Going Global

North America

US market outlook – glass half full?

Edition 2, 2024

Kreston Global in North America

Kreston Global has an impressive footprint in the North American region, with over 160 offices and more than 7, 000 staff to support businesses expanding into the US, Canada and the Bahamas.

With one of the largest US listed advisory and assurance organisations, CBIZ/MHM, as part of our Network, together with our Canadian firm Kreston GTA and Kreston Bahamas in the Caribbean, North American clients and new entrants can tap into considerable knowledge and location coverage across this region.

In this issue of Going Global, North America edition, we explore the business as usual attitude in the US, a compliance tangle post-business licence launch in the Bahamas and a halo effect south of the US border as North American operations pull their supply chain closer to home.

Contents

The Interpreneur survey: Understanding mid-market business trends in the United States

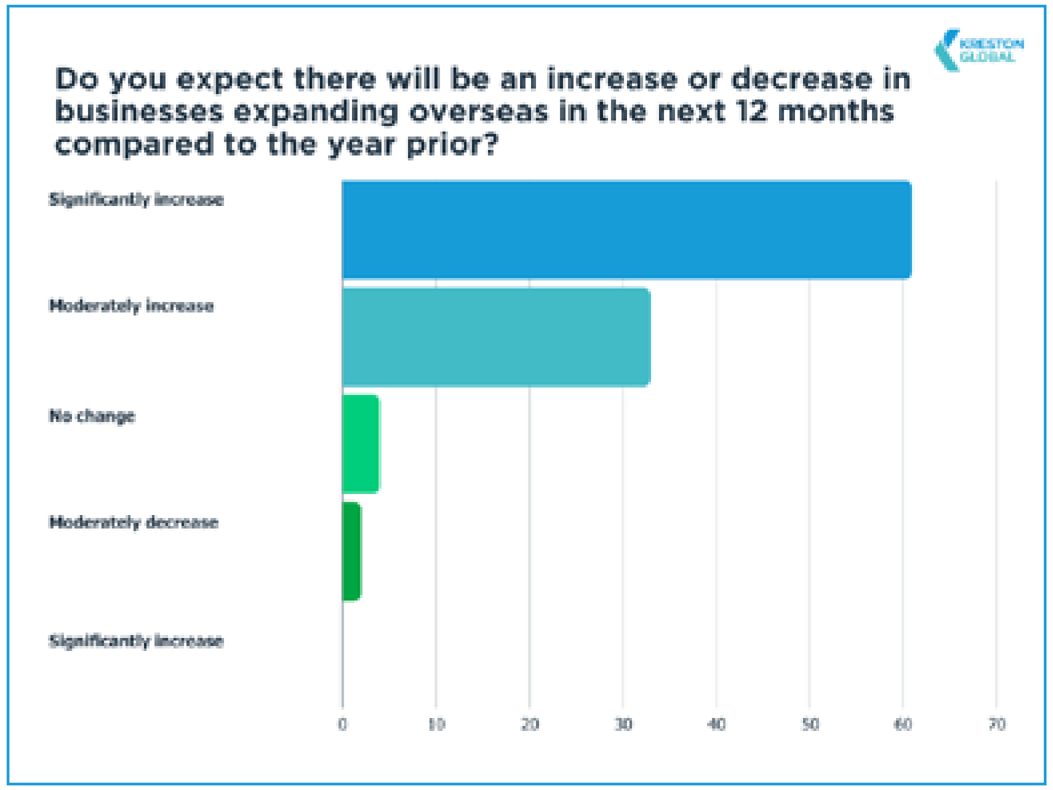
We recently reported that in 2023, the US ranked number one on the Kearney Foreign Direct Investment (FDI) index for the 11th year. Against global economic instability, the country's market offers relative safety to cautious investors. As such, there has been a steady flow of investment and business expansion in the last few years, with FDI rates now 30% higher than pre-pandemic.

To understand how this landscape is affecting mid-market businesses, we recently surveyed 1,400 C-suite business leaders in 14 countries, in private sector companies earning up to £300m a year that have expanded internationally. We call these CEOs 'interpreneurs'.

We have analysed the United States data to better understand what drives North American business owners when expanding abroad.

US business leaders believe overseas business expansion is expected to increase

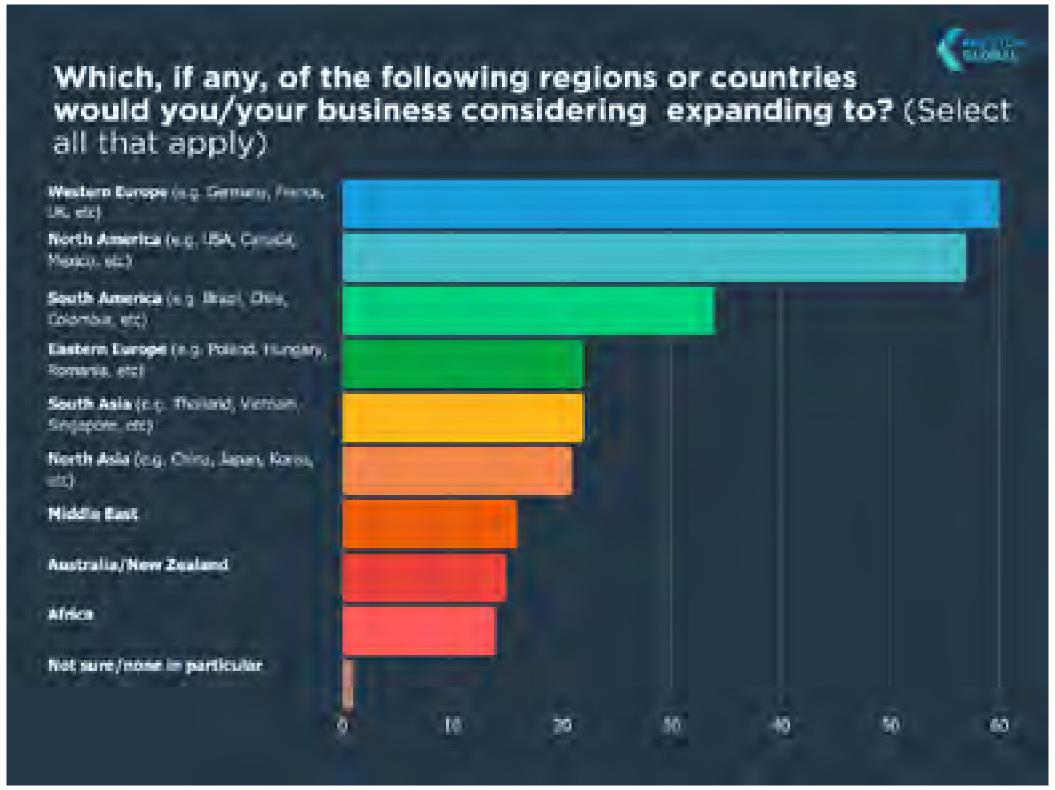
At 94%, the United States is one of the most optimistic countries that global expansion is on the rise out of all our respondents.



Western Europe top choice for US interpreneurs when expanding globally

60% of respondents name Western Europe as their number one location for business expansion, and they are not alone. Globally, over half the respondents agreed Western Europe was in their sights for expansion.

North America is second with a score of 57%, followed by South America at 34%, suggesting that geographical proximity to expanding businesses plays an important role for American interpreneurs considering international expansion.



GARY KLINTWORTH

Senior Managing Director,
CBIZ

"While there are potential benefits for companies to mitigate economic challenges through customer base diversification and tapping into fresh markets, the strategies you choose to get there can define the scale and sustainability of the expansion. It requires in-depth market research, potentially new marketing strategies, and sufficient resources to cater to diverse customer needs.

Finding the right partners to support you as you get your localised operations off the ground can be an overlooked step. You need a proactive business adviser who not only knows how to navigate regulation, tax regimes, reporting and compliance requirements – but gives valuable insights into cultural nuances or expectations to help ensure your business is well received in a new region."

ROB MCGILLEN

Chief Innovation Officer,
Financial Services
CBIZ

"Technological disruption has gone from being seen as a risk to being considered something to be embraced. While AI isn't a silver bullet, its ability to automate tasks, glean insights from data, and personalise experiences can be a major advantage for resource-constrained SMEs competing on the international stage. It should certainly be able to help interprenuerial businesses level the playing field with bigger rivals."

Skills and talent primary attractor for US CEOs

Interestingly, American respondents valued skills and talent (e.g., the availability of local talent and openness to skilled talent immigration) as their primary motivators for international expansion.

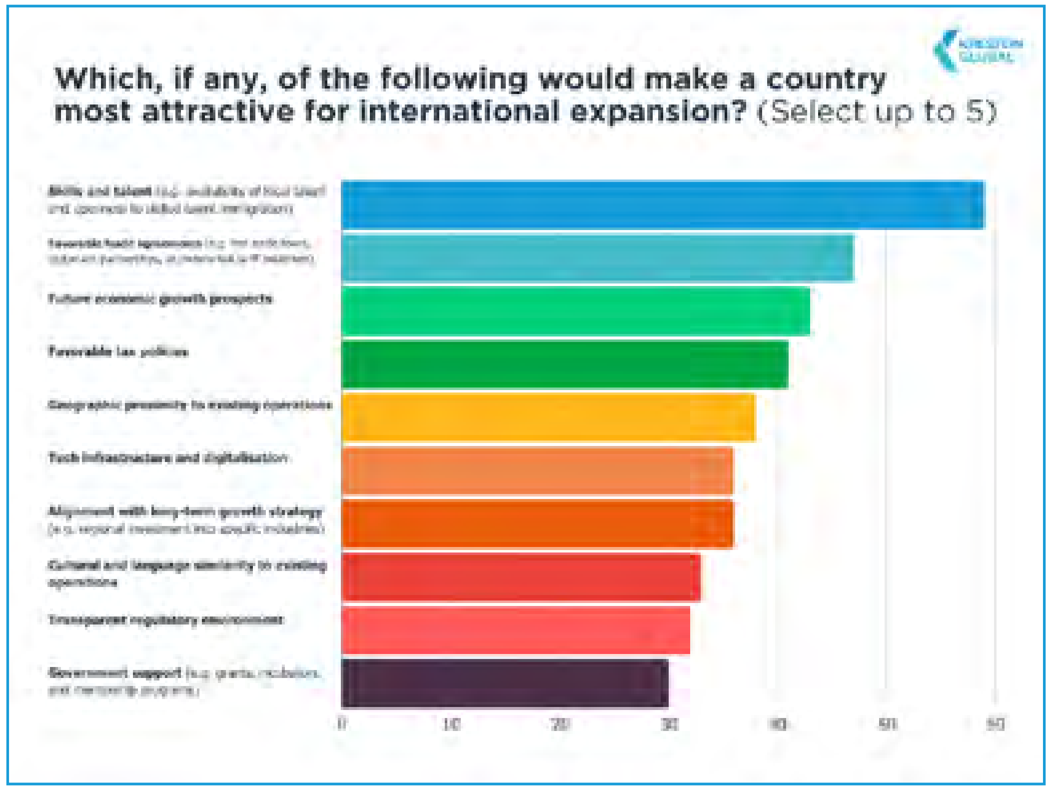
47% of respondents said their business was primarily motivated to expand internationally by favourable trade agreements (e.g. free trade zones, diplomatic partnerships, or preferential tariff treatment).

What motivates US interpreneurs to expand internationally?

According to American respondents, increased sales and revenue were considered the greatest benefit of international expansion, with half (50%) choosing it. This was a shared top choice with global respondents.

Finding local partners a challenge to doing business internationally, say US CEOs

Just under half (45%) said that one of the biggest challenges faced by businesses during international expansion was finding the right local partners (e.g., building reliable and trustworthy relationships). This highlights an opportunity for countries looking to accept US business expansion to



showcase their expertise and knowledge.

Risk: What do US CEOs think are the biggest risks to global business expansion in 2024?

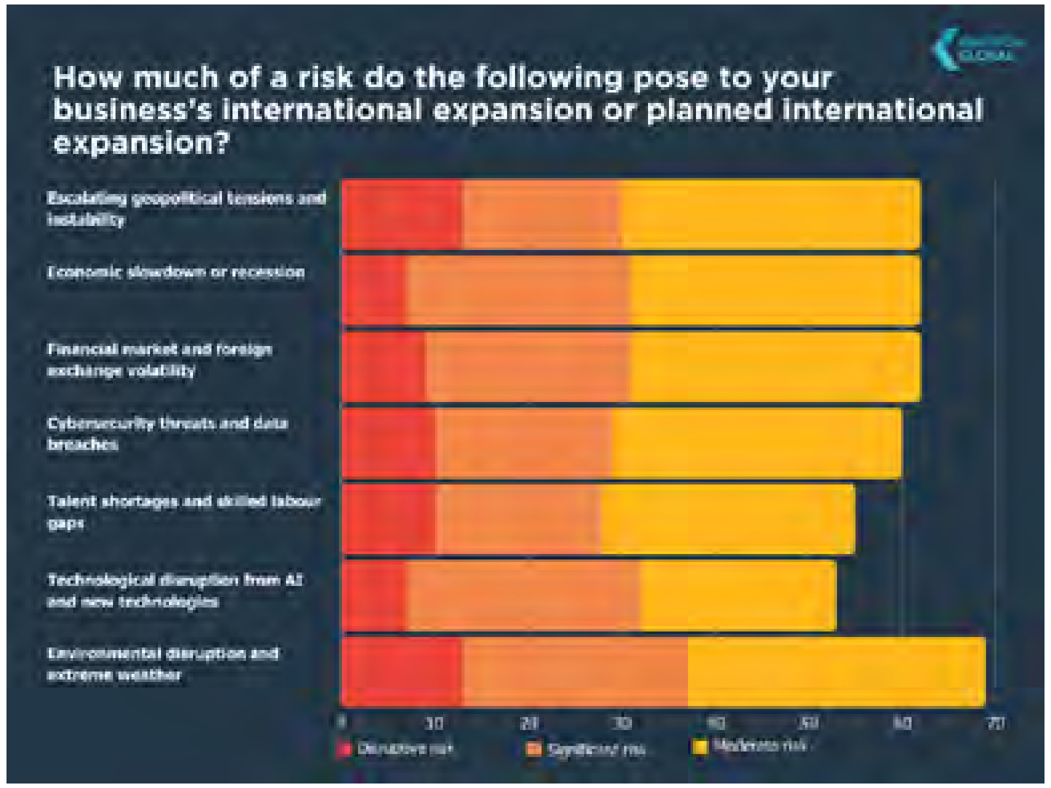
How much of a risk do the following pose to your business's international expansion or planned international expansion

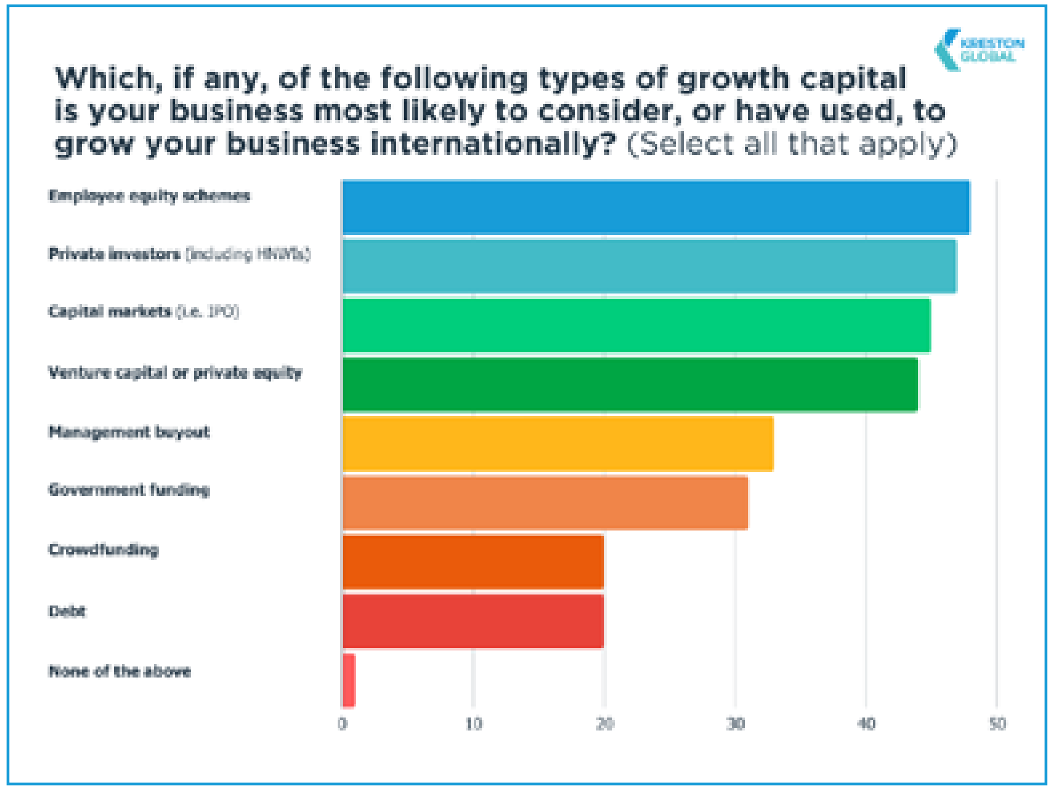
Environmental disruption and extreme weather top risk for US businesses

Surprisingly, almost half (46%) of American respondents felt environmental disruption and extreme weather pose a disruptive or significant risk to their business' international expansion or planned expansion, making them the only country to mark this as their greatest concern. American business leaders were least concerned with talent shortages and technological disruption, both at 28%.

Employee equity schemes preferred funding source for US businesses leaders

Employee equity schemes were chosen as the preferred international expansion funding source for American businesses at 48%, second behind India at 55%. These were the only two countries out of the 14 surveyed that made employee equity schemes their number one choice.





This choice was followed closely (47%) by private investors (including HNWIs), the most popular selection among global respondents.

Understanding global tax: Is the C-suite ready for a global tax threshold?

US business leaders confident in understanding global tax rules

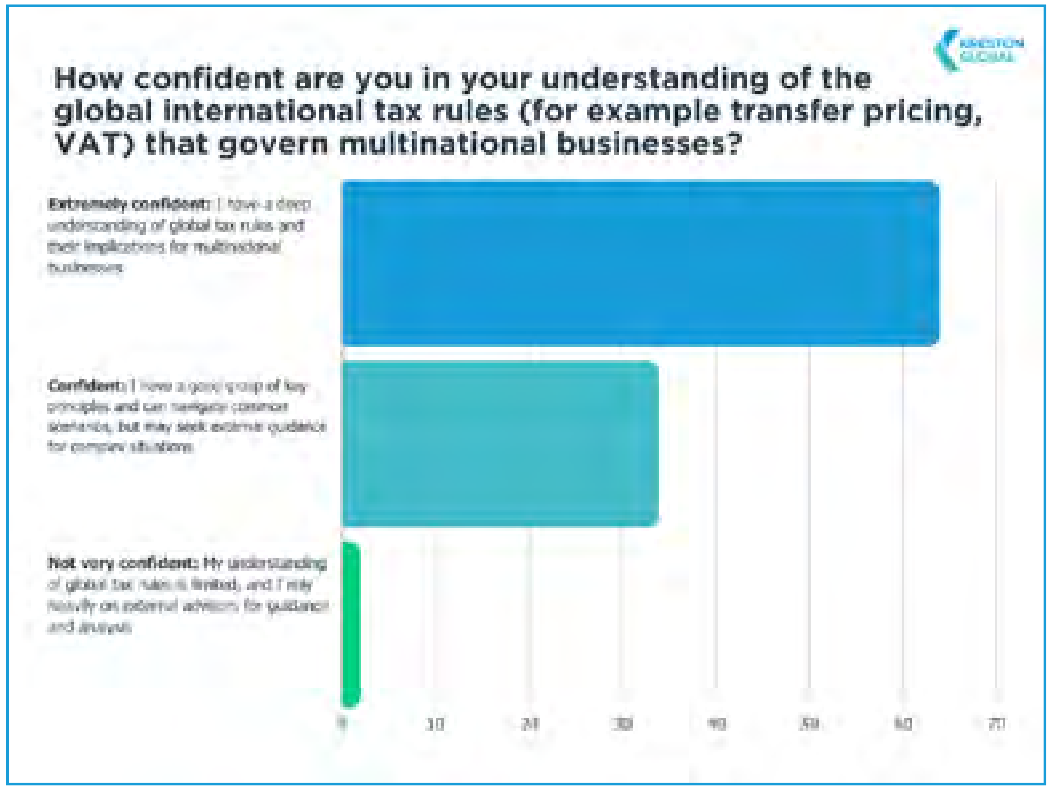
98% of respondents shared that they were confident in understanding global tax rules that govern multinational businesses. No American respondents said they were not confident, relying entirely on external advisers for their advice, guidance, and/or decision-making.

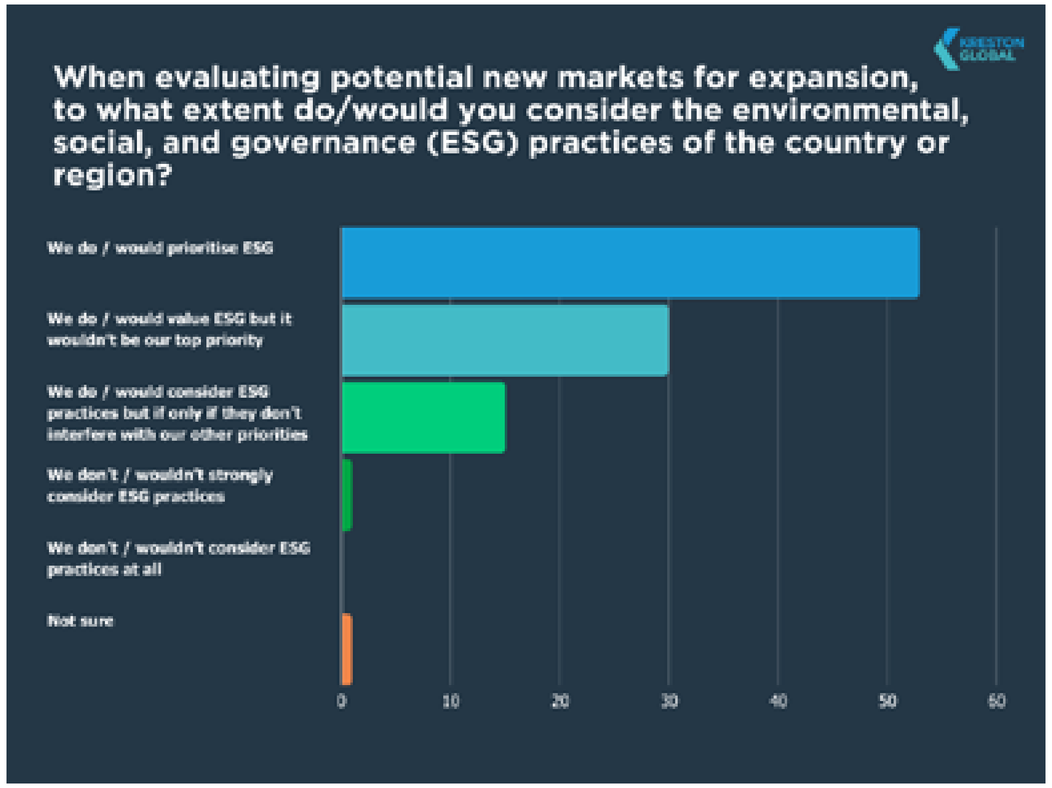
The least confident country was Japan at 64%.

US places ESG as a top priority

The majority (98%) do/would consider ESG practices when considering countries to expand into, with 53% of respondents saying that their business does or would consider it a top priority. Only China had a more confident response, scoring 87% vs the US score of 83%.

This view could be reflected in the increased ESG compliance rules introduced to America, with the Securities and Exchange Commission (SEC) proposing new rules requiring public companies to disclose information about their ESG risks and



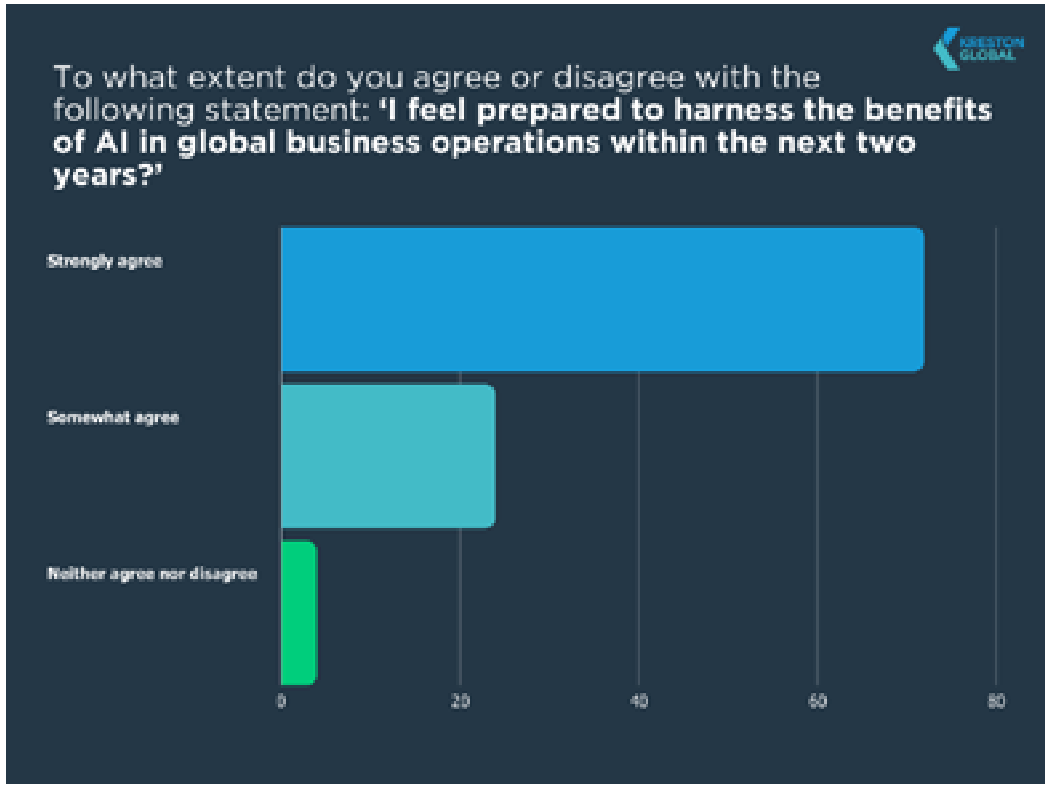


opportunities. The rules are still under development, but they have the potential to significantly impact the way that companies in the US manage ESG. It is also likely impacted by the significant amount of business that the US does with Europe, the epicentre of ESG regulations.

US businesses confident about the use of AI in global operations

Most respondents (96%) agree that they feel prepared to harness AI's benefits in global business operations in the next two years, with 72% strongly agreeing.

No respondents from the US felt unprepared, along with Brazil, China, Mexico and Nigeria.



Low growth, high optimism

With an election within weeks and an economy that looked set to falter in August, the US market could be forgiven for adopting a wait-and-see attitude. This is somewhat adrift from the optimistic results of the latest mid-market research report conducted by Kreston Global in February 2024, which saw 94% of US respondents expecting to see an increase in international business this year.

JAN SMALLENBROEK

Managing Director and National Leader of the International Tax & Transfer Pricing Practice
CBIZ

We spoke to Jan Smallenbroek, Managing Director and National Leader of the International Tax & Transfer Pricing Practice at CBIZ, Kreston Global's US firm, to shed light on how mid-market businesses are taking the economic headwinds, and the answer is, in their stride.

"Most of the companies I work with have an international footprint. They are active in multiple countries. They've been there for years. If companies have reached a certain level in the US and they want to grow, they need to go outside the US in order to be able to expand and that's why they go to Canada, they go to Asia, they go to Europe."

Keeping pace

Although business growth appetite is still the same, there has been a few distinct changes in the way American businesses are planning expansion, according to Jan; "We're seeing a trend where some of our larger clients are moving their manufacturing operations away from Europe and China to other countries like India and the Philippines," Jan notes. This shift is driven by the need for cost efficiency. For mid-market businesses, these strategic decisions are vital for sustaining growth in an increasingly competitive global market.

Billion dollar challenges

Jan works across many mid-market clients, from in the millions of dollars turnover to in the billions, and the conversations with clients across the whole of the mid-market strike a similar tone,"Whether you work for the largest multinationals in the world, or you work for a mid-sized company with an international footprint, with a revenue of $1 billion instead of $30 billion, the issues are the same. The difference is the dollar amount."

This is why the CBIZ transfer pricing team has seen significant growth over the last few years, hiring experts that have experience dealing with billion dollar challenges. Jan himself worked with a large multi-national for 10 years as an adviser, helping set up their shared service centres, procurement companies and European headquarters.

"When you compare CBIZ's International Tax and Transfer Pricing practice today to where it was two years ago, we've seen annual growth of approximately 35% to 40%. That's a remarkable achievement."

Pillar Two

The global tax environment is undergoing significant changes, particularly with the introduction of the OECD's Pillar Two framework. This new set of rules is designed to ensure that multinational enterprises pay a minimum level of tax, regardless of where they are headquartered or operate. Jan highlights that Pillar Two is not just a regulatory requirement but a strategic challenge that mid-market companies must address.

"Pillar Two is here to stay, and companies have to deal with it," Jan emphasises. While larger companies may have already begun implementing these changes, many mid-market firms are still in the assessment phase. CBIZ has positioned itself as a key partner in this process, offering tools and expertise to help companies navigate the complexities of Pillar Two compliance."

Tax confidence

Another surprising result in the recent Kreston Global mid-market survey was the confidence mid-market business leaders feel when dealing with global tax rules, with 98% of US respondents feeling confident about their experience. Jan's experience working with both U.S. and European multinationals means he can offer some insight on why that confidence might exist in the US. Multinationals he works with now in the U.S. tend to have smaller tax departments, "U.S. multinationals rely a lot more on service providers than European multinationals," Jan notes. This reliance creates opportunities for firms like CBIZ to provide comprehensive tax services, especially as U.S. companies navigate the complexities of international expansion and compliance.

Growth strategy

The recent news that CBIZ has acquired billion dollar national accountancy and advisory firm Marcum hints at CBIZ's ambition. Jan underlines an appetite from the mid-market multi-nationals to move away from the pricing and operation model of the Big Four to companies like CBIZ.

"One example that highlights the value CBIZ brings is our relationship with a billion-dollar company in the energy drinks sector. Two years ago, this company operated in 10 countries, but they now aim to expand into 40 within the next two to three years. The CFO, recognised some of the common challenges I had faced at other, much large expanding multinationals. He said, 'why would I go to the Big Four if I have a guy sitting here who's probably more experienced in dealing with consumer product companies and at half the rate.' This is thanks to the agile way we approach client management.

I think that's a pretty powerful proposition."

Raising the stakes: Employee Equity Schemes

In Kreston Global's 2024 research, US entrepreneurs named employee equity schemes as their top choice for raising capital to expand globally. No longer just a staff loyalty scheme, it is now being considered as a viable strategy for SMEs looking to raise capital.

BALAJI KATLAI
Tax Consultant
Kreston GTA

In June 2024, Canada increased capital gains tax, leaving businesses considering their options. Employee Option Trusts (EOTs), brought into Canadian legislation in 2023, could be one of those options. Pitched as an effective way to raise funding, increase staff loyalty and, with a capital gains exemption, save costs, can EOTs deliver these benefits for Canadian businesses in practice and achieve the same popularity seen in other North American markets?

Balaji Katlai, a Kreston Global expert with extensive experience in advising domestic and cross-border clients in Canada on various tax matters, offers his view on the practicalities of EOTs for mid-market businesses.

Employee Equity Schemes and Growth

Much like in the US and UK, employee equity schemes in Canada could now play a key role in fostering economic growth. Employee equity schemes help companies preserve cash, align the interests of their workforce with long-term business goals, and make businesses more attractive to outside investors. In the UK, the introduction of EOTs in 2014 sparked a surge in employee ownership conversions, benefiting both employers and employees. Canada is set to follow this model, aiming to drive similar growth in the employee-ownership sector.

However, Katlai explains that implementing these trusts in Canada is not straightforward.

"An Employee Ownership Trust (EOT) is a form of business succession plan, but in Canada, it can be complex to administer," says Katlai. "The tax legislation and governance around it make it feel like an academic exercise—something you learn exists but is difficult to apply in practice unless there are specific situations that may meet all the compliance and planning requirements"

Canada's employee equity scheme framework

Employee equity schemes typically involve offering employees a stake in the company, whether through stock options, direct share purchases, or, in the case of EOTs, a trust that collectively holds employee shares. In Canada's upcoming framework, employees will hold individual stakes in their own accounts, similar to the US Employee Stock Ownership Plans (ESOPs). This differs from the UK model, where employee ownership trusts hold shares collectively. By offering workers governance rights and a share of business profits, these schemes ensure that employees are not just workers, but co-owners.

However, Katlai points out that managing these schemes can be complex, particularly when it comes to balancing the needs of employee-owners and future business growth. He notes that while tax incentives and governance rights are appealing, "the big challenge is that employees, through the trust, have to own the business. That means a lender has to be willing to fund the trust to buy the business, and reliance on management of the business and ability to pay the lender the debt - that's not always easy. Canadian lenders may hesitate because the trust is held by the employees, and they need to be sure the business can repay."

Employee equity schemes also help create a more stable workforce. Research shows that employee-owners are more committed to their company, which reduces turnover and increases institutional knowledge. Katlai agrees that in principle, "an engaged workforce with a financial stake in the business is more likely to contribute to long-term success."

Capital Gains tax incentives

The recent capital gains tax rise in June 2024 is encouraging business owners to opt for employee ownership transitions. Under the new legislation, the first $10 million of a sale transferred through an EOT will be exempt from capital gains tax. This policy is designed to ease the transition for business owners nearing retirement, especially given Canada's high numbers of ageing entrepreneurs who lack succession plans. With an estimated three out of every four small and mid-sized businesses in Canada set to change ownership within the next decade, this tax incentive could be the deciding factor for many to transfer ownership to employees rather than to private equity firms or competitors.

While this tax incentive is attractive for business owners, Katlai notes that the administrative complexities can be significant. "There's a two-year holding period where employees must maintain governance. If they do not, the seller, who gets a $10 million capital gains deduction, could lose that benefit. It is risky for the seller and while there are other alternatives to sell a business, the EOT option may not be as appealing."

The new capital gains rules also offer little incentive for employees, who typically do not face capital gains tax until they sell their shares or receive dividends, similar to other equity holders.

Learning from the UK and US models

The new Canadian legislation draws heavily from successful employee ownership structures in the UK and the US. In the UK, nine out of ten companies that have transitioned to employee ownership through EOTs report satisfaction with the process and would

recommend it to other businesses. Similarly, in the US, ESOPs provide substantial tax advantages for companies where employees hold at least 30% of ownership.

The Employee Equity Investment Act proposed in the US, which allows for low-interest debt financing from the Small Business Administration, has shown that policy frameworks can play a crucial role in scaling employee ownership. However, Katlai is practical about it being a financial carrot for all businesses in Canada. "In certain rural areas with small, tightly-knit businesses—like a dairy plant in Alberta with 15 employees—an EOT might work. But that is a niche scenario. For most Canadian businesses, especially those near major centres, the complexity of the rules and the lender hesitancy make it tough to pull off."

Private Equity vs Employee Equity

When choosing between selling to private equity or opting for an employee equity scheme, each option has its pros and cons. Private equity typically provides faster access to capital and can lead to rapid business growth. However, it often results in loss of control, as private equity firms may restructure or resell the business. Moreover, private equity sales do not benefit from the capital gains tax exemptions available to EOTs.

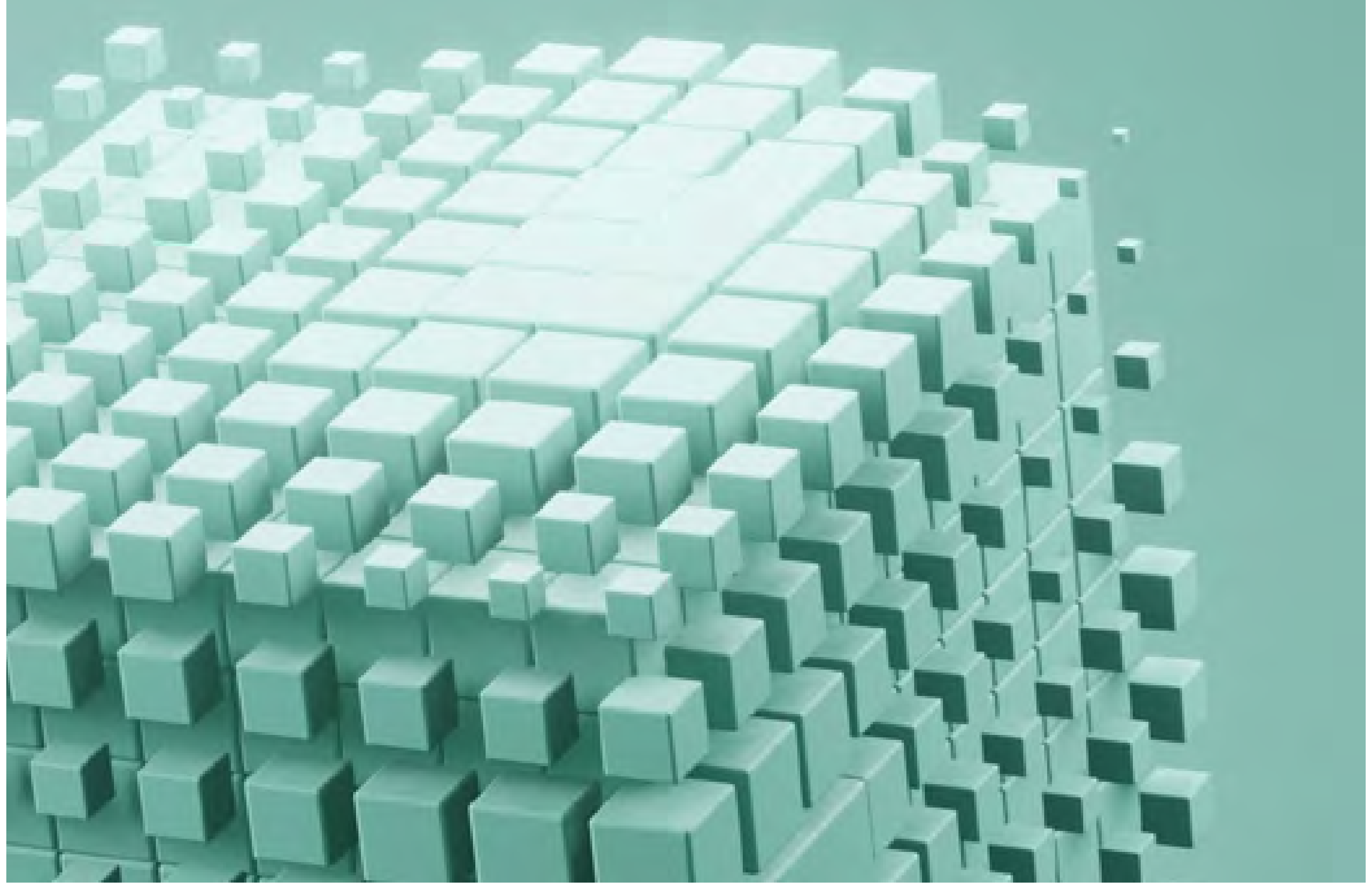
On the other hand, employee equity offers longer-term stability and keeps control local. It is a good option for business owners who want to preserve the company's culture and vision. Katlai notes, "For many owners, the choice comes down to their long-term goals for the business. The major hurdle is that employees, through the trust, have to own the business. That means a lender has to be willing to fund the trust to buy the business. Employee Ownership Trusts can take up to ten years to fully pay back the lender, and that is a long time for both the lender and the seller to wait, so mezzanine funding is perhaps a feasible option for some businesses."

Conclusion

Katlai feels that EOTs are a niche solution, and there might be other options to consider. "Regular business owners selling a typical business will likely still prioritise traditional tax benefits, such as the Canadian Entrepreneur Innovation Incentive and lifetime capital gains exemptions. However, for larger businesses, selling for $50 million to $100 million, EOTs could become an option—provided mezzanine capital or alternative lending is available to fund the sale."

CBIZ launches D@taNEXUS: Transforming business decision-making with advanced data analytics

CBIZ, a top-ten ranking accounting firm, has taken a significant step forward in empowering business leaders with the launch of its latest innovation, CBIZ D@taNEXUS. This new suite of data analytics and automation services is designed to help businesses, particularly in the mid-market segment, transform complex, multi-source information into actionable insights. By enabling faster, more informed decision-making, CBIZ D@taNEXUS is set to redefine how companies manage their data and operations.



ROB MCGILLEN

Chief Innovation Officer, CBIZ Financial Services

Addressing the challenge of information complexity

One of the key benefits of CBIZ D@taNEXUS is its ability to simplify the overwhelming complexity of business data. In today's fast-paced environment, companies often struggle to maintain a clear understanding of their operational and financial standing due to the sheer volume and variety of data they generate. This challenge becomes even more pronounced when businesses operate across multiple systems, such as financial, CRM, production, inventory, and personnel management platforms.

Rob McGillen, Chief Innovation Officer at CBIZ Financial Services, highlights this issue,

"All companies struggle with comprehension of where the business stands week to week, and how efforts are trending against targets and goals. This challenge becomes even more complex when multiple business systems are at play, especially when a consolidated or acquired entity joins the company structure and reporting complexity doubles or triples. The risks of misstep, misunderstanding, or misstatement are high."

CBIZ D@taNEXUS addresses these complexities by normalising and standardising reports and forecasts across various systems, providing business leaders with clear, actionable insights.

"This insight provides client leadership with the confidence and ability to make better decisions faster," McGillen added. By offering a clearer picture of a company's performance, D@taNEXUS enables leaders to focus on strategic growth initiatives rather than getting bogged down in data management.

Giving clients a strategic edge

CBIZ's launch of D@taNEXUS also signals a broader shift in the accounting and advisory industry towards greater reliance on advanced data analytics and automation.

McGillen envisions these technologies playing a pivotal role in shaping industry standards and expectations in the coming years. "Data is the lifeblood of any business, so making things more efficient and more athletically 'fit' enables our clients to be higher performers in their chosen markets." McGillen . "We see it as a necessary capability to remain valuable to our clients as they, and we, grow."

Ensuring data security and compliance

In an era where data security and compliance are paramount, McGillen is confident about the platform's security measures, "D@taNEXUS solutions have been built to conform to U.S. privacy standards and have received thorough review by CBIZ information security personnel. Furthermore, the platforms are GDPR-compliant and leverage industry-leading cloud technologies to deliver services."

Expanding international capabilities

While CBIZ D@taNEXUS is currently available to businesses across the United States, plans are already in place to expand its reach to multinational clients by 2025.

McGillen explained, "We have envisioned release in multinational scenarios in 2025 as business demand increases. The technologies themselves support all of the typical business systems found and used multinationally."

As CBIZ continues to innovate and expand, D@taNEXUS is yet another tool that provides a point of difference for the US mid-market looking to make smarter decisions, drive growth, and achieve long-term success.

CBIZ acquisition of Marcum propels firm

CHRIS SPURIO

President of Financial Services
CBIZ

CBIZ's acquisition of Marcum will open new territory for Kreston members, while furthering its technology offerings.

The CBIZ/Marcum deal is going to make the company the seventh largest accounting services provider in the US, surpassing Grant Thornton. The merger will bring 35,000 new clients to CBIZ, as well as new services through innovative technology.

'Marcum has very strong industry expertise, bolstering our knowledge in key industries,' said Chris Spurio, President of Financial Services at CBIZ. 'This means our ability to provide solutions for clients along industry lines is greatly enhanced. We can expand our footprint in terms of the kind of clients we can service.'

Marcum's clients who are new to CBIZ will need the services that Kreston members can provide. 'Marcum has a strong growth culture, and it has been at the forefront of technology innovation,' said Spurio.

Upon close, the acquisition will also put CBIZ back into the public company sector. CBIZ exited this area as it simply did not have the scale, but through Marcum it will have a USD 150 million practice that has the scale and expertise to make the combined company a major player.

Joining forces with Marcum will also help CBIZ win the war for talent. A skills shortage is dogging every accountancy market worldwide. Firms need to be as innovative with what they offer their staff as they do their clients and elevating the CBIZ brand is going to make the firm much more appealing to talent.

'We are now going to be able to provide enhanced career paths and more opportunities to new and existing staff,' said Spurio. 'We are offering technology and offshore resources that other firms will find very hard to match and this is key, because a lot of people are leaving because of burnout.'

Spurio pointed out that both CBIZ and Marcum have an excellent staff retention rate, which he attributes to a good corporate culture of valuing their teams. Both companies plan to combine their training programmes and take the most effective strategies they have to help staff improve their skills.

'Ultimately, a stronger brand means better opportunities for our staff,' said Spurio. 'They are now going to be able to branch out into more sectors and use a wider skill set that will give them much more career satisfaction.'

The Marcum acquisition is the most significant transaction in CBIZ's history. At closing, the company will have a combined annual revenue of approximately USD 2.8 billion, more than 10,000 team members and over 135,000 clients.

Bahamas Business Licence Act throws mid-market a compliance challenge

PRETINO ALBURY

Partner,
Kreston Bahamas

On 1 July 2023, The Bahamas introduced significant regulatory changes with the Business Licence Act 2023, imposing new compliance requirements on businesses, particularly in key sectors. The first year of the legislation has exposed significant compliance gaps in mid-market businesses, creating an audit bottleneck.

Pretino Albury, Partner at Kreston Bahamas and President of the Bahamas Institute of Chartered Accountants (BICA), explains the challenges the update has uncovered.

Businesses affected

The amendments to the Business Licence Act specifically address large companies with annual revenues of $5 million or more, which represent about 1% of business licence registrants. These reforms aim to ensure that the largest businesses are taxed appropriately, while 91% of smaller businesses—those reporting revenues under $100,000—remain unaffected by these changes.

Increased scrutiny

By the first quarter of 2024, officials at The Department of Inland Revenue (DIR) reported that up to 20% of Business Licence filings were under additional scrutiny. Albury noted the strain this put on the system, stating: "The audits revealed internal control and process deficiencies in many businesses, especially private companies that had outdated practices."

Challenges with initial compliance and audits

During the rollout, businesses encountered significant difficulties, particularly with the mandatory audit requirements. "BICA and the Bahamas Chamber of Commerce urged for a delay in mandatory audits, citing a lack of preparedness among businesses and the accounting profession," Albury explained. Although a one-year delay was denied, the DIR granted a six-month extension for audits, with a new deadline of 30 June 2024.

However, even with the extension, many companies struggled to meet the deadline, leading to an overwhelming number of requests for additional time. "Approximately 75% of companies required further extensions, justifying our initial request for a longer delay," Albury added. As a result, audits extended into October and November 2024, far beyond the initial April deadline.

Internal control deficiencies

The audit process uncovered significant deficiencies in internal controls across a range of businesses. "Many companies were still using outdated accounting methods from 15 to 20 years ago, and some were not compliant with International Financial Reporting Standards (IFRS)," Albury stated. This was particularly true for private companies, many of which had not previously faced such stringent oversight. "The findings were a wake-up call for larger companies in particular," he added.

Positive steps

Despite these challenges, the audits also provided opportunities for improvement. Auditors made recommendations to strengthen systems and processes, leading to long-term enhancements. "These findings, though surprising to many businesses, have resulted in significant recommended remedies," Albury commented. If implemented, these changes are expected to have a lasting positive impact on business operations and compliance.

Future deadlines

Looking ahead, concerns about future audit deadlines persist. BICA is recommending another extension for the 2025 filing period, proposing that the deadline be moved from April to June. "We anticipate that another year of mandatory audits will put pressure on both accountants and businesses," Albury warned. However, he remains optimistic: "While businesses and accountants have faced challenges, the process has led to positive recommendations, ensuring better preparedness in the coming years."

Albury concluded: "The real test will be determining whether these audits increase business licence revenue or confirm that companies were already compliant."

Harris unveils optimistic economic policies

MARK BARAN
Managing Director,
CBIZ

Mark Baran, managing director at CBIZ MHM, offered a cautiously optimistic perspective on Kamala Harris' newly unveiled economic proposals. While he acknowledged the plans are "targeted at improving the middle class," Baran emphasised the need for more specifics, particularly regarding how these initiatives would be funded and the implementation details. He also pointed out that the outcome of congressional elections could significantly affect the chances of the proposals passing, especially those related to tax reforms.

Baran further highlighted a critical issue absent from Harris' platform: the expiring Tax Cuts and Jobs Act of 2017. If the law is not extended by the end of 2025, middle-class Americans could see a rise in tax rates, a burden that Baran says was overlooked in the current discussions.

While Harris' proposals aim to ease financial pressures on American families, Baran remains cautious, stressing the importance of addressing the broader fiscal challenges and securing legislative support to turn these ideas into actionable policies.

Canadian Scientific Research and Experimental Development (SR&ED) tax incentive program

The Canadian government has initiated consultations to enhance the Scientific Research and Experimental Development (SR&ED) tax incentive program. The broader goal is to position the country as a research and development (R&D) leader while ensuring intellectual property (IP) retention within Canada. SR&ED, introduced in 1948, is Canada's largest federal program supporting business R&D, providing over $3.9 billion annually in tax incentives to more than 22,000 businesses. These incentives encourage both Canadian technology companies and foreign-owned firms to engage in R&D activities.

The government is seeking feedback on modernising the SR&ED program to support the growth and success of R&D-focused businesses better. Key focus areas include improving the program's eligibility criteria, overall structure, and how it might complement other R&D initiatives. Additionally, the consultation will explore the potential adoption of a patent box regime, which would reduce corporate tax rates on profits generated from the commercialisation of domestically developed IPs. This would provide additional incentives for companies to retain and commercialise their IP within Canada, potentially offering reduced corporate tax rates on income generated globally from Canadian-developed innovations.

The goal is to make the program more flexible and effective in supporting innovation and IP protection. The government aims to shift from the rigid, rules-based approach to a more targeted support system. The feedback will inform how SR&ED can be restructured to serve Canadian R&D businesses better and help retain valuable IP domestically.

Sand Dollar circulation encouragement

The Bahamas, which launched the first Central Bank Digital Currency (CBDC) in 2020 called the Sand Dollar, is now pushing commercial banks to distribute the currency within the next two years. Although initially promising, the adoption of the Sand Dollar has been sluggish, with transactions making up less than 1% of the country's currency circulation. Wallet top-ups significantly declined last year, indicating low usage. Similar challenges have been faced by other countries like Nigeria and Jamaica, where a lack of clear benefits over traditional payment methods and privacy concerns have slowed adoption.

To boost usage, the Central Bank of the Bahamas is enforcing regulations on commercial banks to ensure better access to digital currency. This move is significant globally, as other nations, including China and the European Union, are also exploring CBDCs. The Bahamas' success could set a precedent for different countries and influence global financial infrastructure, speeding up the digital currency race.

This regulatory effort could lead to a more transparent and efficient financial system despite commercial banks' concerns about deposit flight and potential surveillance. It marks an essential step in the broader global shift towards digital currencies, which are being explored by over 130 countries.

US firms turn to nearshoring for labour

VERONICA QUINTANA

Director,
CBIZ

Nearshoring, particularly in Mexico, is becoming an increasingly popular answer for US firms who are struggling with a labour shortage.

US companies are looking south of the border as they search for new ways to stay profitable. A big push to nearshore in Mexico comes from the labour market, but Veronica Quintana, Director at CBIZ, finds that strong cultural links between Mexico and America are also adding to the allure.

"We increasingly have more clients coming to us looking for advice on nearshoring," she said. 'Some still have family in Mexico and they want to invest in their hometowns. I have seen an uptick in US businesses wanting to invest in tequila and spirits. But US firms across the board are finding it difficult to be profitable due to the rising costs of materials and labour. They have mentioned that perhaps it is best to invest in Mexico, where the labour market is cost-efficient and highly motivated.'

There is a national labour shortage in the US. Many baby boomers are retiring, and others left the workforce during the pandemic. Offshoring can look different for each company, depending on the industry and their reasons for offshoring.

'Companies are mostly looking to reduce or optimise costs, access specialised skills, staff augmentation, and effective scaling,' said Quintana. 'Offshore employees are often more flexible, which is important if business conditions change, and they need to downsize quickly and efficiently.'

Mexico has a skilled workforce with lower labour costs, and Quintana pointed out that this is especially true in the manufacturing industry.

'The close proximity to the US also makes it easier to transport goods and materials quickly and at a cost savings,' she said. 'The United States-Mexico-Canada Agreement (USMCA) provides several benefits, such as reducing or eliminating tariffs, streamlines customs procedures, and provides market access to a large consumer base.'

India is another country that has seen an increase in offshoring. They also have a talented labour force, especially in the business field, and CBIZ has personal experience here that it can draw on to help clients.

'We have had success offshoring some our income tax preparation to India,' said Quintana. 'We have worked with their team for several years now, trained them on our processes, software and procedures. They do good quality work, and that gives us the confidence and assurance that offshoring has been a success.'

The pandemic and growing instability in the world's geopolitics has also pushed nearshoring up the list of priorities for US companies. The disruption to supply chains during the pandemic, made the thought of investing in manufacturing sites closer to customers much more attractive. More recently, Russia's invasion of Ukraine and growing tensions between Washington and Beijing have made nearshoring even more of a priority.

Over the past few years, nearshoring from the US has created a boom in Mexico. US imports from Mexico totalled US $455 billion in 2022, up nearly 19% from the previous year and up 64% from 2012, according to the United States Census Bureau. At the same time, the share of Mexico's imports from China went from 1% in 1994 to 20% in 2022 according to a recent study by academics Laura Alfaro and Davin Chor.

New manufacturing plants could add an additional 3% to the country's GDP over the next five years as well as over 1 million jobs, according to a recent study by Deloitte

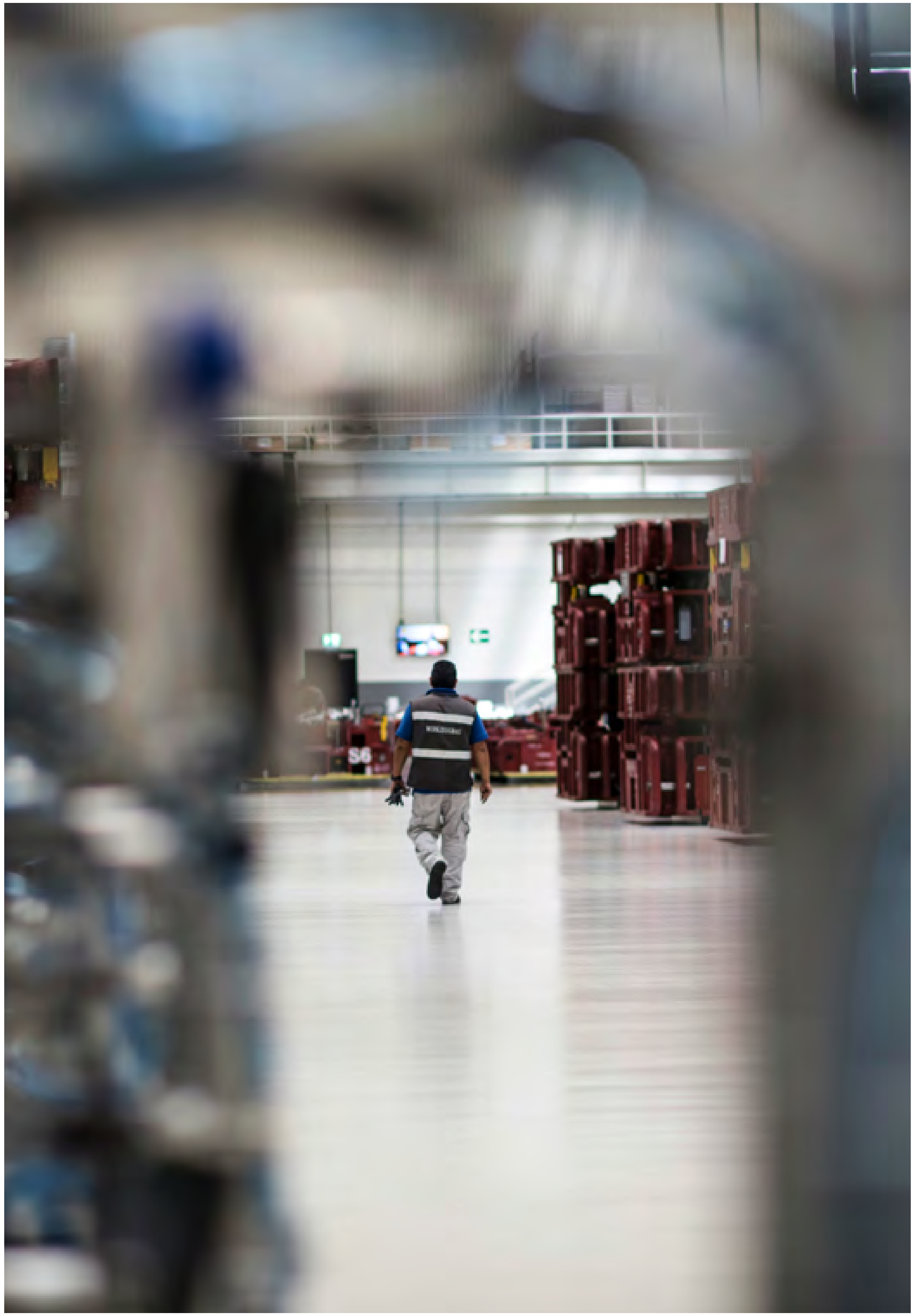
New manufacturing plants could add an additional 3% to the country's GDP over the next five years as well as over 1 million jobs, according to a recent study by Deloitte. The Mexican government is cashing in by making the country's tax laws more favourable to foreign companies. For instance, as of October 2023, international electric vehicle manufacturers could claim an 86% tax deduction on investments in the country.

US investors have been made nervous, however, by a bill of judiciary reforms that has been passed by the Mexican government, that makes Mexico the first country to allow judges to be elected rather than appointed.

Several big-name investors have come out against the reforms, including US investment banking giant Morgan Stanley. More recently, Julius Baer warned that rating agencies could change Mexico's creditworthiness as soon as next year if the judicial reform is approved. But Mexico's outgoing president Andrés Manuel López Obrador has hailed the approval of controversial reforms, saying they would be an "example to the world".

Obrador who left office on October 1, 2024, accuses the current judicial system of serving the interests of the political and economic elite. 'It's very important to end corruption and impunity,' he said.

Investors will be watching the market closely, as energy and tax reforms would stall the nearshoring boom if they are not followed through. But US firms seem to be happy to be moving South, for now.



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