Canada
Opportunities and barriers to inbound construction

G20 rankings & data

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<td>World bank – paying taxes rank</td>
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Financial metrics

- Total fiscal stimulus announced: £6.84bn
- Announced spend on construction in the next 3 years including fiscal stimulus to construction: £11.2bn
- Construction industry value – 2009: £132bn
- Main corporate tax rate: 30-35%

Construction sector metrics

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<th>2007</th>
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<th>2010</th>
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<tr>
<td>Construction industry value, £bn</td>
<td>37</td>
<td>40</td>
<td>63</td>
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<td>Construction industry, real growth, per cent y-o-y</td>
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<tr>
<td>Construction industry, per cent of GDP</td>
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BDO review of tax

- High combined effective tax rates when including both national and local taxes
- Thin capitalisation restrictions comparable to many other G20 nations
- Competitive tax depreciation system
- Few sector specific incentives

Overall scoring 4/10
15= out of the G20

BDO ease of doing business

- There are some significant barriers for inbound construction activity; however it is possible to get round these

1 Very easy 2 Quite easy 3 Average 4 Quite difficult 5 Very difficult

Top construction firms

- SNC-Lavalin Group Inc.
- Stantec Inc.
- Hatchcos Holdings Ltd
- Golder Associates Corporation
- Bantrel Co

Their dominance does not create a significant barrier to entry.
“Canada is one of the top destinations for inbound construction activity. Demand is high, driven by the government and barriers to entry are easily surmounted. A low national deficit and strong local banking sector also cause Canada to be a good area to invest.”

Richard Kelly
Partner: Head of Construction

Opportunities and barriers

3rd in our heatmap of the G20, Canada combines strong opportunity and growth with low barriers to entry:

Canada’s construction sector is very well developed compared to other countries in the G20, accounting for 12 per cent of Canada’s GDP. There are over 260,000 firms in the construction industry over 65,000 in residential construction and 150,000 in the trade contracting industry. According to Canada’s official statistics agency, the total investment in non-residential grew 13 per cent, 7 per cent and 6 per cent in 2006, 2007, 2008 respectively. For 2009, the sector is expected to fall by an estimated 7 per cent, mainly due to the ongoing global financial crisis.

In November 2007 the Canadian Federal Government launched a 7 year plan to improve the countries infrastructure called the ‘Building Canada’ plan. The plan will focus on providing cleaner air and water, safer roads, shorter commutes, and prosperous, livable communities to Canadians. Total planned spending of £19.6bn over the 7 year period will be funded by the Municipal GST Rebate (£3.4bn), Gas Tax Fund (£7.0bn), Building Canada Fund (£5.2bn), Public-Private Partnerships Fund (£0.7bn), Gateways and Border Crossings Fund (£1.2bn), Asia-Pacific Gateway and Corridor Initiative (£0.6bn) and the Provincial-Territorial Base Funding (£1.6bn).

Key programmes included as part of this fund are:

- Building Canada Fund (BCF Program) – £5bn for projects of national importance focusing on a growing economy, a clean environment, and strong and prosperous communities. It will consist of two components:
  1. The Major Infrastructure Component will target drinking water, wastewater, the core National Highway System, public transit and green energy
  2. The Communities Component will focus on projects in communities with populations of fewer than 100,000
- Base Funding for Municipalities – £10.4bn in funding over 7 years, primarily from the Gas Tax Fund and Goods and Services Tax Rebate. Focusing on public transit, water and wastewater infrastructure, community energy systems, the management of solid waste, and local roads and bridges that enhance sustainability outcomes
- Base Funding for Provinces and Territories – £1.4bn a year – base funding to each province and territory for a total of £1.3bn over seven years. Funds will support all of the BCF categories above as well as non-core National Highway System infrastructure and the safety-related rehabilitation of infrastructure in all BCF-eligible categories
- Public private partnerships (P3s) – will receive almost £0.8bn in funding over the period. In addition the Government of Canada will spend £1.5m creating a federal P3 office
- The Gateways and Border Crossings Fund (£0.7bn) – will seek to improve the flow of goods within the country and the flow of goods internationally

Planned infrastructure spending received a further boost as part of a range of fiscal stimulus measures introduced in the Federal Governments 2009 Budget. As part of Canada’s Economic Action Plan the Government established a new £2.4bn Infrastructure Stimulus Fund. This fund will focus on municipal, provincial and territorial infrastructure “renewal” projects that would be ready to start construction in 2009 or 2010. It also allocated a further £0.6bn to create a ‘Green Infrastructure Fund and £1.2bn over the next two years to repair, retrofit and expand facilities at universities and colleges.

In the 2007 Budget, the Canadian Government announced it would take a leadership role in developing PPP opportunities within Canada through two initiatives:

- £700m Public Private Partnerships Fund.
- PPP Canada Inc., established to administer the Public-Private Partnerships Fund and to work with the public and private sectors toward encouraging the further development of Canada’s PPP market.

Reasons Canada is attractive for inbound construction activity

- Large demand for construction with ‘Building Canada’ plan and announced fiscal stimulus over the short and longer term.
- Second easiest country to do business in the G20 with an excellent credit rating and straight forward construction environment.
- Stable financial situation with strong local banks.

BDO viewpoint and advice

Pitfalls to avoid when doing business in Canada

- Canada is relatively straightforward to inbound investment. However, when tendering for government projects it is easy to not satisfy all the required criteria.

Practical advice for inbound construction activity

- Undertake research into the percentage of the market that is available to international firms and building ties with local communities to facilitate access to skilled Canadian workers would help.
- Geographical distance and the division between federal and provincial procurement mandates would require careful consideration of entry point into the marketplace. Working with local professionals to identify SWOTs to each entry point and provide recommendations and introductions to companies and individuals with specific expertise.
- The three basic business structures available are the sole proprietorship, the partnership, and the corporation. In addition, there are variations of the basic business structures, joint venture, branch office and subsidiary.
- Canada was reported to have made some progress in the use of PPPs with the development of some high profile projects (including the Confederation Bridge linking Prince Edward Island and New Brunswick and the Canada Line transit project in British Columbia). However, in comparison to other developed economies Canada generally lags behind.

Useful tax and other incentives for inbound construction activity

Main depreciation rates:
- Buildings – Capital cost allowance generally provides tax relief at 4 per cent or 5 per cent.
- Machinery and equipment – Capital cost allowance generally provides tax relief on a 30 per cent declining balance basis.
- A number of other rates apply to different pools of assets.

Other incentives:
- As part of the ‘Building Canada’ plan the Canadian government is also working to reduce red tape associated with infrastructure projects. It will also review environment regulations related to some infrastructure projects.
- According to the official ‘Invest in Canada’ website, construction is a priority economic sector of Atlantic Canada (New Brunswick, Newfoundand and Labrador; Nova Scotia and Prince Edward Island) and Quebec (including the cities of Montréal, Québec, City of Saguenay, Sherbrooke and Trois-Rivières).


“Despite a relatively straightforward tax compliance system including a competitive tax depreciation system, high effective tax rates and a lack of specific incentives for the construction sector may detract from the undoubted commercial opportunities in the Canadian market.”

Stephen Herring
Tax Partner, Real Estate and Construction