INTRODUCTION

This policy statement defines 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.

Sub-section (a) of the regulation states: “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”;

Sub-section (c) of the regulation states: “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 includes the manufacturing and processing of Clean Tech goods and the R&D of Clean Tech technologies. Export services do not apply 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 and forwarding costs;
- Warehousing/distribution costs;
- Installation and maintenance costs to install equipment in a non-BC location; and
- Inspection and permitting costs for installation of equipment in a non-BC location.
INVESTMENT CAPITAL BRANCH

SERVICES ASSOCIATED WITH THE EXPORT OF GOODS OR TECHNOLOGY

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.

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 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 and 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.

Service Costs that are Not Activity Expenses

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

- costs for developing branding and brand building;
- developing marketing collateral (e.g. advertisements for newspapers, magazines, web-sites);
- 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 costs directly associated with the export of a good, or export of a technology.