

## VENTURE CAPITAL TAX CREDIT PROGRAM ELIGIBLE BUSINESS CORPORATION - POLICY

**Topic:** Service Costs Associated with the Export of Goods or Technology

Small Business Venture Capital Regulation  
Sections 11(1)(a) and (c)

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### PURPOSE

To define the “service costs” that are acceptable “activity costs” when a small business is involved in the export of goods or technology.

### BACKGROUND

Section 11 (1) (a) and (c) of the regulation allows some export related service costs to be considered “activity costs” when a small business is engaged in manufacturing and processing, and is exporting goods; and when a small business is engaged in R&D of proprietary technology and is exporting the technology.

(a) the manufacture and processing of goods within British Columbia, including services that are directly associated with the export of the goods and are provided inside or outside of British Columbia;

(c) the research and development of proprietary technologies produced within British Columbia including services that are directly associated with the export of the technology and are provided inside or outside of British Columbia;

Only the qualifying activities of manufacturing and processing, and R&D of proprietary technology, allow export related service costs to be considered “activity expenses”. This is not applicable to any other qualifying activity.

### DISCUSSION

#### Manufacturing/Processing

If a business qualifies as a manufacturer/processor, the cost of some services that are directly associated with the export of the manufactured goods can be included as an “Activity Expense”. These expenses could include:

- shipping/forwarding costs, warehousing/distribution;
- installation/maintenance costs to install equipment in a non-BC location;
- inspection/permitting costs for installation of equipment in a non-BC location.

Note: the regulation restricts service costs to only those that are directly associated with the export of the finished product and delivery to the non-BC customer.

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R&D of Proprietary Technology

If a business qualifies as doing R&D of proprietary technology, the cost of some services that are directly associated with the export of the “technology” can be included as an “Activity Expense”.

Note that an R&D company is developing a “technology”, and is not manufacturing and does not have a finished product. The technology does not have to be tangible, for instance, it could be a formula for a new drug. The expenses can include:

- operating/demonstrating a prototype;
- attending trade shows to demonstrate the technology;
- developing a specifications monograph or other technical materials; and
- demonstrating the technology to equipment manufacturers.

An EBC developing a pharmaceutical or medical device and which incurs costs outside BC for the purpose of attaining regulatory approval by Health Canada, or the US Food and Drug Administration (FDA), or another country’s drug/medical device approval agency, will be considered to be eligible “activity expenses” that support the export of the technology outside BC (SBVC regulation 11(1)(c)), subject to the condition that the EBC owns the intellectual property being prepared for clinical trials and undergoing clinical trials.

Clinical trial associated costs incurred outside BC that are eligible costs include:

- Compound manufacturing, including research & development necessary in the jurisdiction in which regulatory approval is sought; compound stability testing and distribution for testing;
- Biological and chemical assays, including analytical chemistry, animal safety, toxicology, pharmacokinetics, pharmacodynamics and genotoxicity;
- Pre-clinical and clinical drug/medical device development expert advice and external validation;
- Documentation and preparation of materials for regulatory bodies;
- Patent registration in foreign jurisdictions;
- Clinical trial design and development; and
- Clinical trial costs (specific costs to conduct clinical trials)

R&D carried on outside BC, and not for the explicit purpose of attaining regulatory approval is not an eligible activity expense.

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Service Costs that are Not Activity Expenses

Export service costs not permitted as “Activity Expenses” include costs:

- costs for developing branding and brand building;
- developing marketing collateral (e.g. advertisements for newspapers, magazines, websites);
- domain name costs, and developing web-site content to sell product, brand/product promotion; and
- costs for recruiting/training a salesforce/sales agents.

**CONCLUSION**

Only small businesses that are in the qualifying activities of manufacturing and processing, and R&D of proprietary technology are allowed to include some service costs as “activity expenses”, and only if the service costs are for the costs directly associated with the export of a good, or export of a technology.