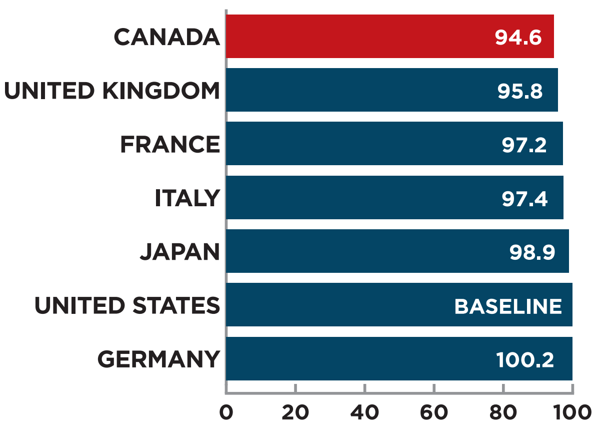
CANADA'S COST AND TAX ADVANTAGES – MEDICAL DEVICES

Canada's medical devices sector is highly diversified, R & D intensive, technology-based and export oriented, with about 1,500 firms employing 35,000 people and exports of over $1.9 billion in 2013. One of the keys to Canada's success in the medical device industry is a competitive environment for business costs and business taxes.

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 medical device manufacturing. Details of these findings are presented below, reflecting business costs and taxes for a producer of mechanical medical devices.

MEDICAL DEVICES MANUFACTURING COST INDEX, G-7 RESULTS (U.S. = 100.0)



CANADA'S COST HIGHLIGHTS

- Medical device operations based in Canada enjoy a 12.4 percent saving on total labour costs relative to their U.S. based counterparts, with lower employee healthcare costs being the main contributor to the savings.
- Industrial facility costs in Canada are also very affordable—with lease costs 36 percent below the G-7 average for this medical device firm.
- Low utility costs also add to Canada's advantage. Canada ranks second among the G-7 countries for low industrial electricity costs for this medical device firm, while Canada's natural gas costs are more than one third lower than in five of the G-7 countries.
- 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 structure among all G-7 countries, with total business costs 5.4 percent below the U.S.

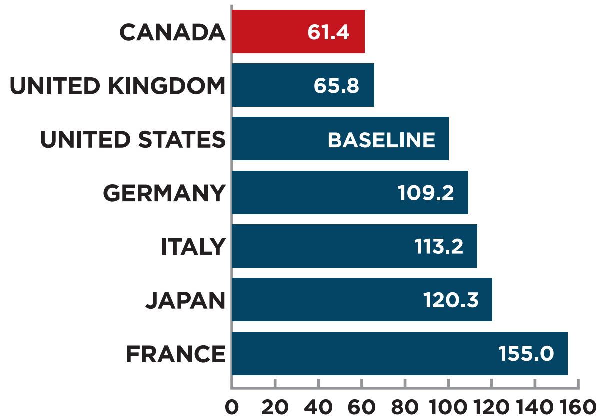
IMPACT OF EXCHANGE RATES

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 medical device manufacturing firm, Canada's cost advantage relative to the United States **increases from 5.4 percent to 9.3 percent** at January 2015 exchange rates. The stronger U.S. dollar significantly increases Canada's cost advantage for international medical device 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.

MEDICAL DEVICES MANUFACTURING TOTAL TAX INDEX[3], G-7 RESULTS (U.S. = 100.)



LOW-COST HOT SPOTS

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

A	Charlottetown	91.6
B	Moncton	91.9
C	Fredericton	92.6
D	Winnipeg	93.2
E	Montréal	94.2
F	Saskatoon	94.3
G	Toronto	95.0

CANADA'S TAX HIGHLIGHTS[2]

- This production-oriented medical device firm makes modest investments in both product and process-related R & D. Canada's generous R & D tax credits cause its effective rate of corporate income tax to drop to 15.3 percent, the second lowest rate in the G-7.
- Canada's costs for statutory labour costs and other corporate taxes are also low, ranking third among the G-7 countries in both of these tax categories.
- Overall, Canada's total tax index for the model medical device firm is 61.4—lower than in all other G-7 countries and reflecting total tax costs 38.6 percent lower than in the United States.

SUMMARY OF OPERATING PARAMETERS

BUSINESS OPERATION: MEDICAL DEVICES MANUFACTURING	
Facilities requirements	
Leased industrial site (16,187 m²)	4 acres
Size of factory (6,503 m²)	70,000 ft²
Workforce	
Management	6
Sales and administration	15
Production/non-dedicated product development	
• Professional, technical	32
• Operators	34
• Unskilled labourers	10
Other	3
Total employees	100
Other initial investment requirements	
Machinery and equipment – U.S. $'000	$14,500
Office equipment – U.S. $'000	$200
R & D equipment – U.S. $'000	$300
Inventory – U.S. $'000	$3,400
Equity financing – % of project costs	55%
Energy requirements	
Electricity: monthly consumption	140,000 kWh
Gas: monthly consumption (20,538 m³)	2,400 CCF
Other annual operating characteristics	
Sales at full production – U.S. $'000	$25,000
Materials and other direct costs – % of sales	30%
Other operating costs – % of sales	5%
Investment in tax-eligible R & D – % of sales	3.4%

[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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