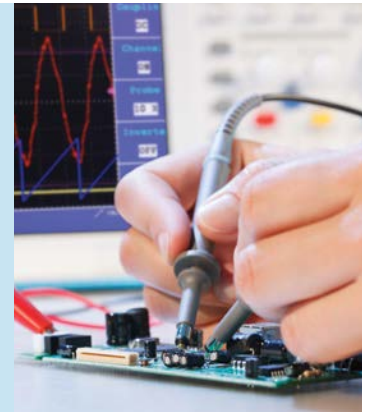


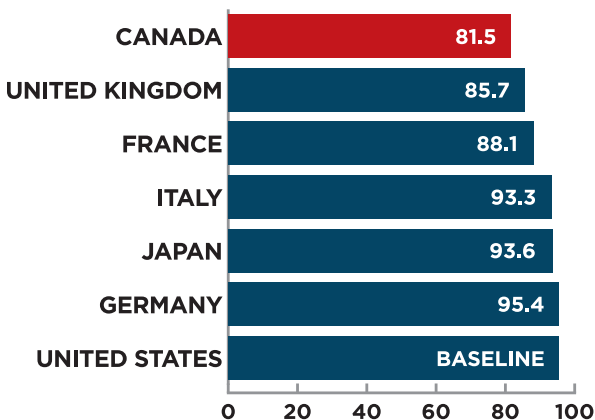
CANADA'S COST AND TAX ADVANTAGES - ELECTRONIC SYSTEMS

Canadian industries represent major users of electronic systems and devices, including computer systems, telecom equipment and electronic systems for automotive or aerospace applications. Canada also has a thriving ecosphere for electronic systems design and testing and a competitive environment for business costs and business taxes helps to support this industry.

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 electronics development. Details of these findings are presented below, reflecting business costs and taxes for a model facility that develops and tests electronic systems and devices.



ELECTRONIC SYSTEMS COST INDEX, G-7 RESULTS (U.S. = 100.0)



CANADA'S COST HIGHLIGHTS

- Electronic design firms based in Canada benefit from total labour costs that are 19.7 percent lower than equivalent costs in the U.S. Competitive salary levels and lower healthcare costs in Canada contribute to these savings.
- Leasing costs for suburban office park space in Canada's major cities are low relative to most other G-7 countries, with savings of 17 percent compared to the G-7 average for this facility.
- Electricity costs in Canada are 21 percent below the G-7 average for this electronics design firm – a smaller cost component but still adding to the savings in Canada.
- Taxes represent the final component of Canada's cost advantage, as detailed on the next page.
- Combining all cost factors, Canada has the lowest business cost environment among all G-7 countries, with total business costs 18.5 percent below the U.S.

IMPACT OF EXCHANGE RATES

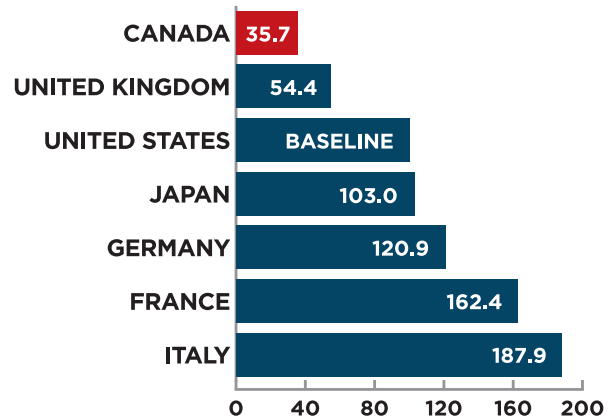
The 2014 edition of *Competitive Alternatives* was released in March 2014. The results from that study, including the results reported here, reflect exchange rates that were in effect in the fourth quarter of 2013. These results are sensitive to exchange rate changes.

During 2014, the U.S. dollar appreciated in value relative to most global currencies, including the Canadian dollar. For the model systems development firm, Canada's cost advantage relative to the United States **increases from 18.5 percent to 27.3 percent** at January 2015 exchange rates. The stronger U.S. dollar significantly increases Canada's cost advantage for international electronics 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.



ELECTRONIC SYSTEMS TOTAL TAX INDEX³, G-7 RESULTS (U.S. = 100.)



LOW-COST HOT SPOTS

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

A	Fredericton	73.6
B	City of Québec	75.4
C	Montréal	79.6
D	Edmonton	80.7
E	Vancouver	83.1
F	Toronto	83.5

CANADA'S TAX HIGHLIGHTS²

- Canada's generous R & D tax credits include the possibility of refundable R & D credits for certain types of firms in some jurisdictions. For this model systems design/ test firm, eligibility for a refundable R & D tax credit results in a negative effective rate of corporate income tax at -6.0 percent, the second lowest in the G-7.
- Canada's statutory labour costs are also 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 electronic systems firm is 35.7 - the lowest among the G-7 countries and reflecting total tax costs 64.3 percent lower than in the United States.

SUMMARY OF OPERATING PARAMETERS

OPERATION: ELECTRONIC SYSTEMS DEVELOPMENT & TESTING	
Facilities requirements	
Class A office space leased (4,181 m ²)	45,000 ft ²
Workforce	
Management	5
Sales and administration	12
Dedicated product development	53
Other	—
Total employees	70
Other initial investment requirements	
Machinery and equipment - U.S. \$'000	\$500
Office equipment - U.S. \$'000	\$500
R & D equipment - U.S. \$'000	\$4000
Inventory - U.S. \$'000	—
Equity financing - % of project costs	100%
Energy requirements	
Electricity: monthly consumption	75,000 kWh
Other annual operating characteristics	
Sales at full production - U.S. \$'000	**
Other operating costs - % of sales	1,800
Investment in tax-eligible R & D - % of sales	19%

** This operation represents a cost center. For taxation purposes, corporate revenue allocated to the operation is assumed to be cost-of-operation, plus 10% markup.

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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