Improve competitive advantage

Look to government incentives for cost reduction, innovation and growth

Energy services is a resilient sector. The last three years are testament to that, but a wealth of new provincial and federal government incentive programs aimed at spurring innovation, productivity and employment can help Canada's energy services companies grow even stronger.

"The sheer volume of cash that both levels of government are investing in incentive programs should be exciting to companies," says Garry Wilton, KPMG in Canada's Partner in charge of its Tax Incentives Practice in Calgary. "For companies that the government thinks are in the right areas, there are pretty big windfalls out there."

Wilton's enthusiasm is tempered by the challenges facing Canada's oil and gas industry: distance from consuming markets, stiff competition from U.S. production growth that potentially could displace more Canadian exports, and tougher environmental and regulatory requirements than in other jurisdictions.

But that's also why Canadian companies need to leverage every opportunity for cost reduction and innovation. Taking full advantage of government incentives is another tool in the toolkit of "doing more with less" – the industry's mantra today.

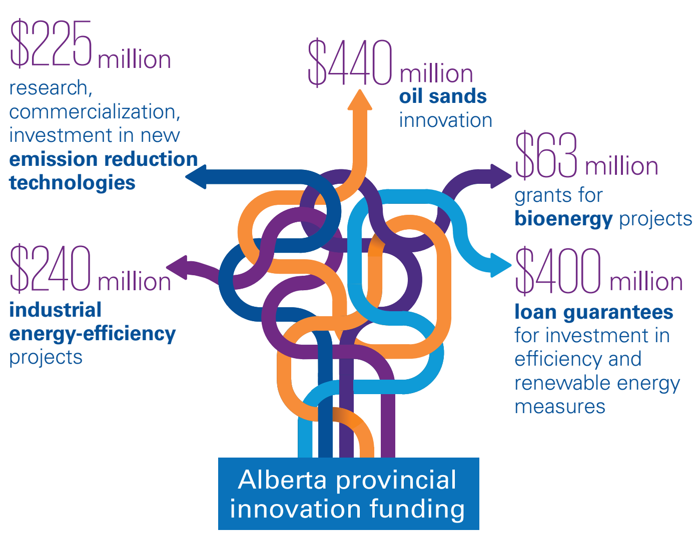
Companies that aren't taking advantage of these incentives are selling themselves short. Worse, they're potentially losing ground to peers that are receiving grants, guaranteed loans and tax breaks to improve their competitive advantage.

"There are well over 100 recognizable names in the Calgary energy services sector and, I would say, that a large proportion of them, probably 75 per cent or more, are taking advantage of one or more government programs," Wilton says.

Labyrinth

In line with the Pan-Canadian Framework on Clean Growth and Climate Change, and under the Low Carbon Economy Leadership Fund, Alberta recently announced a $1.4B fund as part of their efforts to reduce carbon emissions and diversify the economy.

This innovation funding has five categories – including $225 million for research, commercialization and investment of new technologies that reduce emissions, $240 million for industrial energy-efficiency improvements and $400 million in loan guarantees for investment in efficiency and renewable energy.



The list of incentive programs is grouped into subsets, funnelled into specific activities and attached to specific conditions or exclusions. Navigating this labyrinth is complex on the surface alone but, beyond that, there are issues of funding conflicts.

"One program can actually preclude you from another program, whereas with some planning upfront, you could potentially double your benefit," Wilton says.

A larger organization, for example, may already be receiving federal government tax credit under a Scientific Research and Experimental Development (SR&ED) program, but a dozen of its other activities could potentially qualify for additional funding. To ensure the most beneficial alignment of funding programs, Wilton will typically draw upon the professional experience of Jacqueline Gustafson, KPMG in Canada's Director of Tax Incentives western region practice.

"While these programs are beneficial to the applicants, some combinations of programs are more beneficial than others – we help ensure clients navigate through these combinations to optimize their funding," Gustafson says.

What's expected?

Successfully navigating the various government incentive programs involves an understanding of their tax implications as well as understanding what the government expects to see in an application to improve the likelihood of a successful application.

"We've been able to help companies recover over $15 million in tax credits through successful tax incentive applications," Gustafson says.

But she also admits that companies are sometimes reluctant to apply for government programs.

"Some people think there's always a catch, or maybe they applied for a program before and didn't qualify, or they think it's just too much paperwork," she says. "But it's our job to sort through the programs and help find a solution that makes sense."

Gustafson says that her work with clients typically involves sitting down to explore potential government incentives that could apply for work already done. The optimal benefit from these program comes through understanding upcoming events and budgets to allow for planning to optimize these programs.

Why now?

As the industry moves towards a low-carbon future, tight margins and volatile commodity prices will continue to drive oil and gas and energy services companies to improve their operations. Government incentives can play a key role in building that resilience through innovation, reduced cost structures and better environmental performance.

Ask KPMG how to optimize government incentives to strengthen your company's bottom line – but don't wait too long.

"Right now, the political climate is such that the federal and the provincial levels are very supportive of these programs," Wilton says. "Who knows what is going to happen in the future."

KPMG's tax incentives practice

Our team of R&D professionals can help you enhance R&D tax credits while freeing up your technical staff's time so they can focus on implementing your corporate vision for innovation. KPMG can help determine whether your company is eligible to recover tax credits for the current year and prior years (subject to certain time limits). You may be able to enhance tax credits to offset taxes payable and, in some cases, receive refundable cash incentives. Learn more at kpmg.ca/tax

For more information on how KPMG's team of engineers, accountants, and tax professionals can help determine whether your company is eligible to recover tax credits, please contact:

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