

# In Brief\*

Taking taxing challenges and turning them into cash flow opportunities

Good tax management and strategy can play a key role in improving cash flow, helping companies survive the downturn and improve their competitiveness for when the upswing arrives.

## Challenges facing the Alberta economy

- The downturn has hit Alberta. Credit is tight and once-flush companies need cash.
- Many Alberta companies, particularly in the oil and gas industry, are not aware of the potential value to them of the Scientific Research & Experimental Development (SR&ED) tax credit. This is a missed opportunity—one that can help boost cash flow in this tight market.
- When times were good, non-taxable but cash flow-generating companies in the exploration sector placed a low priority on tax planning. Now that cash flow has tightened, they are scrambling to create a more comprehensive tax strategy to help them save money and identify future revenue streams.
- Income and royalty trusts—preferred investment/tax-saving vehicles in Alberta—must be converted by 2011. If companies miss the deadline, they will be subject to a stiff tax.

When the economic slowdown hit Alberta, almost overnight, companies had to respond decisively, focusing on cash flow, cutting back on costs and improving efficiencies. But with a fair percentage of Alberta companies being either not taxable or with experience limited to that of cash-flush boom times, many have failed to incorporate effective tax management into their immediate survival and long-term strategies. As a result, they are missing out on tax credits and refunds through the downturn and are leaking money unnecessarily. A change in mindset is needed among many Alberta companies when it comes to tax. What's needed is a tax strategy that is integrated into a company's overall strategy and provides immediate and long term value to a company's competitiveness.

## Why deferring your tax strategy today can be costly

- Alberta is late to the table when it comes to encouraging R&D but it is at the table now and all companies, especially those in the oil and gas, manufacturing, mining, pulp and paper, IT, agriculture, aerospace, transportation, food and beverage and pipelines should make the most of the new provincial SR&ED tax credit or risk falling behind competitors in the race to innovate.
- This fully refundable Alberta provincial tax credit came into effect January 1, 2009 to encourage Albertan companies to take technological risks and push the boundaries of knowledge. The credit is based on 10% of the eligible Alberta SR&ED expenditures to a maximum annual expenditure limit of \$4 million and a credit of \$400,000. That's on top of the 20% federal investment tax credit (ITC) for large corporations, or 35% cash credit for Canadian-controlled private corporations. This is one of the few areas of tax where companies can get cash back.
- Companies have to plan now how they will deal with the mandated conversion of income and royalty trusts by the 2011 deadline or they will be hit with a stiff tax. It's a complicated process and will require business leaders to look at all aspects of their current and potential future tax positions.
- The new economy promises to be more competitive than ever even after the recovery. Cash flow will continue to be king—and tax strategies that leave more cash on the balance sheet will play a key role in competitiveness but these have to be initiated now—not at the last minute.
- In a good economy, people get away with wasteful spending because revenues are so high. The downturn presents an opportunity for companies to take a close look at tax strategy, which could in turn point out problems and hidden potential in other areas of the business.

## Key issues

- Many companies are simply unaware tax credits such as SR&ED are available to them. And even if they are, they have difficulty identifying and sufficiently documenting SR&ED eligible projects for the Canada Revenue Agency.
  - The federal refundable investment tax credit (ITC) of 35% cash credit for Canadian-controlled private corporations can be applied to reduce federal taxes in the current year carried back to three previous years or forward to 20 subsequent years—but these require proper documentation.
  - Companies often don't have the resources and time to stay current with provincial and federal tax changes and as a result can miss out on tax saving opportunities. For example, Alberta was one of the last provinces to implement the refundable SR&ED but now all the other provinces are starting to increase their incentives. It's likely at some point the Alberta government will have to consider raising that refundability limit.
  - Large companies may have inefficient structures that result in higher taxation.
- In the past, many multinational companies, for example, may not have put the processes or structures in place to repatriate cash to minimize withholding tax and may not have used foreign tax credits efficiently. Now that cash is not so readily available, they are scrambling to restructure in order to do just that.
- Upheaval due to the recession has resulted in unforeseen problems. For example, stock options, once a key incentive to attract and retain employees, now pose a problem for business owners. Falling valuations means the stocks are worth less than employees would have to pay to exercise the option. Companies are now dealing with the tax and governance implications of this new reality and what it means both for the business and employees.
  - Cutbacks in staffing coupled with a lack of funds to hire consultants have left companies with a limited capacity to deal with tax issues. That means they are doing what they have to, but that's it. There is insufficient forward thinking and tax planning in place.

## The benefits of a strong tax strategy

- More cash on hand.
- An effective cash strategy requires an overall review of a company's financials as well as tax strategies and income tax returns. This could point to inefficiencies that weren't seen before. It may even lead to a reorganization that could lead to future dividends.
- By taking advantage of SR&ED credits, companies can better afford to invest in new technology and leading-edge research that will make them more innovative and efficient. This will be critical in the new economy.

# The PwC advantage: We know how to build value

## Value builders

## PwC perspective

### A broad knowledge base

There is rarely just one solution to any given problem. PwC's tax team helps hundreds of clients around the globe and brings a collective approach to problem solving to the table.

"Most businesses have one person internally grappling with a tax issue," says David Van Den Beld, Partner, Tax Practice in Calgary. "They draw from the lessons learned at the company and their own past career experiences—that's it. At PwC we see a wide range of businesses and are able to draw from a wide range of best practices. We bring that far-reaching knowledge base to each of our clients."

### The ability to see new value propositions.

At PwC, we understand that while the downturn brings challenges, it also holds opportunities for companies willing to look beyond today.

"The primary reason more companies may be calling us in is to get cash back," says Leanne Sereda, Partner, Tax Practice in Calgary. "But in the course of doing that and taking a big picture look at operations, we can also identify other projects that aren't necessarily at the top of the list now but could prove to be new value propositions down the road. That's the kind of partner we want to be with our clients."

### An intimate understanding of the tax landscape and tax-saving legislation.

At PwC, our tax team is on top of what's on the tax horizon and has comprehensive knowledge of how to access credits and refunds. In fact, we have a dedicated team working on SR&ED specifically.

"When it comes to specific tax-saving programs such as SR&ED, we offer a turnkey service," says Van Den Beld. "We come in and give you everything you need to claim that credit."

### We empower clients

PwC works hands-on with clients and in the process we help them improve their knowledge and skills to deal with tax issues.

"We have the knowledge to ensure clients are not missing any opportunity to save or defer tax," says Sereda. "Not only do we introduce efficient processes, but there is a lot of training that is implicit in working with us that helps clients after we leave."

## Our team

In Alberta, PwC has assembled a team with global hands-on experience in creating effective tax management strategies for companies around the world. Call one of our practitioners below to talk about how we can help you make change stick.

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