KRESTON GLOBAL

Doing Business
in North America

Bahamas: Banking and blue credits

USA: Integrating AI into the 9 to 5

Canada: Bridging the ESG gap

Kreston Global in North America

Kreston Global has an impressive footprint in the North American region, with over 50 offices and more than 6,500 staff to support businesses expanding into the US, Canada and the Bahamas.

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

In this issue of Doing Business in North America, we explore the Bahamas' shifting banking sector and upcoming crypto regulation, a horizon-scan of the audit sector by MHM's President and insights from CBIZ MHM's innovation leaders on future-proofing your growing business.

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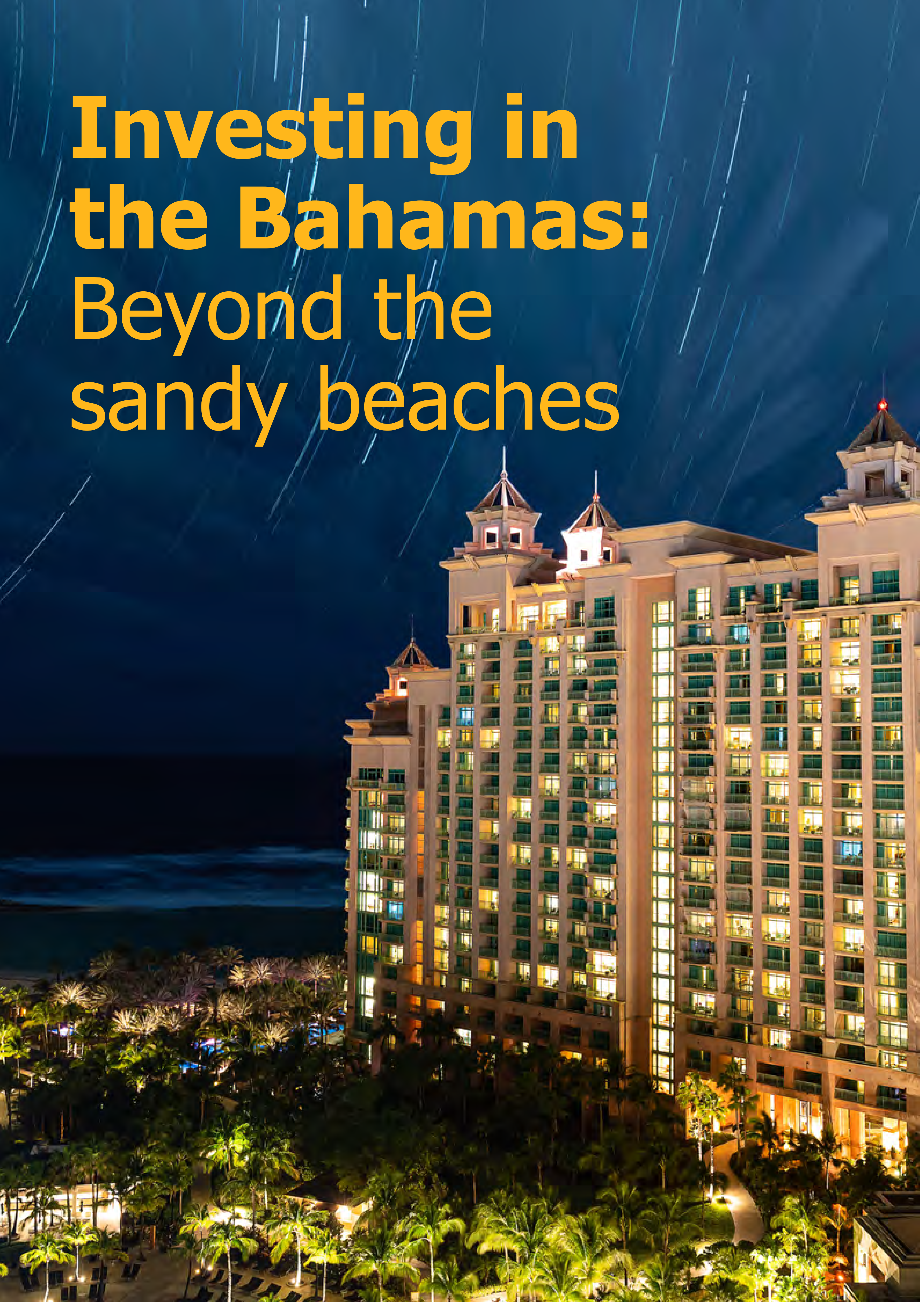


Investing in the Bahamas: Beyond the sandy beaches

Kreston Bahamas specialises in accountancy, advisory, audit and assurance, outsourcing, and taxation services for both domestic and international organisations. The firm has clients in key sectors such as financial services, leisure and hospitality, public sector, retail, healthcare, real estate, and consumer business.

SEAN ROLLE is a Partner at Kreston Bahamas, has over 25 years of experience in public accounting. His client engagements have covered a wide range of areas, including internal audit, forensic accounting, project management, and advisory services. Sean is a Chartered Accountant (CA), Certified Public Accountant (CPA), and Certified Information Systems Auditor (CISA).

PRETINO ALBURY is a Partner at Kreston Bahamas with over 20 years of professional experience serving clients in The Bahamas, the Caribbean, and the United States, including 10 years at Deloitte on the island. As a Certified Public Accountant (CPA), he specialises in management consulting, risk advisory, public accounting, and auditing. His industry experience spans financial services, power and utility, tourism and leisure, and consumer business.

The Bahamas has a long history of generating GDP through high-end tourism and offshore banking. Since the turn of the decade, the Bahamas has had to deal with a number of challenges, including a decline from $13.06 billion to $9.5 billion in GPD during Covid, with post Covid return in 2022 to $12.9 billion.

The island nation continues to actively position itself as a hub for cryptocurrency investors. The government is also looking to monetise some of its glorious natural assets by exploring sustainability initiatives, such as launching a blue carbon credit scheme.

Since the COVID-19 lockdown, The Bahamas has experienced notable economic growth

We spoke to our partners at Kreston Bahamas, Pretino Albury and Sean Rolle, who joined the network in 2021 and have already referred considerable business to the network.

Pretino believes tourism has contributed to the recovery, "Since the COVID-19 lockdown, The Bahamas has experienced notable economic growth, particularly in the tourism sector, which has historically been the largest industry in the country. Despite the initial challenges posed by the pandemic, the gradual easing of travel restrictions and the successful implementation of health and safety protocols have played a crucial role in reviving the tourism sector. The positive momentum in the tourism sector has had a ripple effect on other industries, such as hospitality, transportation, and retail, contributing to the overall economic growth and recovery of The Bahamas. This recovery has yielded an estimated growth rate of 2% (according to the International Monetary Fund) after a decline in 2020 due to the COVID-19 outbreak."

Covid evolves service

It is no surprise, then, to see growth in Kreston Bahamas across tourism, leisure and hospitality, construction, and retail. Predictably Covid has left a mark on how tourism businesses want to operate. Clients want the assurance that they can rely on outsourced services to navigate through challenging times, such as business closures, by easily turning them on and off as needed.

Pretino agrees, "Covid has changed the business landscape. Now there is a focus on outsourcing back-office functions with a 'white glove service' approach. Clients want to feel that they can survive the shock of a

closure by easily turning suppliers off when they don't need them."

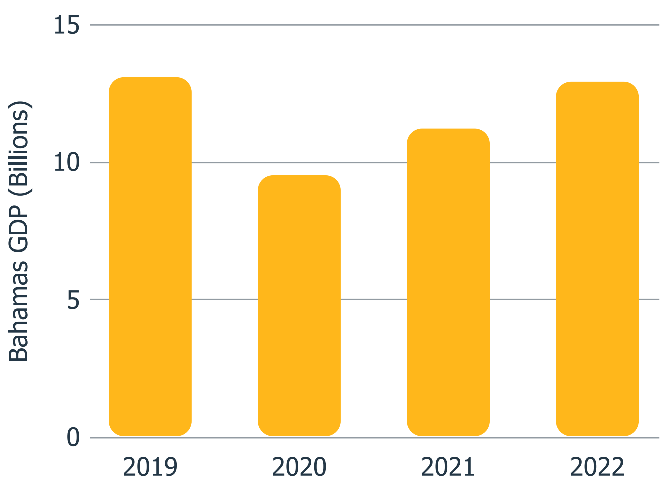
Sean Rolle adds, "The Bahamas has a stable political environment, a well-developed infrastructure, and a highly skilled workforce. However, governmental approval is required for foreign investment in some areas such as wholesale and retail operations, real estate and property management services, small-scale construction projects, commercial fishing, and many small business activities."

Cryptocurrency Bill introduced

The government, keen to get ahead of some of the grey areas surrounding cryptocurrency, is developing the Digital Assets and Registered Exchanges Bill, 2023, which is currently out for consultation with the objective of reintroduction to the global market. While regulations surrounding cryptocurrency are evolving, investors remain committed to this market.

Despite recent episodes of failed cryptocurrency projects, the hype around cryptocurrency as a viable investment option and a disruptor in the digital finance space continues to gain momentum at its own pace

Pretino comments, "There has been some significant sell-off; however, from what I have seen, investors are still committed to this market. They have become more strategic in investing in crypto assets backed by underlying, measurable, and sometimes tangible assets or investments with the greatest utility. Additionally, there has been a shift towards protecting crypto investments by staking their holdings and using "cold" wallets, which provide offline storage solutions. Cold wallets seem to be the best option for keeping crypto safe from hackers or companies that go bankrupt. Despite recent episodes of failed cryptocurrency projects, the hype around cryptocurrency as a viable investment option and a disruptor in the digital finance space continues to gain momentum at its own pace."



Time for growth

Pretino and Sean see significant opportunities not only for investors, but also for their firm's growth plans.

The government's commitment to strengthening small and medium enterprises (SMEs) and local entrepreneurship is another promising trend

Sean comments, "Looking ahead, several investment trends are expected to shape the Bahamas' economic landscape. Public Private Partnerships are anticipated to play a significant role, fostering collaboration between the government and private entities to drive infrastructure development and public service enhancements. Tourism-related opportunities remain attractive for investors considering the Bahamas. Additionally, investment trends like ESG (Environmental, Social, and Governance) initiatives, carbon credits, and the forthcoming Digital Assets and Registered Exchanges Bill, 2023, are expected to shape future investment opportunities. The government's commitment to strengthening small and medium enterprises (SMEs) and local entrepreneurship is another promising trend. As the Bahamas fosters an environment conducive to SME growth, foreign investors can explore opportunities for collaboration and investment within this sector. As a firm, we are looking forward to the opportunities this activity will bring to the island and have made plans to expand both nationally and across the rest of the Caribbean."

Tax reform on the island

As foreign investors seek to capitalise on the Bahamas' potential, staying informed about regulatory changes, understanding investment trends, and seeking expert advice remain critical components of achieving success in this vibrant market.

The Bahamas has not been untouched by Organization for Economic Cooperation and Development (OECD) policy, challenging its tax haven status. The Ministry of Finance has recently announced the release of a Green Paper on "Corporate Income Tax Strategies for The Bahamas," aimed at gathering feedback from stakeholders. The government seeks to improve efficiency and equity in the business tax regime and align with global tax developments. The paper addresses the challenges posed by OECD requirements for Pillar Two tax reforms and the limitations of the existing business license tax (BLT). The proposed strategies include options for a 15% minimum effective tax rate, with variations based on firm revenues and thresholds.

Sean comments, "Although the consultation period is still ongoing, it will be a step-change for multinational enterprises doing business in the Bahamas. Reaching out to our experts here on the island early can help businesses better prepare for any potential effects this might have on their operations."

Doing business in the Bahamas

How quickly can I set up a business?

The department of Inland Revenue provides a for step process for applying for Business Licences. https://inlandrevenue.finance.gov.bs

What is the minimum investment needed?

All non-Bahamians or Permanent Residents seeking to do business in The Bahamas must obtain prior approval from the Bahamas Investment Authority (BIA). The BIA is the gatekeeper of foreign direct investment in The Bahamas.

A minimum capital investment of BS$500,000 is required and the proposed investment must not be in an area reserved for 100% Bahamian participation.

How can I raise finance?

Own funds, private banking and or capital markets.

What are the legal requirements for setting up my business?

The Bahamas' legal system is based on English Common Law. Appeals are heard by The Bahamas Court of Appeal, which sits year-round in Nassau, New Providence. The final appeal court is The Privy Council in the United Kingdom.

When you start a trading business in The Bahamas you must operate through a trading structure. The following types of structure are commonly used:

Sole trader

Partnership

Company

Business vehicles can also combine to operate together as joint ventures, partnerships, companies and groups of different combinations of these.

What structure should I consider?

A wide range of options is available when selecting a structure for doing business in The Bahamas. Certain types of investment may require the use of a particular vehicle as in the case of bank formation or insurance business, which require a corporate structure. In the case of corporate structures company names must be approved by the Registrar of Companies. Other business names must be registered with the Registrar General's Department under the Business Names Act. There are no restrictions on capitalisation and there are no investor tax consequences.

Structures for doing business include Sole Proprietorships Limited Liability Companies, Companies Under The Companies Act 1992, Companies Under The International Business Companies Act, Unlimited Liability Companies Unlimited liability, Segregated Account Companies, Joint Ventures, General Partnership, Limited Liability Partnership, Undisclosed Partnerships, and Subsidiaries/Branches / Representative Offices.

What advice can you give me in regards to payroll and taxation requirements?

There are many considerations, employment rights and protections that a business needs to have in focus when doing business in The Bahamas. There are also financial penalties where legal obligations are not adhered to, so careful attention should be paid to the payroll, taxes and employment status rules when employing people.

Setting up as a new employer

All employers must register with the National Insurance Board (www.nib-bahamas.com), even if there is only one employee.

As an employer, you will be responsible for National Insurance Contributions (NICs).

Paying your employees

In The Bahamas, the Employment Act and Minimum Wages Act explain how and when employers must pay employees their wages for hours worked. Bahamian law establishes a minimum wage and overtime wages for workers.

New employees

When a new employee starts, NIB needs to be advised. There are wide ranging legal implications for individuals working in The Bahamas, so seeking professional advice early on can ensure compliance with the rules.

Other employment considerations

There is a whole host of other legal and employment issues to consider, including employment contracts, statutory rights to paid leave, maternity and paternity pay.

As there is the danger of financial penalties for non-compliance with the various rules, seeking professional advice early on when employing people in The Bahamas is always recommended.

International matters

There is an extensive double tax treaty network.

The Bahamas generally follows the OECD Guidelines on transfer pricing – although SMEs are exempt from some of the more onerous requirements.

Value added tax (VAT)

The Bahamas operates VAT and businesses (resident companies and overseas companies who have businesses established in The Bahamas), who make supplies (sales) over the VAT threshold (currently $100k) must register.

A Bahamas VAT registered business must charge and account for VAT, currently at the rate of 12%, on its taxable supplies. It is usually possible, however, to offset any VAT incurred on expenses that relate to business purchases.

VAT returns must be completed electronically at agreed intervals, usually every three months – although sometimes monthly. Payments must also be made electronically.

The Bahamas social security tax is known as national insurance (“NI”). NI contributions have to be paid by the workforce as a deduction from their gross salary (“employees NI”), and by employers (“employers NI”).

Customs duties

Some goods imported into The Bahamas are subject to Custom Duties.

Employee taxes

The Bahamas social security tax is known as national insurance (“NI”). NI contributions have to be paid by the workforce as a deduction from their gross salary (“employees NI”), and by employers (“employers NI”).

Employers have an obligation to collect NI

Is there anything else I should know?

The government’s proactive economic growth and development policies are guided by the Bahamas Investment Authority (BIA),

which was established to reduce bureaucratic delays for domestic and international investors.

Operating from the Office of the Prime Minister, the BIA has been designated a “one-stop shop” designed to simplify investing in The Bahamas. The BIA serves as the administrative arm of the National Economic Council (NEC) and the Investments Board.

Foreign investors seeking to establish a business in The Bahamas must submit to the BIA a project proposal with supporting documents. The proposal ultimately will be considered by NEC, an agency headed by The Prime Minister and that is responsible for the executive management of the National Investment Policy. The NEC effectively is the decision making body in respect of all commercial projects undertaken by foreign direct investors.

After approval by the NEC of a proposed investment project, and following on the establishment of the desired structure for conduct of the intended business, the investor must make application to the Ministry of Finance [Business Licence Unit] for a business licence.

Location and climate

The Commonwealth of The Bahamas is an archipelago spanning 100,000 square-miles extending southeast from Florida in the United States of America to northern Hispaniola. The Bahamas has an estimated land area of 5,400 square miles made up of some 700 islands and 2,400 cays.

The Bahamian climate, mild throughout the year, is one of the great attractions of the area. The average temperature varies from the low 70s F (about 21 °C) during the winter to the low 80s F (about 27 °C) during the summer, and extremes seldom fall below the low 60s F (about 16 °C) or rise above the low 90s F (about 32 °C). The average annual rainfall is about 44 inches (1,120 mm), occurring mostly during the summer months. Prevailing winds, coming from the southeast in winter and from the southeast in summer, lend a cooling influence to a generally humid atmosphere.

For more information visit www.kreston.com

Evolution not revolution:

MHM President Andrew Gragnani discusses challenges and innovations in the accounting profession

We recently interviewed Andrew Gragnani, President of MHM (Mayer Hoffman McCann P.C. , an independent CPA firm and Kreston Global member). He shares his perspective on some of the challenges and developments facing the accounting profession in the United States, offering a glimpse into the firm's future.

ANDREW GRAGNANI, President of MHM and a member of the company's Board of Directors and Professional Standards Group , specialises as National Practice Leader and Regional Attest Practice Leader. With extensive experience in auditing, accounting, and consulting, he provides services to publicly and privately held companies in industries.

The use of Artificial Intelligence in accounting is a current hot topic hitting the headlines, with PwC recently investing $1 billion in AI technology over the next three years to deliver efficiencies, with plans to train 65,000 staff in AI technology usage and deployment.

When the discussion turned to the role of AI in auditing, Andrew offered a more cautious approach to AI.

"We have provided guidance to our personnel on the use of ChatGPT in that it is currently not a reliable source of audit evidence and cannot be used as such."

This evaluation is part of the ongoing process as the role of technology in the profession continues to evolve and develop

However, MHM actively evaluates emerging technologies through its representation on CBIZ's technology committee. Andrew explains,

"Rob McGillen, as the CBIZ Chief Innovation Officer, is responsible for handling various aspects related to new and emerging technologies, including AI.

The committee continues to evaluate these technologies and how they can be utilised effectively to serve our clients. This evaluation is part of the ongoing process as the role of technology in the profession continues to evolve and develop."

ESG regulations

ESG reporting is another new global development that has had the accounting industry working furiously to put regulation and policy into practice. Andrew emphasises the importance of distinguishing between the nonattest standpoint and the attestation standpoint when it comes to ESG reporting.

"When we talk about the ESG implications, it's important to separate non attest services versus attest. From an attestation standpoint, there is no one set of reporting standards that currently exists and verification of reports or standards is rare in the U.S. In addition, the political landscape is daunting, with 18 states forming an alliance against ESG which has created uncertainty for many outside the United States. For example, Lloyds of London recently exited the Net Zero Insurance Alliance due to the U.S. political landscape and anti-trust concerns. So, from an attestation standpoint, it presents a dilemma for deploying capital and resources.

The political landscape is daunting, with 18 states forming an alliance against ESG which has created uncertainty for many outside the United States

The AICPA has announced they will be developing an attestation reporting framework, to better assist firms and its clients. We acknowledge that regulatory efforts will have a significant impact on the accounting profession, particularly in the realm of ESG reporting. However, as the rules and guidance regarding transparency, accountability, and reporting are still evolving, we remain in a state of observation, so that we can provide meaningful guidance to our people, and to assist clients in meeting their reporting requirements."

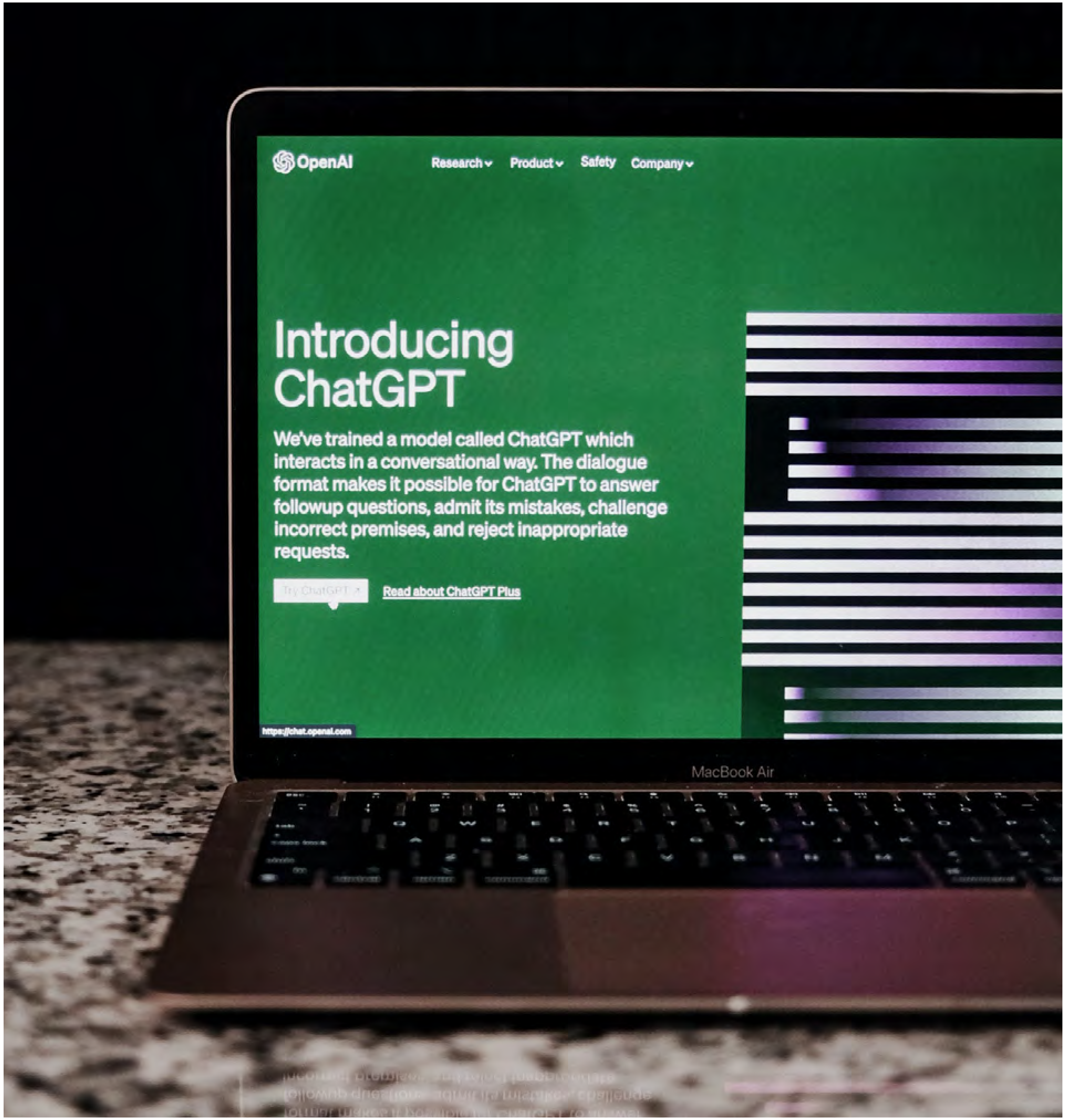
However, while policy and regulation continue to progress in the US, MHM will be focused on ensuring clients who do business in countries that have significant ESG developments meet requirements. Andrew is sensitive to the speed at which the issue is unravelling in real-time in other countries,

"We believe that preparing our clients who are material subsidiaries of EU entities for ESG will be important. So far, we've only received a couple of enquiries from clients who meet that criteria. In fiscal 2022, our public company practice represented about 4% of our firm's total revenue so we have not seen much of a need and that could change when regulations change, but currently, it is impacting clients of the Big Four much more acutely than our client base."

Firm growth predicted

He expects MHM to experience good growth in the next 12 months, but it is no secret that the industry is facing a shortage of skilled professionals to meet client demand. MHM has approached this challenge by outsourcing to meet increasing demand, stating,

"Through May of this year, we have experienced same unit revenue growth of



9.2%, which is outstanding, particularly in this U.S economic environment. In 2022, we saw a significant increase in the number of clients over $100,000 in attest fees, and these clients represented about 54% of our total revenue. Clients of this size provide significant opportunities, because they are generally more complex and require other services. Because of our growth and the shortage of personnel, we have implemented and are utilising an offshoring solution in India."

Andrew acknowledges the challenges faced during implementation but expresses confidence in the value and support they can provide.

"We believe our partner provides value and support to our firm and we're confident in the quality they can provide." He further emphasises the firm's plan to expand outsourcing efforts, saying, "We plan to expand its usage to support our growth."

70 year history

Similar to Andrew's approach to the evolution of MHM in 2023 and beyond, MHM's unique blend of cautiousness and progressiveness is reflected in its almost 70-year history, creating a compelling alternative to the Big Four, particularly for small and medium-sized enterprises (SMEs).

From its humble beginnings as a small, single-location accounting firm in 1954, MHM has experienced remarkable growth and development based on that formula, now with 34 locations spanning the country and ranking (together with CBIZ) as the 11th largest accounting firm in the US market terms of turnover has created a winning formula, ready for a future with continued success and expansion.

THOMAS BONNEY
National Leader of CBIZ's Financial Services Advisory Practice

The ESG regulatory landscape will remain generous

As you set up shop in the US, it's understandable for your thoughts to be focused on market research, marketing, your products, etc. But you also need to ensure you understand what's required of your business according to US laws.

This is a major stumbling block for a number of businesses. Bonney said: " I believe one of the issues some of our US-based mid-market clients have when they go international is that they lose out because they don't fully appreciate the statutory and regulatory reporting requirements in each of the countries that they're involved in, so sometimes they get behind their skis".

In some ways the US market is more complex than international markets, particularly related to the US being a collection of fifty different states with their own tax and regulatory structures. In other ways the US market is less complex; generally speaking US public companies are "one or two steps" behind their European counterparts when it comes to ESG reporting, according to Bonney. Meanwhile, there's no equivalent of Companies House and private companies aren't required to get audits (although investors and lenders will often expect one).

The AI lightning bolt; a shot to the system

The US, a self-described land of opportunity, often tops the lists as the most attractive country to invest in. As the largest economy in the world, over 25% larger than China, the US is home to 33 million businesses, with an attrition rate of one business in every five failing in the first year. In such a bustling market, a clear competitive edge is crucial.

ROB MCGILLEN
Chief Innovation Officer

ROB MCGILLEN is Chief Innovation Officer at CBIZ Financial Services, leading the transformation of business practices and driving innovation. With expertise in digital transformation, M&A IT due diligence, data analytics, automation, cybersecurity, and enterprise project management, Rob enables CBIZ professionals to provide mid-market clients with enhanced insights and tailored solutions. His industry focus spans Professional Services, Financial Services, Manufacturing, Health and Life Sciences, Technology/SaaS, Insurance, and Energy.

THOMAS BONNEY
National Leader of CBIZ's Financial Services Advisory Practice

THOMAS BONNEY is the National Leader of CBIZ's Financial Services Advisory Practice, overseeing financial and transaction advisory, IPO preparation, valuation, risk & cyber, forensics, and private equity services. With expertise in middle market business strategy, operations, transformations, M&A, and private equity, Tom is a recognised thought leader, frequently speaking at industry events and has had articles published on various business topics. He founded CMF Associates, a private equity advisory firm acquired by CBIZ in 2017, and has also successfully launched and sold technology consulting firm Polaris Consulting and rum business LEBLON LLC. He lives with his wife and two boys in Jupiter, Florida.

Kreston Global's firm in the US, CBIZ MHM, ranked the 10th largest firm in the US by International Accounting Bulletin, is rising to the challenges of economic uncertainty, supply chain issues, and rapid technological advancements. They are at the front of the pack in the race to develop AI and data-driven client services.

We wanted to find out more and spoke to CBIZ's Chief Innovation Officer, Rob McGillen, and National Leader of Advisory Practice, Thomas Bonney, CPA, about this exciting development.

Technology's importance will accelerate

The future of business within the US is undeniably tied to data gathering and digital transformation and as the use cases and applications increase in complexity, the implementation track is increasing in simplicity and is more available to the middle market than it has ever been.

Just as you've heard and probably experienced, American small businesses have weathered "cascading economic storms over the past five years," to quote the US Chamber of Commerce. These storms have included supply chain disruptions, staffing shortages, inflation, and of course, Covid-19.

Nevertheless, amidst these challenges, businesses have used technology to improve efficiency, reach customers, and gain deep and comprehensive insights from a wealth of data. To compete, and indeed to survive, companies of all sizes need to accelerate their adoption of technology and integrate the technology into all business processes, particularly in the US.

Tom Bonney, National Advisory Lead at CBIZ, regularly shares his 30 years of experience in strategy, business transformation, and investment with the broader business community, predicting future trends and advising clients on where to focus efforts. Tom gave us his view,

"CBIZ is at the forefront of innovation, particularly at the intersection of data, automation, and AI. Rob McGillen's focus on establishing a centre of excellence for digital data services as an advisory practice aligns closely with our vision. We are actively collaborating to develop client-centred solutions and use cases that leverage these advancements."

Rob McGillen, Chief Innovation Officer at CBIZ, emphasises how businesses can use artificial intelligence (AI) to improve their operations, likening it to a "lightning bolt".

"As part of our digital transformation strategy, we have successfully upskilled 200 data specialists in the past year. The investment in upskilling and data analytics tools has yielded significant returns, with a return on investment of 10x to 15x per person. The math is simple, and the value proposition is clear, not only to CBIZ as a service provider, but also to our clients as we share this knowledge to improve their business processes."

In the coming decades, organisations that effectively combine data and AI to transform customer and employee experiences will

not only survive but thrive. The future success of businesses hinges on their ability to gather insights from data with tools, including AI technologies.

Rob describes a recent instance when his team used AI to complete a financial analysis of a client that would have taken "three people three weeks to do". The result? An analysis "equal to or better than" the work of a "20-year veteran" in just a minute and a half. This compresses weeks' worth of work into just a few minutes, showcasing the power of automation and AI.

"However, for firms still reliant on traditional billing models based on hourly rates, this rapid transformation presents an existential crisis. As the effort required to deliver services diminishes from hours to seconds, new economic models and billing strategies must be adopted for continued viability."

Adaptation and evolution are essential for long-term success in the changing landscape of business. AI can do a lot for businesses, from automating certain financial tasks and analysing data for trends to handling customer inquiries and creating forecasts. These are things that humans can do, but the beauty of AI lies in how quickly it can process data, allowing you to focus on your core business.

But you can also use AI to simplify aspects of business you may never have considered before, such as recruitment. Rob shared an experiment he did, where he used ChatGPT to create a job description and some auto-generated CVs.

He then asked the generative AI to evaluate the candidates and create five topics that should be on an interviewer's list of key things to discuss. "It was spot on. It was like 'the candidate demonstrates the following characteristics that align well". So, think

outside the box to see where AI and technology more generally can help you streamline your processes.

Human advice remains integral to success

While AI can offer valuable insights and streamline processes, it should not entirely replace human financial advisers. After all, business finance involves complex emotions, nuanced decision-making, and unique circumstances that require human empathy and understanding – all of which are needed during the tough times of 2023 and beyond.

Tom Bonney has an urgent plea for clients, "In the next 24 months, it will be crucial for companies to have advisors and access to information that can assist them in making optimal decisions despite imperfect and ever-evolving circumstances; the AI driven answers are only as valuable as the quality of the source data and the context into which the data is used to drive change.

He sees a future where data, AI and a collection of professional advisors will provide the optimal odds that business executives get the big decisions right, over time.

"There are nuances to doing business in the US and your advisors, understanding the corporate goals and working with the clients and their data can get to an optimal solution."

"By making informed choices, businesses will gain institutional confidence and a clear direction for investment in the period spanning from 2025 to 2030."

Transformation

Starting a business in the US is an exciting idea, but one packed with challenges. However, the future of doing business in the US looks bright, with the use of technology ramping up and the regulatory environment remaining stable.

Artificial Intelligence, a lightning bolt in this digital age, continues to redefine traditional processes, offering unprecedented opportunities for efficiency, insight, and transformation.

While Tom, Rob and the teams they are setting up at CBIZ across the country remain excited at the potential of the support they can give clients navigating this ever-evolving landscape, there is still room left for good instinct, great advice and solid planning, Rob explains,

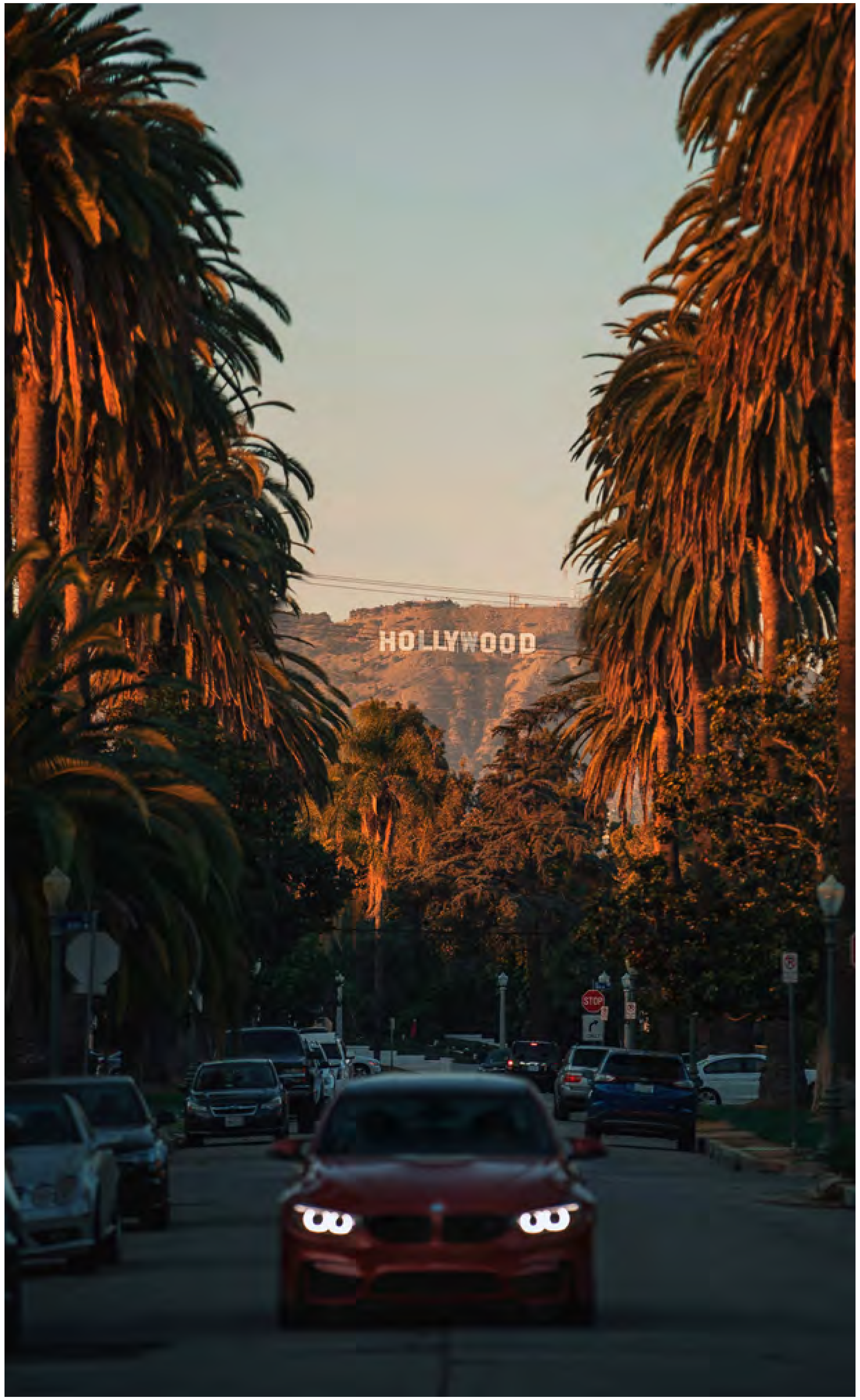
"Our technology focus at CBIZ Financial Services is shifting quickly from 'same' to 'transform' as our clients are facing economic headwinds and seeking efficiencies in their own business. Technology is the wheel on which business turns, accelerating every season, and our clients are themselves continuously considering new ways to find value with tech-enabled solutions

We have set corporate policies now to manage the risks and missteps and learning each week new ways to leverage. What will be fascinating over the next 12 months will be the adoption rate and embrace of Generative AI in commercial products we all leverage (including Microsoft and other tax and audit solutions).

My best advice to those entering the market is to consider how you want to navigate the shifting US economic conditions, and seek a combined view from experts. There is never a perfect time to expand, and approaching the opportunity with a partner which offers innovative ways of serving a multi-national client is a great step forward!"

CBIZ launches business service team to empower Latino entrepreneurs

CBIZ has recently unveiled the Latino-Owned Business Service Team, launched to meet the demand for Spanish-speaking accounting services that is driven by a sizeable Latino business community in the United States.



VERONICA QUINTANA is a Director at CBIZ MHM in Oxnard, California. She has worked for CBIZ for over 27 years as a tax specialist, serving clients in the agriculture, construction, manufacturing, restaurants, professional services, and government contracting industries. Veronica leads the Latino-Owned Business Service Team in CBIZ, established to support Latino business owners in their growth, innovation, and succession planning efforts.

Veronica Quintana, a Director and experienced Certified Public Accountant with a 27-year career in CBIZ's Oxnard office in California, played a pivotal role in the development and launch of the Latino-Owned Business Service Team, which was held in Hollywood in May this year. Recognising the challenges faced by Latino entrepreneurs, Veronica developed the concept to bridge the gap in accounting services and empower the Latino business community. She said of her new venture,

"A lot of the Latino community are under-served. That is what I've noticed from the referrals I've received. They are used to working with a tax preparer who is not a CPA and maybe that was fine in the beginning when they first started, but then they grow.

What triggered my plans to develop this service is that I realised I was the only Latina in my office over a number of years, but now we see more Spanish-speakers entering the accounting profession, so we've had more Latino staff available.

There is so much work out there one person can't do it all, so this change meant we could expand. My main objective is being able to service them and do a good job."

Veronica aims to tap into the substantial market potential, expand its reach beyond the borders of California, and empower Latino entrepreneurs by offering them access to qualified accountants fluent in both Spanish and English.

Veronica explained the structure behind the initiative, stating,

"We have identified CBIZ professionals nationally that speak both Spanish and English, and across all the typical services as a business would need, such as audit, forensic accounting, insurance and valuation.

So now, when the need arises, when we have a client that is more comfortable speaking in Spanish we have a bilingual team which puts clients more at ease, rather than working with translators where some issues or nuances can be missed.

This way we can more effectively provide a service that they might need to grow their business. It has always been my goal to ensure every business client of mine is successful. If you are successful I feel like I've done something right. I've been the right partner for you."

Vision for growth

While the initial focus of the Latino-Owned Business

Service Team is Southern California, Veronica's vision extends far beyond regional boundaries. Together with Francisco Bracamonte, Kreston Global Board Director for Latin America and Partner at Kreston BSG in Mexico, and other members of Kreston Global, Veronica aims to support Latin American clients seeking expansion opportunities in the United States and beyond. This strategic collaboration not only enriches the resources available to Latino entrepreneurs but also facilitates cross-border business growth and strengthens economic ties between Latin America and the United States.

Veronica is really excited about this development, "I had the pleasure of speaking to Francisco Bracamonte. He invited me to their quarterly meetings with other Latin American countries, which was my first exposure to Kreston network in Latin America. Everyone was very gracious, and I had the opportunity to share a little bit about what I do.

As a result, Francisco invited me to the Kreston LatAm conference in Peru. I presented the services we offer, as we have numerous Latin American clients. There is a whole world beyond the United States, as some clients prefer to do business in their own countries or have connections there and want to expand into the US market."

The launch of the Latino-Owned Business Service Team comes at a time when the entrepreneurial spirit within the Latino community is thriving. Latino business owners often possess a strong drive for success and are frequently involved in multiple business ventures simultaneously. Veronica highlighted this characteristic, stating,

"Latinos are entrepreneurs. They love to create new businesses, sometimes they're just not satisfied with one!"

$800 billion market

According to a study by the Stanford Business School, the United States is home to over 62.5 million Latinos, with an impressive economic output of $2.8 trillion. The entrepreneurial spirit within the Latino community has fuelled the establishment of nearly 5 million businesses, generating over $800 billion in annual revenue, highlighting the significant economic activity and potential within the Latino business sector.

The data from the Stanford Business School emphasises the importance of recognising and supporting Latino entrepreneurs. By acknowledging their contributions and understanding the unique challenges they face, initiatives like CBIZ's Latino-Owned Business Service Team are crucial in supporting Latino business owners to achieve economic success.

While CBIZ has long been a trusted name in the financial services industry, Veronica's dedication to serving the Latino business community has allowed her to establish strong connections and a loyal client base of Latino business owners.

Success story

Success stories exemplify the transformative impact of the Latino-Owned Business Service Team. One notable example is a client who began with a produce company and expanded into real estate investments. Recently, the client completed an event centre.

Through comprehensive services such as tax advice, cost segregation studies, and succession planning guidance, Veronica supported her client to navigate the complexities of business expansion, maximising their entrepreneurial potential of the business which was on the brink of collapse when he walked into her office.

Looking ahead, Veronica sees significant growth for the Latino-Owned Business Service Team. Her strategic vision involves expanding the team geographically to cover more regions across the United States. By collaborating extensively with Kreston firms and industry professionals, CBIZ aims to serve as a catalyst for the success and prosperity of Latino-owned businesses throughout the United States and beyond.

Setting up for success in the US

With the promise of access to a large, open market, many businesses from around the world are eager to expand to the United States. And while global economic shocks in the last few years have certainly taken their toll, that interest has continued.

In 2023, the US ranked number one on the Kearney foreign direct investment (FDI) index for the 11th year in a row. Against a backdrop of global economic instability, the country's market offers relative safety to cautious investors. As such, it's seen a steady flow of investment and business expansion in the last few years, with FDI rates now 30% higher than they were pre-pandemic.

Tax specialists at CBIZ MHM, a top 10 US accounting and advisory firm, have noted the continued interest from overseas businesses in setting up in the US.

"I see a fair amount of inbound US investment and expansion from around the world in all different businesses, and all different industries. [In the last 12 months], I've seen that continuing," says Don Reiser, international tax specialist at CBIZ.

"I haven't seen a significant slowdown. Obviously, with a slowing economy, you're seeing maybe fewer M&A transactions. That's not necessarily a reflection of the US; that's a reflection of just transactions globally, affected by interest rates and other factors."

Incentives for new US businesses

Another possible reason for the continued expansion to the US may be the recent introduction of government incentives for investment, through legislation like the Inflation Reduction Act and the Bipartisan Infrastructure Law. Many states also have economic development incentives available to growing companies.

For businesses looking to capitalise on those advantages, there are some important decisions to make early on, including location, structure, business type, and plans for the future.

Tax incentives themselves are rarely the main driver for these choices. Rather, they need to be weighed up carefully in the context of other factors.

"When we look at incentives, I've had some clients ask, 'what's the best state?' Well, it depends on the facts, so it's really important for the client to have at least an idea of the geographic area in the United States that they'd like to locate to," says Chris Baltimore, managing director of tax incentives at CBIZ.

"This might be based upon workforce or customer access, logistics or a number of things. But it's really about understanding what kind of capital investment the client's going to make and what their headcount growth looks like, because those are the two real driving factors of any incentive program.

"You have to look at the entire picture because every state has its own specific tax structure, and there are multiple types of taxes. For instance, Texas is popular because they don't have a true state income tax; but the property taxes in Texas are high, and so while you save in one pocket, you have additional costs in another category."

Determining your structure

Kathy Rhodes, international tax specialist at CBIZ, says her number one recommendation for businesses setting up in the US is to understand the structure they want and how they plan to get money out: do you plan on reinvesting the money, getting dividends, or having management fees or royalties, for example?

These questions lead into considerations about another major consideration – transfer pricing. The US has a heavy focus on the rules around transactions within multinational companies, and, as such, Rhodes says this is one of the biggest issues businesses starting in the US run into.

"I always tell people, countries expect to have their fair share of the profits. So, if the company's in the UK and now they're opening up a sales branch in the US, then the US would expect that sales branch to generate a profit, whereas the UK company would like to drain all the profit off because it was taxed at 19% previously, while the corporate tax rate in the US is 21%.

"So you might want to save tax by getting a management fee or similar to the UK. But transfer pricing says no, you can't do that: there ought to be a certain amount of profit based on what you do and the risks that each of you assume."

The complex set of rules that govern these transactions can be a barrier to entry for some international businesses, with costly transfer internal pricing studies required to avoid problems or IRS penalties down the line. This becomes more important the more established the US arm of your business becomes, but it's a good idea to consider it from the start.

Navigating the tax system

Another major challenge for businesses new to the states is the complexity of the US tax system itself.

"The US presents unique challenges due to its federal and state tax systems," says Reiser. "Many countries only deal with their federal tax systems, but in the US, we have to navigate both federal and state taxes. Each state has its own tax rules, and companies need to comply with them. Understanding state tax rules adds complexity to the overall process."

For instance, while a European company might be used to applying VAT rules – and perhaps dealing with cross-border transactions and international tax treaties – many are unfamiliar with the US sales tax system and the way it applies across different states.

To handle this complexity, Reiser notes that businesses' best course of action is to rely on the expertise of professionals in this area.

"I think you really need, in advance, to engage your accountants and your lawyers to talk through the business and structuring so that when you enter, you have a pretty good handle on what you're facing," he says. "Then you can sort out the issues among your advisors. To me, that's the lesson."

With over 50 offices across the US, CBIZ MHM has a specialist team to support international investors to make the right decisions for their business. With 6,500 personnel, they are confident they can support with a national level of expertise, as Kathy can attest,

"In our office, we are organised into different industry teams, and specialisms – software developers make up a significant portion of my clientele. However, I also have clients in the retail and wholesale sectors. If we lack expertise in a particular area, we have colleagues located throughout the United States and various offices who can provide the necessary knowledge and support to help navigate the state regulations and get the best outcome for the client."

CHRIS BALTIMORE
Managing Director of Tax Incentives

CHRIS BALTIMORE is the Managing Director of Tax Incentives at CBIZ, where he specialises in assisting companies nationwide in identifying and capitalising on state tax credit and economic development incentive programs. With a 30 years career, Chris has collaborated with diverse industries, leveraging his expertise to uncover valuable incentive and grant opportunities for his clients.

DON REISER
CBIZ's National leader for International Tax

DON REISER has over 30 years' experience as an international tax partner in prestigious firms and as a former law clerk at the U.S. Tax Court. In his current role as CBIZ's National leader for International Tax, he specialises in international tax consulting, serving a diverse client base of U.S. and foreign corporations, foreign individuals, and businesses investing in the United States. Don's expertise includes cross-border mergers and acquisitions, divestitures, joint ventures and has expertise in tax-efficient global business structures, foreign tax credit optimisation, and offshore earnings repatriation.

KATHY RHODES
Managing Director, CBIZ

KATHY RHODES, based in the Kansas City office, brings over 25 years of extensive domestic and international tax expertise to her clients. She offers a wide range of tax and consulting services tailored to medium to large-scale manufacturing, wholesale, retail, agriculture, and professional services clients. Kathy assists clients with intricate tax matters related to transactions, such as restructuring, mergers and acquisitions, divestitures, and more. She serves as the local leader for international taxation, providing guidance to businesses and individuals on matters such as inbound and outbound international investments, expatriate programs, and related tax issues.

State tax incentives

1. Process

The tax incentives process includes four main components: Pre-Proposal Planning, Incentives Proposal, Tax Incentive Application and Multiyear Compliance Process.

Pre-Proposal Planning is the process of determining what the company's expansion looks like. Will the facility be heavy with capital investment or hire lots of employees? If so, how much investment and how many employees? Or will the US expansion by remote in nature and have a virtual office? The states are looking for a central facility from which the employees and investment will be based. So if the plan is to have minimal office space and for employees to work remotely from across the US, then there would be little if any tax incentives available. So, the company should determine "what are the most important drivers for this expansion?"

Incentives Proposal is where the company's representative connects with the state tax authorities in the state or states that are under consideration for the project. The states will request fairly extension information from the company about the company's background and the facts of the project. This negotiation process can take some time, from 2 weeks to 1 year depending on the project.

Tax Incentives Applications is the process after the acceptance of the Incentives Proposal where the company formally applies for participation in the various tax incentive programs.

Multyear Compliance Process – some companies believe that the states will handle all of the compliance process for them and just "send the company a check." This is not the case. These incentive programs can have monthly, quarterly and/or annual compliance reports associated with them. If you miss a report or a deadline, and the incentives programs are in jeopardy of being forfeited.

CHRIS BALTIMORE
Managing Director of Tax Incentives at CBIZ

2. Types of state tax incentives

Tax incentives vary widely by state. Some states have very few incentives and some states have very compelling incentive programs. The following is a partial list of incentive programs that may be available:

- State income tax credits
- Payroll tax rebates or refunds
- Training grants
- Sales tax exemptions
- Property tax abatements
- Utility cost reduction
- Forgiveable loans

Depending on the company facts, a combination of these incentives can offset the expansion costs of a project by as much as 30%.

3. Qualifiers

a. Targeted industries
   i. Manufacturing
   ii. Professional / Financial Services
   iii. Engineering / Architecture
   iv. Technology
   v. Biomedical / Research
   vi. Headquarters (regardless of industry)
   vii. Businesses that generate greater than 50% of their revenue from outside the state
b. Non-Eligible – retail, non-profits- casinos, religious or government organisations
c. High wages
d. New jobs
e. Capital investment, and/or
f. Geographic location

4. Timing – the earlier the better

5. Devil's in the details

a. It's Never Too Early but Often Too Late
b. Performance Based
c. Knowing what is a true incentive

6. ESG and tax incentives

Some tax incentive programs now require hiring a certain percentage of minorities, providing internships, or other charitiable or serviced based activities.

7. Impact of remote work

State and local governments want to incentivise companies that will make investments in their communities, provide job opportunities for its population, pay higher than average wages and are quality members of the community. With the post-COVID tendency of remote work, this has caused some companies to have a model that doesn't establish a connection with a particular community, instead having their employees work from home across the US. In the remote worker scenario, there are often few tax incentive opportunities, and if there are, the benefits aren't typically worth the effort.

Doing business in the USA

How quickly can I set up a business?

A business organises or incorporates under the laws of one or more states in the U.S. The administrative time period for such filings varies under state law, but generally there is no waiting period. A law firm familiar with business creation and organisation within the desired state should be retained to assist with these procedures.

What is the minimum investment needed?

There are generally no minimum investment requirements under state law, and the size of the investment is dependent on the scope of the project. Different rules may apply if an individual is seeking U.S. residency as part of the investment. A law firm familiar with business creation and organisation within the desired state should be retained to assist with this determination.

How can I raise finance?

Depending on the entity structure the investor may be required to fund the entire venture or may be permitted to seek additional United States or foreign investors. Generally, there is no restriction on the ability to use cash or property to fund the investment, although there may be different tax consequences between these alternatives. A law firm familiar with business creation and organisation within the desired state should be retained to assist with this determination.

What are the legal requirements for setting up my business?

The legal requirements for setting up a business are dependent on state law and vary from state to state. Generally, there are not any unique requirements placed on foreign investors.

Some states may require a written document outlining the details of the proposed ownership structure and bylaws in a private writing. A business generally does not have to file any formation documents with the federal government in the United States. There may be federal requirements after the business if formed, however, including obtaining a federal tax employer identification number (EIN) and making any requisite elections. A law firm familiar with business creation and organisation within the desired state should be retained to assist with these procedures.

What structure should I consider?

There are various legal structures to consider, with advantages and disadvantages to each. A law firm familiar with business creation and organisation within the desired state should be retained to assist with this determination. A brief overview of the main legal structures is below:

Establishment (a branch of your overseas business):

- Not a separate legal entity but an extension of the overseas parent company.
- No limited liability (occasionally referred to as "ring-fencing" in some countries) of the US operations.
- If you have a permanent establishment (PE) in the US, then profits from this PE are subject to US Corporation tax.
- Parent must file income tax returns with:
  - The Internal Revenue Service to report and pay US Corporation tax on the taxable profits of the branch if there is a PE, or to claim treaty protection if there is no PE.
  - Each of the states where the branch is doing business if there is sufficient presence or "nexus" (this may be required in some cases even if there is no PE).

– Certain local jurisdiction (e.g., cities) where the branch is doing business if the local jurisdiction imposes an income tax and if there is sufficient presence within the jurisdiction.

Corporation:

- Provides limited liability and "ring-fencing" to US operations.
- Gives a perception of a local business, with longevity.
- Corporation tax to be paid on company profits unless company qualifies for "pass-through" treatment (however, elective pass-through status for an "S" Corporation is not typically available for foreign investment in the US).
- Owners of Corporations (except S Corporations) are not taxed on business income.
- Returns must be filed with the Internal Revenue Service and each of the states/local jurisdictions where there is nexus.

Limited Liability Company:

- Members have limited liability.
- By default, a company with a single member is treated as an entity that is disregarded from its member, and a company with more than one member is treated as a Partnership; an election is available to instead treat the entity as a Corporation, if desired.
- For "disregarded entity" and Partnership (pass-through) treatment, the company is not taxed on business income; instead, profits or losses are allocated to members, who are then individually subject to US income tax and filing requirements for these allocations.
- For "disregarded entity" and Partnership (pass-through) treatment, the tax residence of the member, as well as the source of the LLC's business activity, will determine the state/local jurisdictions in which income tax on these allocations also applies.

Limited Partnership:

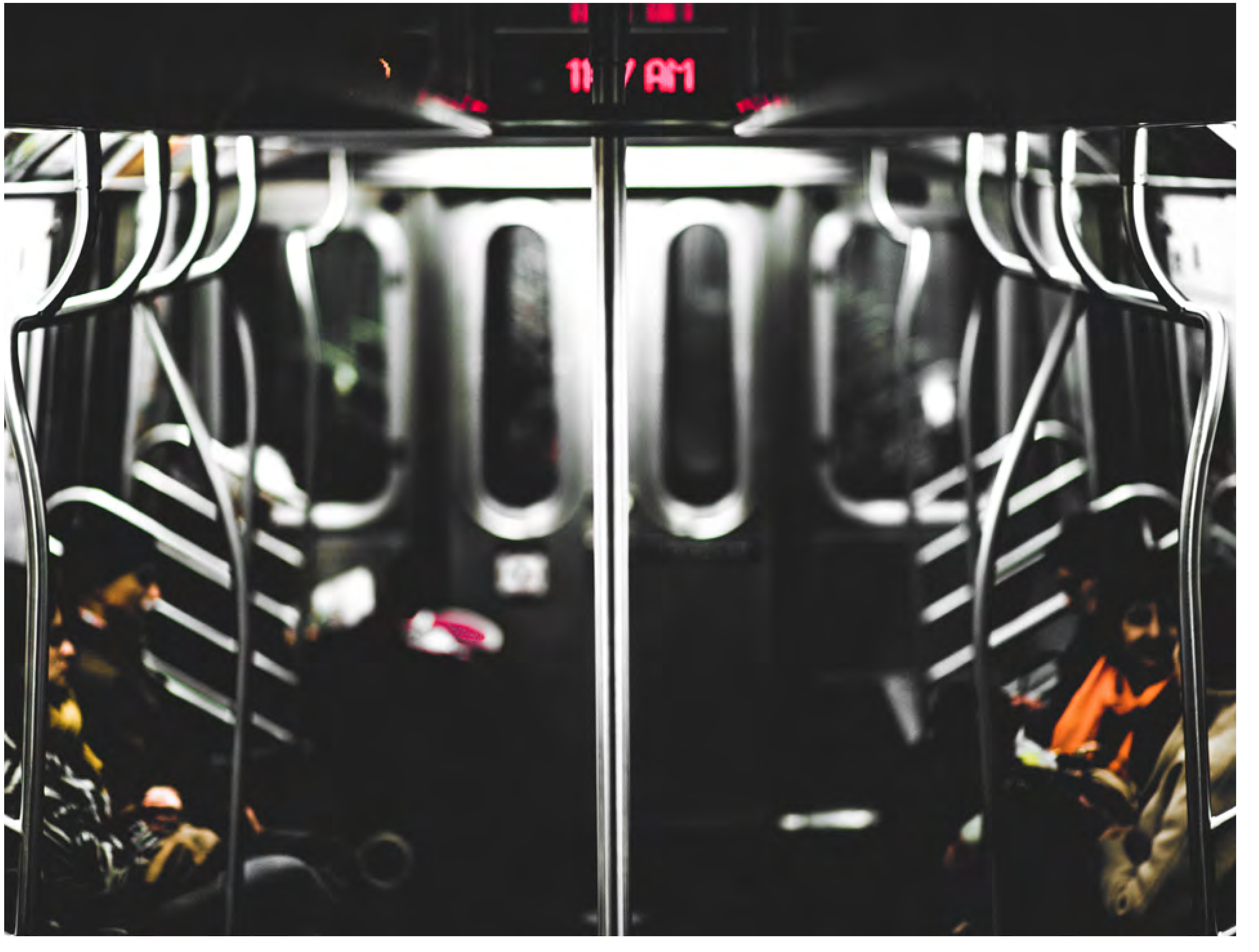
- Partners have limited liability.
- The Partnership is not taxed on business income; instead, pass-through treatment is required such that profits or losses are allocated to partners, who are then individually subject to US income tax on these allocations.
- The tax residence of the partner, as well as the source of the Partnership's business activity, will determine the state/local jurisdictions in which income tax on these allocations also applies.

What advice can you give me in regards to payroll and taxation requirements?

Employers are required to withhold payroll taxes from the wages paid to each employee. These taxes include Social Security taxes and Medicare taxes. Employers are also subject to their own share of Social Security taxes and Medicare taxes on the wages paid to each employee. Additionally, employers generally are subject to unemployment taxes on the wages paid to each employee as well.

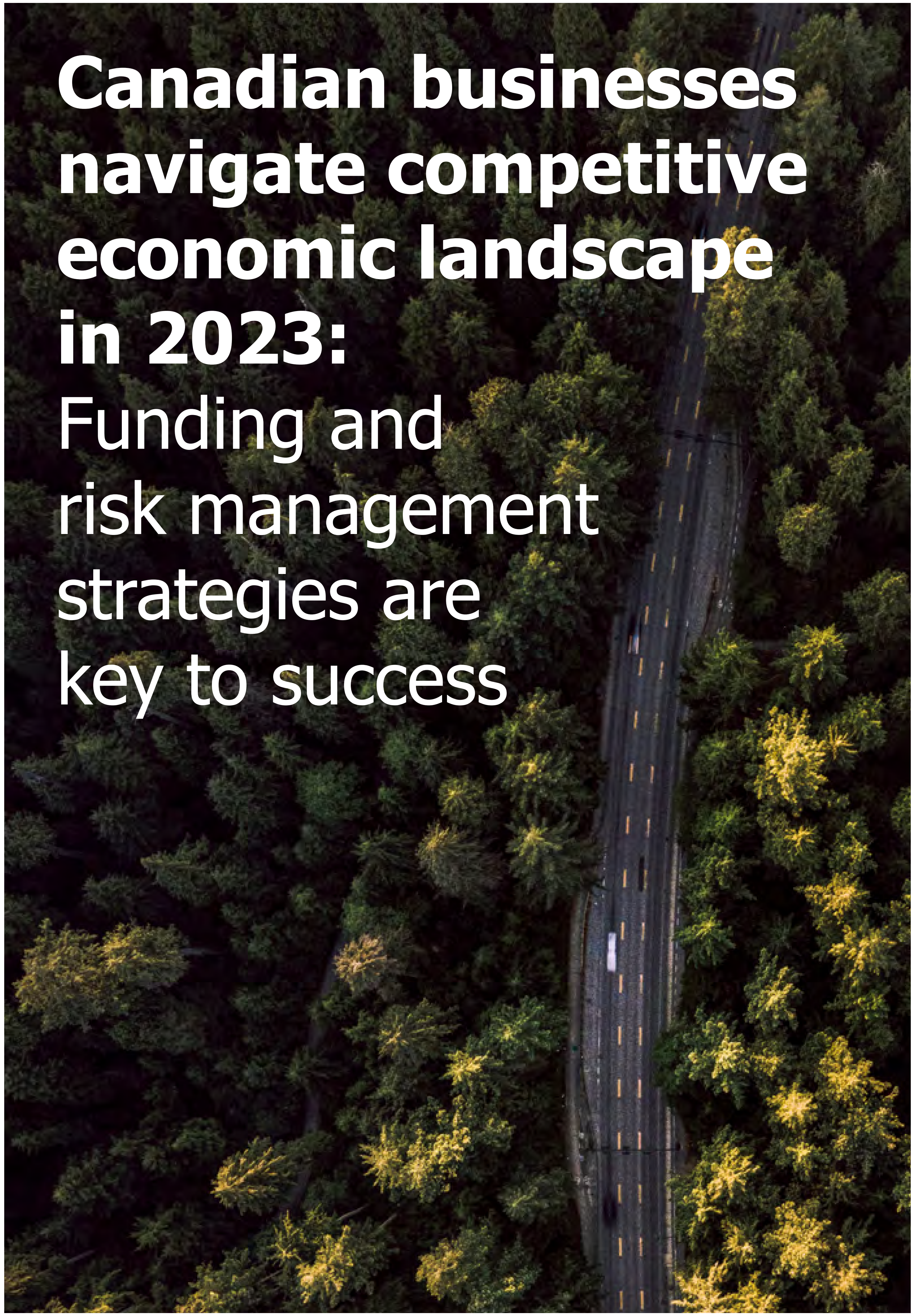
The US has a very comprehensive range of compensation and benefit options available for companies to offer their employees. These options include pensions, private medical insurance, life insurance, and disability benefits.

Flexible benefit packages are also popular, giving employees options on how they wish to "spend" their benefits allowance, which can range from "purchasing" additional holiday entitlement to obtaining full family medical insurance.



Canadian businesses navigate competitive economic landscape in 2023:

Funding and risk management strategies are key to success



DALE WILSON is a seasoned professional with 15+ years of experience as an R&D-focused Electrical Engineering Specialist and 20+ years as a Firm Tax Director / Senior Tax Director / Tax Practice Leader / Technical Specialist in leading professional services organisations. He has a successful track record partnering with corporate clients in various sectors, leveraging his expertise in the complex tax credit system to maximise benefits tailored to their unique needs. Dale excels in delivering tax claim solutions, earning trust and buy-in from high-level decision-makers. He has a strong reputation in (SR&ED) tax audits and appeals, with a 17-year record of near-universal client satisfaction and over $2 billion in successful technical claims.

The status quo is no longer a viable option within Canada, as the economic environment, with high interest rates and inflation, access to both investment and government funding is far more competitive in 2023. At the same time. many Canadian companies are increasing their R&D spend on targeted digital investments and governments are funding billions of dollars across many sectors, such as the capital intensive semiconductor, EV, and component manufacturing, to address global chip shortages and the impacts of de-globalisation, and the rapid transition from ICE to the evolving EV, energy and carbon neutral technologies. In 2023, the approaches businesses take to managing overall risks and funding will define their success.

Kreston GTA LLP works with leading global companies to help them expand their businesses within the Greater Toronto Area (GTA), nationally and internationally. By utilising extensive industry specific knowledge, specialised engineering and tax experience, and a tailored client centric service approach that maximises funding from all sources (investment tax credits, grants, and other incentives). The firm engage clients at all stages in their lifecycle from concept, through to successful commercialisation. Kreston GTA work with clients in all sectors from general manufacturing, medical and professional corporations, and utilities to some of the leading IT, artificial intelligence, robotics, computer vision, semiconductor, life sciences and many others, from early stage to large multi-national

companies. Through this work, the firm shares a multi-sector industry view of the important challenges in the economy, tax implications, deep industry knowledge, on how organisations can best evolve to achieve success.

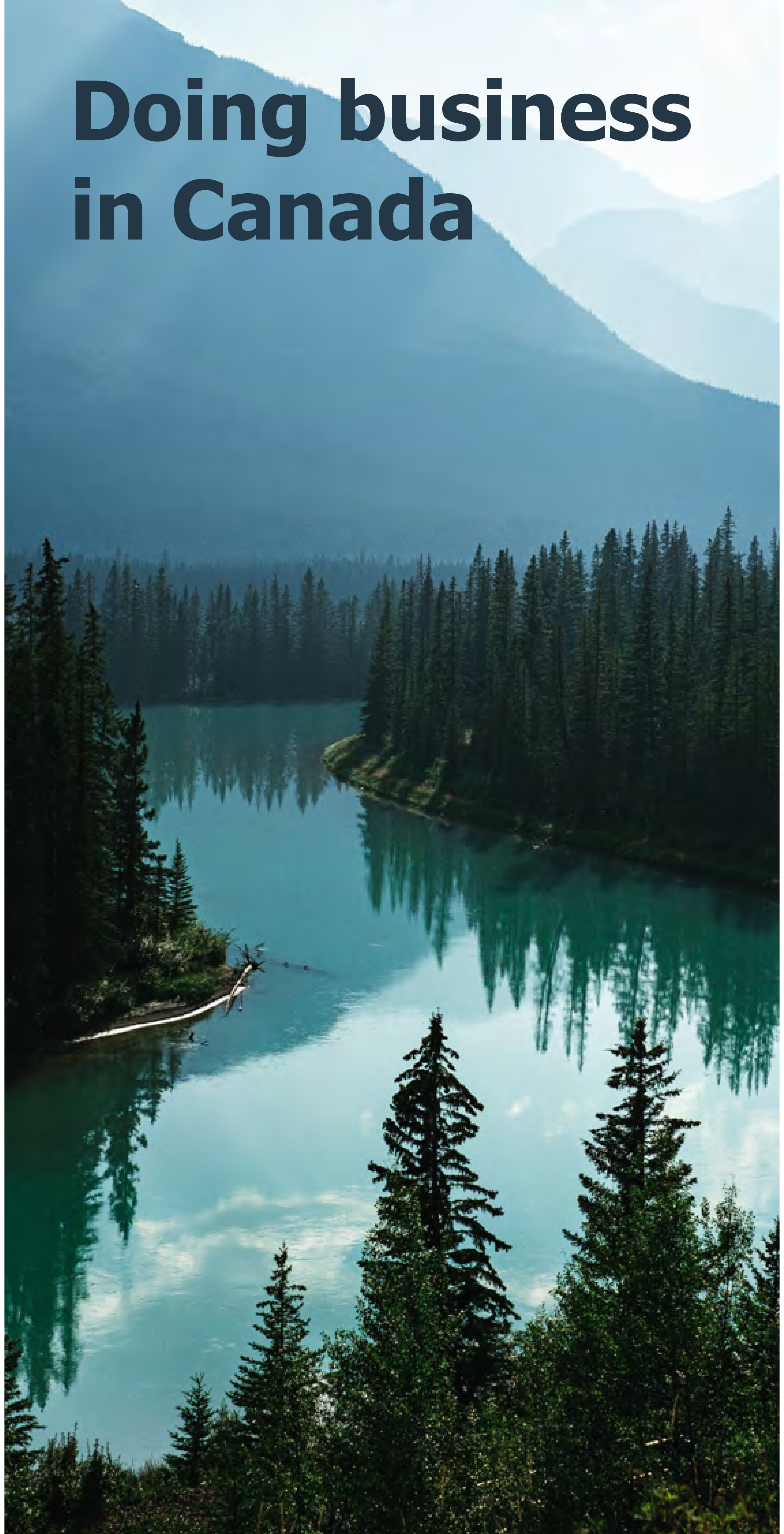
Greater Toronto business

The GTA is home to 38% of Canada's business headquarters, produces 20% of the entire country's GDP, and has a vast highly educated and diverse talent pool in many knowledge based industries including artificial intelligence, interactive digital media, advanced manufacturing, healthcare, and EV technologies, and over 18 colleges and universities that drive major innovation and new immigrants and talent into the ecosystem. The region is also home to hardware and semiconductor-focused labs and many incubators, enabling the creation of transformative technologies into the future.

Tax credits

Kreston GTA work with clients to ensure an optimised funding model approach from all available sources of investment tax credits, grants, and other incentives with targeted industry focus. The Canadian government programs are consistently among the most generous globally, however, they require industry and tax specific knowledge on eligibility, financial benefits, and timing to achieve success. Typically, investment tax credits are determined based on qualifying work and expenditures incurred in the past and provide a relatively high certainty in funding outcome (foreign owned companies receive up to 38 percent of qualified labour expenditures, in most cases comprised of both refundable and non-refundable tax credits). The firm provides clients with full service including audit support, with the highest acceptance rate (<4% audit rate, >99.9% acceptance rate) in Canada. Investment tax credits, particularly for foreign owned firms, need to be analysed along with the corporate structure to ensure that the expected funding, which may be comprised of both refundable and non-refundable tax credits, can be effectively utilised. Grant funding and other incentives are based on intended future qualifying work, whereby once approved the target government entity along with the client shares in the overall expenditure funding. Grant funding and other incentives tend to be highly discretionary, and availability can be limited to only short periods of time.

Doing business in Canada



How quickly can I set up a business?

One to two weeks.

What is the minimum investment needed?

There is no minimum.

How can I raise finance?

Shareholders may advance funds, third party shareholders may invest, bank or private lending.

What are the legal requirements for setting up my business?

You can operate as a branch of the existing foreign entity or incorporate a Canadian subsidiary, either federally or provincially.

What structure should I consider?

This depends on whether the business in Canada has a permanent establishment. In the case of a permanent establishment, the usual recommendation would be a subsidiary Canadian corporation.

Canada tightening ESG regulation

Canada has risen to the top of its G7 counterparts as a dependable destination for foreign direct investment (FDI), but this looser, low-regulation environment has slowed Environment, Social, Governance (ESG) behind the nation's EU counterparts. While the importance of taking action on ESG matters like climate change is growing, there has been a gap between the level of concern and actions taken so far. This is set to change significantly from 2024 onward, with a recent announcement that new rules come into effect for some business entities including eligible banks, insurance companies, and federally regulated institutions will need to provide ESG disclosures on the financial impact of their climate-related risks.

In good form

In terms of attractiveness to investors, Canada is well above average. In 2021, Canada's combined federal-provincial statutory corporate income tax rate was 26.2%, one of the lowest in the G7, with the tax treatment for new business investment, at 13.2%, the lowest in the G7 and below the OECD average.

The regulatory environment also supports ESG and technology innovation, offering one of the most generous tax and grant funding incentives in the G7 to encourage businesses to conduct research and development in Canada. Tax incentives for foreign owned corporations in particular, receive up to 38% of qualified labour expenditures, in most cases as a combination of both refundable and non-refundable investment tax credits, through the federally administered Scientific Research and Experimental Development (SR&ED) tax incentive program. The SR&ED tax incentive program funds over $3 billion annually and there is no funding cap. In addition, there are more than 150 initiatives and grant incentive programs available from both federal and provincial governments. Manufactures can benefit from programs targeting streamlining the supply chain through automation, adopting clean technologies, and increasing energy efficiency.

According to the Economist Intelligence Unit, Canada will be the top country for business in the G20 for the years 2022 to 2026, a position it has consistently held over the last 5 years. Canada is also ranked third among G7 countries for ease of starting a business and is likely to attract the most investments over the next three years.

Economic growth

In 2021, Canada's economy grew at an estimated rate of 4.6%, the highest growth rate among the G7 economies. This year, despite global economic strain due to the Ukraine conflict and the Pandemic, Canada's economy is anticipated to grow by 2.8%.

This pro-active approach to attracting investment has clearly made a positive impact on the economy, but a side-effect of this light-touch regulation means that ESG regulation for businesses has fallen behind where it needs to be to keep up with its EU counterparts. Canadian legislation enables, and at times necessitates, the pursuit of sustainability-oriented investments for financial returns and asset protection, according to the latest Legal Framework for Impact (LFI) report. However, the pursuit of positive sustainability impacts as a primary objective is limited under Canadian law.

2024 policy update

In a major policy shift from 2024 onwards, Canada's regulatory bodies have instigated several key ESG reporting standards, rules, and requirements, which will significantly impact the nation's investment landscape.

Corporations Canada (the Canadian government's tax portal), for instance, now mandates annual diversity reporting for corporations' boards of directors and senior management, focusing on the representation of women, Indigenous peoples, persons with disabilities, and visible minorities.

The Canadian Securities Administrators (CSA) is set to enforce mandatory ESG reporting from large banks, insurance companies, and federally regulated financial institutions, starting in 2024. Additionally, ESG disclosure guidelines for investment funds, which may have ESG as a core strategy, are now in place.

In addition, the Government of Canada now requires large federal contractors to disclose their greenhouse gas (GHG) emissions and provide plans to reduce these emissions, applicable to federal procurements greater than $25 million.

Taxonomy system

The Sustainable Finance Action Council, under the Department of Finance Canada, has launched the Canadian Green and Transition Financial Taxonomy, a system intended to standardise definitions of climate-compatible investments, focusing on "Green" and "Transition" projects. The policy is driven by the urgency to fill an estimated annual climate investment gap of up to $115 billion to achieve a net-zero economy by 2050.

Pro-activity pays dividends

Overall, while these new regulations may seem daunting for corporations and investors alike, experts suggest a proactive approach will yield significant benefits. Careful attention to board structure, materiality assessments, comprehensive knowledge of securities laws, efficient ESG data systems and processes, and continuous learning are recommended next steps to successfully navigate this new regulatory landscape and better prepare Canadian business for expansion into EU countries.

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