

ITAC

INFORMATION TECHNOLOGY
ASSOCIATION OF CANADA

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ASSOCIATION CANADIENNE
DE LA TECHNOLOGIE DE L'INFORMATION

2016 PRE-BUDGET SUBMISSION



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As Canada's national Information and Communication Technology (ICT) business association, the Information Technology Association of Canada (ITAC) champions the development of a robust and sustainable digital economy in Canada.

More than 33,500 Canadian ICT firms create and supply goods and services that contribute to a more productive, competitive, and innovative society. The ICT sector generates one million jobs directly and indirectly and invests \$4.8 billion annually in R&D, more than any other private sector in Canada.

INTRODUCTION

ITAC has **made 9 recommendations** based on the four themes put forth by ITAC's Tax & Finance Committee after a broad consultation with members. These nine recommendations have been organized under four themes of Productivity, Infrastructure and Communities, Jobs, and Taxation which is consistent with Government's mandate letters.

PRODUCTIVITY

For over a decade, ITAC has been an advocate for improving Canada's productivity performance. We believe that a key strategy for achieving this is to accelerate the use of technology throughout all sectors of Canadian business.

PRODUCTIVITY RECOMMENDATION 1: **Changes to the Capital Cost Allowance Rate**

The Government clearly understands the linkage between technology investment and productivity growth. This idea underpins the 2007 introduction of an accelerated capital cost allowance to encourage investment in machinery and equipment used in manufacturing and processing. The same logic should apply to all participants in the economy seeking to boost productivity and spur innovation through the broader adoption of technology.

Capital cost allowances generally favour adoption of information and communications technology, but ICT is spread across a broad swath of investment classes and understanding the allowance for a full package of ICT tools from servers to applications can be challenging – particularly for small businesses. Rationalizing and standardizing CCA for ICT classes of assets would help to encourage technology adoption.



Measures to encourage the use of technology, such as the 2006 Telecommunications Policy Review Panel's ICT adoption tax credit – targeted specifically at small and medium-sized business – have been proposed, but never acted upon.

A targeted tax credit applying to incremental ICT adoption, as well as training and process re-engineering necessary to facilitate technology adoption, would present a targeted and time-defined measure to accelerate the productivity of Canada's vital SME sector.

ITAC recommends changes to the CCA rate for several classes of depreciable assets that relate to communications network equipment, including broadband networks. We recommend an increase in CCA rates as follows: from current rates to 50% for capital investments in most areas and 100% in those areas identified by Industry Canada as underserved in its Connecting Canadians Broadband initiative. These changes along with the suspension of the current 'half' year rule will provide communications service providers with planning certainty and will accelerate the pace of connectivity.

PRODUCTIVITY RECOMMENDATION 2: Recapitalization of Canada Health Infoway

Technology has proven to be a particular advantage to improving the productivity of healthcare delivery and thus the sustainability of our healthcare system. The Federal Government, through Canada Health Infoway, is a major catalyst for the evolution of Canadian capability in eHealth delivery and plays an important role in the deployment of IT in healthcare.

ITAC recommends either Canada Health Infoway (CHI) or some "new structure" be recapitalized for \$180 million over three years. This will allow the continuance of expansion of the capacity of the sector and help deployment of electronic medical records, bring care closer to the home and improve the patient experience by providing easier access to care. And, this will also spur innovation & research in the informatics sector of healthcare.

INFRASTRUCTURE AND COMMUNITIES

Our 21st century view of what constitutes infrastructure must go beyond bricks and mortar and also embrace the communications networks that empower modern commerce and social interaction. National stewardship of our infrastructure includes the responsibility to ensure that our digital infrastructure is ubiquitous and as affordable as possible, to both communities and businesses.



RECOMMENDATION 1:
Discourse on the Internet of Things

The Internet of things (IoT) is the online interaction between different technologies. IoT creates the ultimate connected world where intelligence is shared between machines, applications, and services, creating data models that significantly improve the way we make decisions. Through IoT, technologies will connect, work together, and communicate online.

IoT will place increasing emphasis on the importance of the government's stewardship of digital infrastructure. Given Canada's strong history of being a leader in digital connectedness, ITAC believes that IoT presents new opportunities for Canada.

It is ITAC's view that the inventory of public policy issues that IoT raises is lengthy and will have an impact on every Canadian. To address these public policy challenges and to position Canada for leadership, ITAC has called for a comprehensive national discourse on IoT comparable to previous national initiatives on the Information Highway and ecommerce. These previous initiatives were supported by small but effective secretariats.

ITAC recommends the creation of an IoT Secretariat in order to have a comprehensive national discourse on the Internet of Things and to identify opportunities and public policy gaps in order to ensure Canada is positioned for

leadership in the next stage in the evolution of the digital world.

RECOMMENDATION 2:
Broadband Access for All Canadians

The benefits and opportunities stemming from the Internet of Things underscore the importance of ensuring access to broadband for all Canadians.

Communications services providers play a fundamental role in extending connectivity to all Canadians. To do so requires significant capital investments. Without these investments, Canada's excellent service levels would decline, especially for those living in rural and remote areas where the business rationale for such investments is much weaker than in large, urban areas. Appropriate focus and investment in tomorrow's network will not only help build globally competitive companies but will also provide huge socio-economic benefits in creating talent and attracting investments.

ITAC's recommendation is that government consider aggressive investment to drive broadband expansion in rural and remote areas. Additionally, develop a P3 model to build 5G network corridors to drive research, innovation and attracting SMEs in developing globally competitive products and services.



JOBS

While Canada continues to face significant rates of youth unemployment, its ICT industry struggles to find the talent it needs to fuel its growth. And, because ICT skills are required throughout all sectors of the economy, this shortage will have serious repercussions on Canada’s continued prosperity.

JOBS RECOMMENDATION 1: **National Roll-Out of the CareerMash Program and sustaining BTM (Business Technology Management) Program**

ITAC Talent is dedicated to maintaining a persistent and effective dialogue with young Canadians to encourage their pursuit of studies leading to ICT careers. One of the central programs in this work is CareerMash.

Using a diverse network of mentors, blogs, video, social media and special events, CareerMash is dispelling the stereotypes that prevent young people from considering tech careers. The CareerMash program has reached more than 10,000 high school students in Ontario with the support of its private sector sponsors.

For post-secondary, BTM program under EWDL funding is supporting sector-specific “learning outcomes” to over 20 post-secondary institutions have been hugely successful. Graduating 1000 students per year with 90% hire rate. Mandate is to have

50 institutions by mid-2017. Continuation of funding is critical if we are to deliver on skill-set needed for the ICT sector.

An investment of \$5 million per year for 3 years from EWDL will support a national roll-out of the CareerMash program and allow ITAC to expand the BTM program beyond the current target of 50 post-secondary institutions. Finally, this investment will establish a supporting “accreditation & certification” body to ensure that the learning outcomes are always refreshed to meet the changing needs of the technology sector.

JOBS RECOMMENDATION 2: **Consultation Panel on ICT Talent Access**

The ICT labour market in Canada depends upon the flow of global talent from other jurisdictions for short term, medium term and long term assignments to address project work to technology transfer assignments. Along with immigration rules that present employers with significant challenges in accessing the foreign workers necessary for the completion of strategic assignments, de minimus rules relating to personal income tax of transferred workers are a major obstacle.

There is need to have a “technology sector” specific consultation panel which will address the issues that are specific to the ICT sector. It must be noted that ICT is an enabling tool, which essentially



supports all market verticals – any disruption to talent access puts Canadian companies at risk in a globally competitive market.

TAXATION

2012 marked the first year that Canada dropped out of the ranks of the top ten R&D performing countries in the OECD.

TAXATION RECOMMENDATION 1: **Study on Changes to SR&ED**

While Canada continues to be the leader in private sector research and development, R&D spending in ICT has dropped 8.5% since 2007. Measures introduced in 2012 shifting R&D incentives away from indirect measures (SR&ED) and towards direct, program-driven approaches which were designed in part to correct this downward trajectory. At the time these measures were introduced, ITAC was vocal about its belief in the fairness, predictability and overall effectiveness of indirect measures to encourage R&D.

Recognizing that Government was committed to a new approach to R&D incentives, we strongly recommended that Government monitor closely and publish the results of this new approach to ensure that it deliver the outcomes desired. In 2016, there will be at least two years of data accumulated on private sector R&D performance since the changes, and early

indications suggesting they are not producing the desired results. ITAC believes the call for a full review of the impact of these changes is urgent.

Government should conduct a study of the impact of changes to SR&ED introduced in the Economic Action Plan 2012 to determine if the changes are producing the desired results and adjust the incentive program to encourage R&D investment accordingly.

TAXATION RECOMMENDATION 2: **Lower Tax Rate for Intellectual Properties (IP) Revenue**

It is critical that government is devoting appropriate economic policies in the ICT sector that will help Canadian entrepreneurs develop intellectual properties and compete in the global arena. When trading in intangible goods and services, it is essential that these policies are comparable to other major advanced economies.

Government needs to have an IP regime, which is at par with other advanced economies – from the time it takes for patent approval, to enforcement guidelines to economic disincentives for patent infringement.

Government should consider a lower tax rate for revenues generated from Intellectual Properties (IP) than revenues from non-IP revenues. This will create an



incentive to Canadian companies to develop & commercialize IP that creates economic wealth and foster an innovation economy.

TAXATION RECOMMENDATION 3: Stock Option Plan

It is critical that government engages in a fulsome consultation before changing the Stock Option Plan. The Stock Options are of great value to the Small & Mid-size Canadian companies – especially in technology sector. The life-blood of the start-up and innovation eco-system is talent. Therefore, the companies need tools other than over-the-top cash payments, which early stage companies do not have, to have the right talent pool. Stock Options today are used primarily for 3 reasons:

- Attract the top talent from an increasingly connected global marketplace
- Retain the critical resources who are pivotal for company's success
- Reward the talent who have often sacrificed a great deal to build a successful corporation

Government needs to have fulsome consultation with businesses, especially in the technology sector, on how the Option Plans are used; otherwise the unintended consequences will lead talent drain and stifling innovation.

IN SUMMARY:

ITAC's recommendations for the 2016 Pre-Budget Consultations are:

1. Changes to the Capital Cost Allowance Rate
2. Recapitalization of Canada Health Infoway to drive eHealth benefits
3. Formation of Secretariat on the Internet of Things to address key policy issues
4. Broadband Access for All Canadians and start 5G initiatives
5. National Roll-Out of the CareerMash Program & continuance of BTM
6. Immigration Policy consultation panel on ICT talent access
7. Study on Changes to SR&ED
8. Lower Tax Rate for Intellectual Properties Revenue
9. Consultation on Stock Option Plan

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