercised under certain circumstances, including generally any matter that, under corporate statutes, gives rise to class-by-class or series-by-series voting rights. The exercise of a dissent right entitles a shareholder to have all its shares bought by the company at fair market value. Dissent and appraisal rights of shareholders under BCBCA are much more limited unless dissent and appraisal rights are offered by the company in respect of any special resolution put before the shareholders.

Securities Law

General Regulatory Regime
Canadian securities law is provincially regulated by the securities commission in each Canadian province. The securities laws across the various provinces are harmonized and generally consistent across Canada. In addition to complying with the applicable provincial securities laws governing the investor's home jurisdiction, investors investing in a Canadian company must also comply with the securities laws of the province in which the investee company operates.

Purchase of Securities
In Canada, there are two broad ways to conduct an offering of securities. One is for the issuing entity to file a prospectus with – and receive a receipt from – a Canadian securities regulatory authority, such as the British Columbia Securities Commission. Alternatively, the Company can offer those securities only to purchasers pursuant to an exemption from the requirement to file a prospectus. Canadian private technology companies typically issue securities by relying on one of the exemptions from filing of a prospectus.

Resale Restrictions
Shares in a private company in Canada are subject to significant restrictions on resale or transfer. These shares cannot be sold or transferred unless the transfer is on an exempt basis by the transfer to someone who meets a criteria for one of the exemptions from the company filing a prospectus. Typically, Canadian companies include provisions in their articles that restrict any ability for a shareholder to resell or transfer, unless approved by the Board of Directors. The Board of Directors is not obligated to approve any such request for transfer unless the company's shareholder agreement requires that they do so, generally with respect to a particular shareholder or a group of shareholders.

The CCPC Advantage

CCPC Benefits
The Canadian income tax system grants Canadian controlled private corporations (CCPCs) certain tax benefits under the Canadian Income Tax Act, including: (i) a cash refundable amount equal to approximately 35 percent of eligible expenses incurred by the company in the prior year for up to the first $3 million in expenditures; (ii) reduced tax rate on the first $500,000 of annual income; (iii) ability to access various government funding and grant programs designed to spur R&D activities; (iv) for Canadian employees, the ability to defer recognition of employee stock option benefits to pay the applicable tax when the options or shares issued on exercise of the options are sold; and (v) for Canadian shareholders, the ability to rely on the lifetime capital gains exemption from payment of tax on gain from the sale of their shares of the CCPC (2023 capital gains exemption is $971,190).

Maintaining CCPC Status
A company is a CCPC if it remained a CCPC during a company's fiscal year. To qualify as a CCPC, the company must be: (i) a Canadian resident company, and (ii) must not be controlled directly or indirectly by non-residents, public corporations or any combination of them.

Control in fact and control at law are the tests for control – that is, at least 50 percent of the issued shares of the company that can be voted for the election of directors must be held by Canadian shareholders or otherwise not less than half of the directors must be elected by Canadian resident shareholders. Moreover, non-Canadian residents and public company shareholder cannot directly or indirectly exercise control by being able to direct the course of a company's corporate affairs through contractual rights. Maintaining CCPC status is important to Canadian technology companies, and most want to maintain it for as long as possible. There are various structures that assist a company to maintain CCPC – even where financing is from non-Canadian investors who hold greater than a majority of voting shares – but care must be taken when structuring to ensure the company remains a CCPC while allowing non-Canadian investors to have majority ownership of a company and their reasonable expectations to be addressed.

Investment Structures

This section describes common investment structures for minority investments in Canadian companies.

Investments are typically in the form of issuance of equity securities from the treasury of a company in the form of shares.

Shares issued can be **common shares** or classes or **preferred shares**, or in the form of securities that convert to shares, typically in the form of instruments such as a simple agreement for future Equity (**SAFE**) instruments or **convertible notes** (be it convertible debt or convertible equity). Certain key features for these investment structures are as follows:

Common Shares
A common share is a security to purchase equity ownership of a company at an agreed-upon valuation. Standard rights attached to common shares include voting (although there can be non-voting classes or series of common shares), the right to dividends (if declared on the common shares) and the right to a distribution of the company's assets on a liquidation or dissolution. Payment to common shareholders in the event of any liquidation, dissolution or winding-up of the company will be junior to payments to debtholders and to preferred shareholders. Unlike preferred shares, common shares typically do not confer any special rights upon the shareholders. In early-stage companies, common shares are typically owned by founders and employees who receive equity via stock options, and at times by friends, family and close business associates of the founders of the company.

Preferred Shares
Most equity investments are structured as preferred share investments. A preferred share is a security to purchase equity ownership of a company at an agreed-upon valuation. Preferred shares will have preferential rights to common shares that often include a liquidation preference, dividend entitlements, anti-dilution adjustment rights, right to convert to common shares, and at times approval rights over certain decisions of the company. The liquidation preference means that, upon a liquidation, dissolution or winding up of the company, the investor will get the preferred return equal to a value of their investment (or a different agreed-to amount) back – plus any declared but unpaid dividends, prior to the rest of the proceeds being distributed to holders of common shares or any other classes of junior preferred shares. Dividend entitlements are rare and where they exist they are typically not paid in cash, but rather are accrued and paid out when there is a liquidity event.

Most founders and close friends, family and business associates of the founders typically purchase common shares and arms-length investors purchase preferred shares. However, the trend recently has been to have all investors (including friends, family investors) purchase shares of a separate class of common shares.

A majority of standard preferred share financings are completed based on model documents published by the Canadian Venture Capital Association (CVCA) for Series A preferred financings. The Canadian model CVCA documents are consistent with the National Venture Capital Association model document for Series A preferred financings and are broadly accepted by investors and companies.

Simple Agreement for Future Equity (SAFE)
In Canada, SAFE instruments are for the most part identical to the Y Combinator model Canadian post-money. A SAFE is a form of a security that gives the investor an option to convert their investment into shares at a later date upon the occurrence of a pre-determined event, which is typically an equity financing raising a minimum dollar amount of new proceeds.
It is a hybrid security and is not classified as debt or equity. There is typically no interest and no maturity date for a SAFE. SAFEs avoid placing a valuation on the company, which can be particularly useful for early-stage companies that have not had enough operating history to properly set a valuation or that wish to obtain interim financing while a share offering round is structured and completed. In the event of a liquidation, dissolution or winding up of the company, the investor will typically be entitled to receive the investment amount of the SAFE, (subject to the commentary regarding "eligible business corporations" in British Columbia below). Such payment

will rank as (i) senior to payments for common shares, (ii) pari passu with payments for other SAFEs and/or preferred shares, (iii) junior to outstanding indebtedness and creditor claims, and (iv) junior to preferred shares.

SAFE instruments

Advantages

- Simple security that will allow for quick and limited negotiations, limited paperwork.
- Rewards investors' early investment by having their money convert at either – or the lesser of either – (i) an agreed-upon valuation cap, and/or (ii) a discount to the equity financing valuation.
- Typically, SAFE investors receive negotiated contractual pro-rata rights to participate in the next financing round of the company in which they SAFE converts and some information rights. These rights are afforded to investors only if they enter a "SAFE side letter" with the company.

Disadvantages

- Does not provide investor with shareholder rights, such as information rights, voting rights, or other rights that may be important to the investor unless as otherwise specifically agreed to by contract.
- Since a SAFE is in the form of "quasi-equity" but not debt (note that accountants often consider a SAFE as being debt), there is limited protection to the investor in downside scenarios.

Convertible Notes

A convertible note is a loan that converts to shares upon a predetermined equity raise (a **qualified financing**) of the company or upon occurrence of other events at a specified valuation cap and/or discount to the next equity price. If the company is sold prior to conversion, the investor will receive a higher cash amount as specified in the convertible note or convert its debt into shares based on a certain pre-determined valuation. A convertible note must always have a maturity date and typically has an interest rate. A convertible note is a debt obligation of the company and must be repaid on maturity unless the convertible note contains an automatic conversion feature; wherein if not converted pursuant to a qualified financing or repaid, the indebtedness automatically converts into shares at a certain predetermined valuation.

BC Eligible Business Corporation (EBC) Tax Credits

The government of British Columbia has established a program where eligible investments made in a British Columbia company that is registered as an eligible business corporation under British Columbia's Small Business Venture Capital Act (SBVCA) results in the BC investor receiving a tax credit equal to 30 percent of their investment amount. An eligible investor for the tax credit can be an individual or a company. An individual or companies must be a resident of BC. If an individual moves outside the province in a year in which they acquire shares, it may affect the eligibility for the tax credit. Companies can receive a non-refundable tax credit that must be claimed in the year the investment is made.

A SAFE is an eligible investment under the SBVCA. A notable difference of an EBC eligible SAFE is that in order for SAFEs to be eligible for the eligible business company tax credits in BC, there can't be a right for an investor to receive the purchase price (i.e. the SAFE must convert into shares rather than the investor getting repaid). Since companies will want to use the same terms for all SAFEs in a round of financing, investors will have to do a mandatory conversion-to-share concept in a SAFE for an eligible business corporation in British Columbia. Alternatively, investors can require that the mandatory conversion to share concept be applicable only to British Columbia investors.

Taxation Considerations

This section summarizes the key features and rules of Canadian taxation law, regulations and tax relief programs distinguishable from similar statutes in non-Canadian jurisdictions.

Foreign Investors

General Rules
Non-residents of Canada are subject to income tax on their (i) income from being employed in Canada, (ii) income from carrying on business in Canada, and (iii) capital gains from disposing of taxable Canadian property (TCP). Furthermore, non-residents earning certain Canadian-source income (such as interest, dividends, rents and royalties) are subject to a 25 percent withholding tax. However, if the non-resident resides in a country that has a tax treaty with Canada, the amount of tax charged on the income may be reduced or eliminated.

Gains from Sale of Stock
Non-residents of Canada who own shares in a Canadian company as capital property, and who sell shares, will only be subject to Canadian tax on any gains from the sale if the share is TCP. In order for a share in a Canadian company to be TCP, the company must generally have derived more than 50 percent of the fair market value of its assets from Canadian real estate or Canadian resource properties at any time in the five years immediately prior to the sale. If the shares being sold are public, the non-resident must also own more than 25 percent of the company.

If the shares sold are TCP, only half of the gain on sale would be subject to tax in Canada. In order to ensure taxes owing from a sale of TCP are collected from non-residents, a purchaser is required to withhold and remit 25 percent of the gross proceeds from the sale to the Canada Revenue Agency (CRA). However, if the non-resident owner obtains a section 116 clearance certificate from the CRA prior to the sale, this withholding requirement is eliminated. In order to obtain the clearance certificate from the CRA, the non-resident must either post security or pay tax on the estimated gain from the sale.

For situations where the shares being sold are TCP and the foreign investor is resident in a country that has a tax treaty with Canada, the treaty may provide further exemptions from the gain being subject to tax in Canada. As a result, given the narrow definition of when a share may be TCP and the additional exemptions from tax provided in a number of Canada's tax treaties, in situations where a company does not own Canadian real property or mineral rights the vast majority of share sales made by foreign investors of Canadian companies will be exempt from Canadian income tax.

Withholding Taxes
Non-residents who receive certain Canadian-source income can be subject to a 25 percent withholding tax. For example, a foreign investor receiving interest or dividends from a Canadian company could be subject to this tax. In many cases, foreign investors that would otherwise be subject to these taxes can structure their investments to significantly reduce or eliminate the tax. For example:

- Interest paid to foreign investors who deal on an arm's length basis with a Canadian company may be exempt from withholding tax if the interest isn't contingent on the company's profit, revenue, or cash flow;
- Interest paid to US investors may be exempt from withholding tax under the United States–Canada Income Tax Treaty;
- Distributions of cash paid as a return of paid-up capital from a private Canadian company can be exempt from withholding tax; and
- Dividends paid to investors resident in the US may either be exempt from withholding tax or may be reduced to 5 percent or 15 percent. Under certain circumstances, a US investor may be able to claim a US foreign tax credit for these withholding taxes or a dividends received deduction may be available to the investor. Please note that the availability of these benefits is fact-specific.

Although many foreign investors in Canadian companies expect to avoid Canadian income tax on their investments by realizing a gain on the sale of their stock, upfront planning can eliminate most additional Canadian taxes that otherwise may be triggered and keep them from being an additional cost to the foreign investor.

Passive Foreign Investment Companies
A passive foreign investment company (PFIC) is a corporation that is not resident in the US, not controlled by US taxpayers, and which either (i) earns at least 75 percent of the corporation's gross income from passive sources, or (ii) maintains at least 50 percent of the corporation's assets from investments that produce passive income, such as interest, dividends or capital gains. Even though a company may have a number of employees and be in the process of developing a business model for their active operations, the corporation may be considered a PFIC if it has recently raised cash to fund its operations, as its only income may be interest income from the cash invested from its shareholders. As a result, US investors in early-stage operations will often need to understand and manage the considerations associated with investing in a PFIC.

If a US investor owns shares in a PFIC, gains realized on the sale of these shares as well as any **excess distribution** they receive would be subject to US tax at the top federal tax rate, rather than at the taxpayer's marginal rate. An excess distribution is a distribution with respect to the PFIC stock to the extent it represents a ratable portion of the total distributions on the stock during the year that are in excess of 125 percent of the average amount of distributions in respect of the stock during the three prior years. Furthermore, the gain or excess distribution is treated as having been earned equally over the period in which the taxpayer owned the investment, and interest is assessed as though the associated tax liability had accrued each year.

In order to avoid the previously described negative tax consequences of owning shares in a PFIC, there are certain elections that may be filed by the US investor. In general, these elections either result in the current inclusion of shareholder's share of PFIC income, or a mark-to-market of the PFIC stock (provided such stock is considered marketable stock). Generally, most Canadian corporations wishing to attract US investors should be willing to provide the information necessary for the US investor to file these elections.

Subpart F
If a US investor owns 10 percent or more of a foreign corporation and the corporation is a **controlled foreign corporation** (CFC), the US investor will have to consider whether the anti-deferral provisions of subpart F applies to their investment.

If the CFC earns income that meets the definition of foreign base company income, the US shareholder may be required to make a current inclusion of their pro-rata share of such income. Foreign base company income includes passive-type income, such as interest, dividends, rents, annuities, royalties, and gains from the sale of certain property, but includes a variety of other types of income as well. Moreover, the subpart F rules are complex with a variety of exceptions, credits, and other components that must be taken into account.

Global Intangible Low-Taxed Income (GILTI)
If a US investor owns 10 percent or more of a foreign corporation and the corporation is a CFC, the US investor will have to consider whether the global intangible low-tax income (GILTI) rules apply to their investment.

If a CFC earns income that exceeds 10 percent of the cost (as determined for US tax purposes) of tangible assets held by the CFC, the US shareholder may be required to include additional income on their US tax return as a result of the GILTI rules. The amount of tax due on the income inclusion under the GILTI rules will vary depending on the characteristics of the US shareholder (e.g., individual or corporate) as well as if that shareholder has interests in other CFCs. However, with upfront planning, it may be possible to manage the negative tax implications of the GILTI rules.

In situations where the foreign company isn't a CFC or the foreign company is operating as a start-up and does not earn any income during the year, the GILTI rules should not cause an additional tax to apply to the investment.

Gain from Sale of Shares in a Canadian Company
There are notable complexities associated with the sale of taxable Canadian property shares of a Canadian company if the sales are made by a non-resident of Canada. When a non-resident investor disposes of taxable Canadian property (TCP) shares in a Canadian company, any gain on the sale of the shares should be subject to Canadian income tax. In this event, unless the purchaser obtains a withholding certificate to reduce the required withholdings, the purchaser is required to withhold 25 percent of the purchase price and remit it to the Canada Revenue Agency. The non-resident investor must then file a Canadian income tax return to report the gain on the sale of the shares to claim a refund of the excess withholdings previously remitted.

In 2010, the TCP definition was amended to eliminate many of the shares in private Canadian companies from being TCP. Now, a company's shares will be TCP only if, at any time during the 60 months prior to the sale, the company derives 50 percent or more of its value from certain Canadian real property, such as immoveable property situated in Canada, Canadian resource properties, and Canadian timber resource properties. As a result of this amendment, in many situations the gains from the share sales by American investors in Canadian companies will be exempt from Canadian income tax.

Canadian Corporations

General Rules
Canadian corporate tax rates on active business earnings vary by province or territory, and generally range from approximately 11 percent to 31 percent. The actual tax rate incurred by a corporation depends on the size of the company, the ownership structure and the province in which it operates. The lower rates of tax on active business earnings are generally provided to Canadian corporations that are controlled by Canadian resident individuals (referred to as a Canadian controlled private corporation, or "CCPC"). Accordingly, care should be taken when structuring investments into Canadian companies by foreign investors so not to lose CCPC status inadvertently.

Tax Depreciation
Generally, capital expenditures made by companies may be written off over a number of years for tax purposes. In order to simplify the recording of these write-offs, and encourage businesses to make investment in capital assets, the Canadian rules provide numerous incentives:

- Typically, capital asset tax depreciation is calculated through pooled asset classes rather than on an asset-by-asset basis. The pooling of these calculations significantly decreases the time spent recording, tracking and depreciating assets as well as providing the opportunity to defer the recapture of tax depreciation when assets are sold.
- The rates provided to depreciate capital assets can allow for an accelerated write-off of the asset when compared to accounting depreciation or an asset's economic lifetime.
- The government recently provided an accelerated write off of various CCA classes through the Accelerated Investment Incentive (AII). The AII provides accelerated tax depreciation in the year of acquisition for eligible capital assets acquired after November 20, 2018, and made available for use before 2028.
- Certain asset categories have also received enhanced write-off incentives over others. For example, manufacturing and processing assets, specified clean-energy equipment and zero-emissions vehicles are all eligible for 100 percent write off in the year of acquisition.
- Tax depreciation is a discretionary deduction that may be claimed by a company. As a result, a company who has other tax attributes that it may want to utilize can choose not to claim the deduction in the current year where it may not be beneficial thereby preserving the ability to claim the tax depreciation in a future tax year.

Foreign Income
Canadian resident corporations are generally subject to tax on their worldwide income regardless of where it is earned. However, significant opportunities exist for Canadian corporations doing business outside of Canada.

In order to encourage businesses to expand abroad, Canadian tax rules provide the following:

- Structured correctly, Canadian corporations can establish operations in a foreign subsidiary and earn active business income through the subsidiary without being subject to immediate Canadian income tax. If the subsidiary is established in a country that either (i) maintains an income tax treaty with Canada or (ii) maintains a tax information exchange agreement (TIEA) with Canada, the income earned by the subsidiary can also be distributed back to the Canadian parent company without any additional Canadian income tax; and
- Canada currently maintains tax treaties with 93 countries and is in the process of negotiating tax treaties with an additional four countries. Canada also maintains TIEAs with 24 countries and is in the process of negotiating with an additional six countries. These tax agreements allow for the efficient structuring of operations and flow of capital between Canadian companies doing business with many countries around the world.

Indigenous Businesses

Tax considerations related to doing business with First Nations, Métis and Indigenous businesses

Continuing to build incredible economic agency while navigating a fast-warming legislative and business environment in Canada, First Nations are increasingly looking for business opportunities to increase economic development at the community level and provide employment and business contracting opportunities for its members or citizens. First Nations governments are generally treated as municipalities under the Income Tax Act, which provides these governments with an income tax exemption. Further, any corporate entities at least 51 percent owned by a First Nation government are also exempt from income tax if over 90 percent of the revenue of the corporation is earned within its geographical boundaries.

"By engaging with First Nations, Metis and Inuit peoples in Canada, businesses can realize a host of important immediate and long-term benefits: opportunities to expand into new markets, access to the fastest growing demographic and labour pool, enhanced corporate reputations in the eyes of Indigenous peoples and Canadians of all walks of life, and more respectful and accommodating workplace cultures."

Indigenous Works
iworks.com

First Nations governments often seek allies in the form of business partnerships outside of their geographical boundaries. Other businesses in Canada are often motivated to partner with Indigenous-owned businesses to gain access to contracts that require the business to have a certain percentage of Indigenous ownership.

In these circumstances, the First Nations governments may prefer to earn income through limited partnerships, such that each partner is responsible for its own income tax and the First Nation government can still take advantage of available tax exemptions while protecting its community operations and assets.

First Nations persons are granted personal tax exemptions on income earned 'on reserve'. The application of these exemptions can be complex and generally rely on the relevant 'connecting factors' that connect the employment income to a reserve. These connecting factors include but are not limited to the residence of the employee, the place where employment duties are performed, and the residence of the employer.

The income tax exemption is more likely to apply where the employer is considered resident on a reserve. Therefore, from a taxation perspective, First Nations communities that partner with other businesses may prefer that the employer of its citizens or members are located on reserve. The residence of the employer also depends on the facts and circumstances of each case, but generally would require that director meetings are held on reserve, and that the key strategic decisions for the employer are made on reserve lands.

Funding Programs for Indigenous Businesses

Program Name	Program Description
Aboriginal Entrepreneurship Program: Access to Capital	This program promotes entrepreneurship in Indigenous communities and seeks to increase the number of viable Indigenous-owned businesses. The access to capital stream provides Indigenous businesses with funding assistance up to $100,000 of non-repayable contributions for supporting eligible business proposals and leveraging additional funds.
Aboriginal Entrepreneurship Program: Access to Business Opportunities Stream	The Aboriginal Entrepreneurship Program (AEP) seeks to increase the number of viable businesses in Canada owned and controlled by Indigenous people. The AEP funds a broad range of entrepreneurial pursuits and aims to build capacity, reduce barriers and increase access to capital, by forging partnerships that will increase economic opportunities for First Nations, Inuit and Métis people. This stream will fund up to 100% of eligible costs, to a maximum of $500,000.
Tale'awtxw Aboriginal Capital Corporation (TACC) Business Equity Program (BEP)	The BEP will consider non-repayable contributions to Aboriginal clients for eligible capital and business support to start, expand or acquire a viable business. This includes sums up to $99,999 in non-repayable contributions for business plans, marketing and other related business support services.

Government Incentives

The bulk of Canada's government incentives comes through Federal programming, and its Scientific Research & Experimental Development (SR&ED) program. As Canada's flagship government incentives program, SR&ED focuses its support on R&D activities in the form of deductions and tax credits. BC also offers a SR&ED tax credit that supplements the federal incentive. Small and medium-sized CCPCs performing eligible R&D can earn a refundable tax credit at an enhanced rate.

A Comparison of US and Canada's R&D Tax Credits

United States R&D tax credit	Canada's Scientific Research & Experimental Development (SR&ED) tax credit
A non-refundable federal tax credit that is applied to reduce income taxes	Federal and provincial refundable and non-refundable tax credit program 35% for qualifying Canadian controlled private corporations (CCPCs)*; 15% for other companies; Provincial credits range from 3.5% to 20%
Eligible expenditures – qualified research expenditures (QREs) include internal labor, supplies rental or lease of computers (inclusive of computing costs) used in the research process, and 65% of qualified payments to subcontractors (contract research).	Internal labor, subcontractors performing work in Canada on behalf of the claimant, materials transformed or consumed, and overhead related to SR&ED
Taxpayers satisfying certain eligibility requirements may elect up to $250,000 per year, over a five-year period ($1,250,000 in total), to offset federal payroll taxes.	Maximum assistance available for non-CCPCs; federal tax credit of 15% of qualified expenditure; various provincial rates range from 3.5% to 20%
	Maximum assistance available for CCPCs from the federal tax credit is 35% of qualified expenditure, and is refundable (maximum 1.05 million CAD per year); various provincial rates range from 10% to 30%
There are two claiming options: • Traditional credit, which is equal to 20% of the amount of the QREs exceeding a base amount • Alternative simplified credit which is equal to 14% of the excess of the QREs over 50% of the average of the previous three years' QREs Both tax credits are incremental and based off increased research expenditures of the company	SR&ED program has one uniform claiming option
The tax credit does not require technical project descriptions; however, taxpayers must be able to demonstrate, upon request, how its activities satisfy the statutory requirements.	Tax credit requires technical project descriptions
Many states offer research tax credits to offset state income taxes that are refundable, or may be sold	Provincial credits can be refundable or non-refundable and range from 3.5% to 20%

* In Canada, a company eligible for the fully refundable enhanced rate is a Canadian controlled private corporation that is not controlled by non-residents, does not list shares on a designated stock exchange, and has taxable capital of under 10 million CAD in the last tax year.

A Glimpse into SR&ED

A qualifying CCPC that spends a dollar on SR&ED on eligible R&D receives an enhanced refundable federal tax credit of 35 percent. The most common method for claiming high labor R&D projects is the proxy method. The proxy method applies a 55 percent cost of overhead to eligible salaries. In addition, the province of BC provides a refundable 10 percent tax credit. The traditional method includes expenditures directly attributable to SR&ED activities including the provision of premises, facilities or equipment.

What is in it for British Columbia companies?

SR&ED Costs	Refund% for CCPCs	ITC% for Other Claimants
T4 Wages (includes 55% proxy)	64.3%	36.4%
Materials	41.5%	23.5%
Contractors	33.2%	18.8%

In addition to SR&ED, Canadian companies can receive government incentives and subsidies pertaining to hiring, training and innovation on their R&D projects. Programming pertaining to green initiatives, capital expenditures, and moving to new locations are available in various forms from different levels of government.

Other government incentives can further supplement operating costs through direct wage subsides, industry–academic collaborations and innovation grants. These programs can provide incremental benefits, but there is a grind-down effect owing to restrictions on double dipping across Canadian federal and BC provincial programs.

Other Notable Benefits of Operating in Canada

- Significant incentives are available to compensate employees of startup businesses and CCPCs with stock options. Canadian resident CCPC owners may also benefit from earning a portion of the gain from the sale of their shares tax-free. Considered together, these incentives allow Canadian businesses significant opportunities to structure their employee compensation packages to attract and retain key talent in an efficient manner for both the employee and the business.
- Canadian companies can carry forward business losses for 20 years. These losses may be claimed in any future year and are not otherwise restricted in how much may be claimed. As a result, startup companies that may incur significant losses early on have the flexibility to carry forward and utilize their business losses in an efficient manner, so long as the company does not undergo a change in control.
- Only half of capital gains realized by corporations are subject to tax. As a result, Canadian companies that develop capital assets that are ultimately sold will pay a relatively low rate of tax on the gain from sale.

We Can Help

Contact us for more information

Vancouver – with its thriving tech sector and startup ecosystem – is a key gateway into investing in Canada's innovation economy. Contact us if you are interested in learning more about opportunities, processes and logistics related to investing in Vancouver, or if you have any questions about the content in this report.

James Raymond
Senior Research Manager
Vancouver Economic Commission

Suite 500 - 555 W 8th Ave.
Vancouver, BC V5Z 1C6
jraymond@vancouvereconomic.com

Shahrooz Nabavi
Partner
Fasken LLP

Suite 2900 - 550 Burrard St.
Vancouver, BC V6C 0A3
snabavi@fasken.com

Additional Organizations for Investment Support

Invest Vancouver
4515 Central Boulevard
Burnaby, BC, V5H 0C6
1 (604) 432-6200
info@investvancouver.ca
www.investvancouver.ca

Trade and Invest BC
Suite 730 - 999 Canada Pl.
Vancouver, BC V6C 3E1
1 (604) 775-2100
international@gov.bc.ca
www.britishcolumbia.ca

Invest in Canada
Contact via website
www.investcanada.ca

Business Development Bank of Canada
Suite 2100 - 505 Burrard St.
Vancouver, BC V7X 1M6
1-888-463-6232
www.bdc.ca

Cross-Border Investment Support

If you are part of a US angel investor group, contact us for more information on how we can work with you to share this guide with your network

For ways to engage with us, see our website
www.vancouvereconomic.com/cross-border-investment

VANCOUVER
ECONOMIC
COMMISSION

www.vancouvereconomic.com | @VanEconomic | +1 866 632-9668