ITAC ACTI

INFORMATION TECHNOLOGY ASSOCIATION OF CANADA

ASSOCIATION CANADIENNE DE LA TECHNOLOGIE DE L'INFORMATION

2014 Federal Pre-Budget Submission

Recommendation #1: Accelerate the pace of the Canada Venture Capital Action Plan

ITAC applauded the announcement of the $400 million allocation for venture capital in the 2012 Budget and supports the wise decision to leverage this money into a much larger fund. However, the process to find partners and begin placements is taking a very long time. The VC industry meanwhile continues to hold its breath waiting for the action plan to unfold and VC funding to all sectors is at an all-time low. Additionally Budget 2013 signaled the end of Federal Government participation in Labour Sponsored Investment Funds, which have been one of the few sources of investment opportunity for Canadian companies. This, combined with the deliberate pace of the Venture Capital Action Plan, has created a very difficult environment for companies seeking funding.

Expected Cost of Savings
No costs or savings assuming LSIF cancellation funds the Government share of the Venture Capital Action Plan. ITAC simply recommends that the benefits of the action plan reach the venture capital market sooner than the current pace would indicate.

Federal Funding
The Canadian Venture Capital Action Plan is currently funded. ITAC recommends an acceleration of the pace of the delivery of the plan.

Intended Beneficiaries
The VC industry and emerging companies in ICT and other knowledge-based sectors.

General Impacts
The CVCA appropriately leveraged will deliver a strong and much needed impetus to the Canadian venture capital market. This will help to ensure better access to appropriate levels of funding from Canadian sources for Canadian investee firms.

Recommendation #2: Adjust the measures that adversely and prejudicially impact the R&D performers in Canada

Adjust the measures introduced in Budget 2012 and implemented in January 2013 that adversely and prejudicially impact research and development performers in Canada by increasing the tax rate to SR&ED qualified pool balances from 15% to 17% or return capital expenditures for R&D to SR&ED eligibility or both.

ITAC believes that a healthy innovation ecosystem contains a number of small, medium and large players. And while we have many start-ups and emerging companies in the Canadian ICT industry, there are only about 100 ICT companies in Canada with more than 500 employees.

Beyond the sheer size of these companies, they bring additional assets to their geographies and ecosystems. The global reach of their supply chains can propel local partners into a worldwide marketplace. And their C-suites of talent adept at managing growth and all other dimensions of research based commerce provide the ‘feeder-stock’ for the next generation of start-ups. Above all, their success stands as an aspirational objective for emerging companies seeking a leadership position in global markets. Large companies play an important role in the ICT industry. But they need a good reason to maintain their operations in Canada beyond mere

sales and marketing forces for the Canadian market. SR&ED is very important to them. In many respects, ITAC believes that SR&ED helped to build our industry from a standing start fifty years ago to 5% of Canadian GDP today (as much as mining and forestry combined).

The changes implemented in January 2013 will reduce SR&ED claims by approximately $300 million by the end of 2013. Meanwhile, the roll-out of direct measures to support innovation and commercialization are proceeding through the consultation phase with implementation of major funding initiatives unlikely before well into 2014. The Government's expressed intention in Budget 2012 and reaffirmed in Budget 2013 is the creation of value-added jobs through innovation. Depleting the value of the incentives employers' access to perform R&D, without alternative measures in place will not achieve this outcome. R&D investors, particularly large R&D investors, are struggling to maintain research mandates in Canada in the light of the changes to SR&ED. A partial restoration of the value of SR&ED credits would signal to the R&D performing business community that the Government is serious about keeping high value, innovation oriented jobs in Canada while it fine tunes the balance between direct and indirect measures to support R&D and commercialization.

Expected Costs or Savings:

Intended Beneficiaries:
The R&D performing business community particularly large companies who anchor Canada's R&D clusters.

General Impacts:
$300 million drawn from the SR&ED program represents about 2,000 high paying jobs. An adjustment to the reductions in the value of SR&ED would help ensure job retention while still providing sufficient resources for the announced direct measures to encourage innovation and commercialization.

Recommendation #3: Address Canada's laggard productivity performance by focussing on increasing the adoption of productivity-enhancing technology

Develop a sustained campaign to address Canada's laggard productivity performance, with a focus on accelerating the use across the economy of productivity-enhancing technology including ICT.

Canadian companies continue to under-invest in productivity enhancing technology in comparison to their counterparts in the United States. Canada's current rate of ICT investment per worker is currently at 53% of the United States.

Canada has experimented with measures to increase the rate of ICT adoption. Last year with the Canadian Manufacturing Coalition, ITAC requested the Government consider an accelerated capital cost allowance approach on ICT categories of investment as well as manufacturing and processing machinery and equipment. Budget 2013 extended the 50% straight line depreciation on manufacturing equipment leaving ICT categories unaddressed.

If the Government is not in a position to consider an accelerated capital cost allowance treatment on ICT investments, some lower cost measure such as communications campaign to

encourage the use of 21st century business tools would begin to address Canada's lagging productivity.

Expected Savings or Costs
Depending upon the approach less than $20 million (communications campaign) or hundreds of millions (ACCA treatment on ICT)

Federal Funding
General revenues

Intended Beneficiaries
All Canadian businesses especially SMEs would benefit from persistent communication about the productivity enhancing benefits of technology.

General Impacts
Government championship of the productivity issue would finally begin to address a long-standing economic challenge to Canada's future prosperity. State of the art technology adoption in Public Service (through SCC) will significantly reduce the IT spend in the Federal Government. Similarly, new technology adoption in the private sector will improve efficiency which in turn will stimulate overall competitiveness and economic performance.

Recommendation 4: Renew funding for the Canada Health Infoway

Fulfil the request for funding renewal for Canada Health Infoway to foster digital innovation in healthcare.

One of the greatest challenges Canada faces is in finding ways to improve the outcomes and efficiency of our cherished healthcare system. The ICT industry believes that digital technologies are absolutely critical to achieving this objective.

Continuing leadership and support from Canada Health Infoway is key to achieving this. Canada Health Infoway is a proven mechanism not only for improving the health of Canadians but also in promoting key drivers of productivity and growth: innovation, human capital and business investment. By leveraging government investment, promoting coherent standards, enabling efficiencies and facilitating adoption of digital health, it also strengthens Canada's ICT sector and increases the export potential for Canadian Health Informatics and ICT products and services.

As Canada's Health ICT industry matures, Canada Health Infoway's continuing leadership is increasingly important. For example, the industry currently views standardization and certification of suppliers as critically important to the competitiveness and export readiness of these

Expected costs
$180 million over 3 years.

Funding
General Revenues

Intended beneficiaries

All Canadians - the healthcare sector, including ICT companies delivering digital health care solutions and services.

Impacts
Among other benefits renewing Canada Health Infoway funding will help to anchor a strong digital health industry in Canada.

Recommendation 5: Better support for early stage entry of Canadian companies entering into international markets

Increase support for services to foster the early stage entry of Canadian companies into international markets. Programs such as the Trade Commissioner Service and the GOA program to fund association activities to promote export readiness delivered by DFAIT as well as continuing support for the work of Export Development Canada are critically important to the formation of Canadian companies. This is especially true for Canadian companies in the technology sector who recognize that the domestic market in Canada is too small to sustain their growth.

Expected Costs
Less than $20 million

Funding
General Revenues

Intended beneficiaries
Emerging Canadian companies in ICT and other exporting sectors

Impacts
These programs encourage and educate emerging companies in the development of international business development strategies. Equipping companies at an earlier stage with the knowledge and skills necessary to succeed globally builds stronger competitive positioning for Canada in global markets and helps bias Canadian companies for success.