

ITAC

INFORMATION TECHNOLOGY
ASSOCIATION OF CANADA

ACTI

ASSOCIATION CANADIENNE
DE LA TECHNOLOGIE DE L'INFORMATION

2016 PRE-BUDGET SUBMISSION



2016 PRE-BUDGET SUBMISSION

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.



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

(Word count: 1991)

For more information, please contact:

Kelly Hutchinson
Vice President, ITAC
220 Laurier Avenue West, Suite 1120 K1P 5Z9
613. 238.4822 X 2239
khutchinson@itac.ca

