

Consultation Paper

International Financial Activity Act

The Ministry of Small Business and Revenue is distributing this paper to encourage comments and suggestions from interested parties regarding two issues relating to the *International Financial Activity Act* (Act) and Regulation: currency hedging and the definition of international financial business. This information is for consultation purposes only and should not be relied upon to interpret the act.

This paper is written with the assumption that the reader is familiar with the Act. Further information regarding the International Financial Activity (IFA) program can be found in [Bulletin IFA 001](#), *International Financial Activity Act Overview*, and in [Bulletin IFA 002](#), *Life Science Patents*.

Comments regarding these issues should be directed to the Ministry of Small Business and Revenue by October 31, 2006. Please see the contact information below.

Currency Hedging

The ministry has received inquiries regarding whether the income or loss from currency hedging, where the hedge is incident to an international financial activity and is not of a speculative nature, is included for the purposes of determining the tax refund.

The ministry would like to hear comments and suggestions on how the program could include the income or loss from a prescribed currency hedge where the corporation is not a securities corporation.

The prescribed conditions should ensure that allowable hedging activities would be restricted to the hedging of currency risk where there is:

- a high degree of correlation between the hedging transaction and the international financial activity
- formal documentation related to the hedging activity, and

- periodic assessment of the effectiveness of the hedging relationship to prevent the undertaking of speculative initiatives.

Questions

- Should the program incorporate the concepts on hedges contained in section 3865 in the Canadian Institute of Chartered Accountants Handbook?
- Are there any issues/concerns with using concepts included in section 3865?
- Are there specific concerns regarding documentation that would be required to verify hedging transactions?

Definition of International Financial Business

The Act defines **international financial business** as follows:

"international financial business" means a business

- (a) that is carried on by a corporation
 - (i) through a fixed place of business in British Columbia, and
 - (ii) as part of an active business of the corporation, and
- (b) all the activities of which are international financial activities.

Active Business Requirement

The ministry has received several comments on the "active business" requirement of an international financial business and would like to hear comments and suggestions on how "active" should be interpreted.

There are certain elements that must be present when interpreting the term "active":

- the business must have a fixed place of business in British Columbia
- there should be some presence in British Columbia through employee(s) actively involved in the business

Questions

- Should the active business requirement be the same as defined in section 248 of the *Income Tax Act (Canada)*?
- Does the active business requirement create an impediment for businesses considering registering in the IFA program?
- Will more businesses take advantage of the IFA program if the active business requirement is modified?

- If modified should a minimum number of employees be considered?
- How many employees are typical in conducting any or all of a corporation's international financial activities? What would be the minimum amount to expect?
- Should there be a different level of employees based on the activity in question?

Questions, Comments, or Suggestions?

Please do not hesitate to contact us.

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