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DE LA TECHNOLOGIE DE L'INFORMATION

A Pre-Budget Submission by the Information Technology Association of Canada

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The Information Technology Association of Canada (ITAC) is the voice of the Canadian information and communications technologies (ICT) industry. ITAC represents a diverse ICT community spanning telecommunications and internet services, ICT consulting services, hardware, microelectronics, software and electronic content. ITAC's community of companies accounts for more than 70 per cent of the 592,600 jobs, \$149.4 billion in revenue, \$6.22 billion in R&D investment, \$22.6 billion in exports and \$11.8 billion in capital expenditures that the ICT industry contributes annually to the Canadian economy. ITAC is a prominent advocate for the expansion of Canada's innovative capacity and for stronger productivity across all sectors through the strategic use of technology.

Whether we are at the beginning, the middle, or approaching the end of a global economic recession, ITAC, the Information Technology Association of Canada, believes we are at a significant juncture in the realm of commerce. As grim as the economic turbulence has been in many business sectors, we know that as the current cycle turns upward new opportunities will emerge. And as business restructures, technology will drive much of the change. Countries that understand and seize the opportunities that technology presents for innovation and productivity growth will do much better than those that miss this crucial shift. It is through this lens that budget-making must be approached.

Budget 2009 included a number of measures that marked an understanding, not only of our position in a global downturn but of our position at the beginning of the 21st century. ITAC was gratified to see that current perceptions about infrastructure and infrastructure spending now embrace electronic infrastructure as well as bricks, mortar and asphalt. Including the broadband network investment and commitments to fund the deployment of a national electronic health record in the rubric of infrastructure investments was almost as welcome as the significant investments allocated for these objectives themselves. These investments will accelerate the roll-out of the electronic pathways for both commerce and healthcare delivery.

Over the past few months, considerable attention has been turned to determining what we need to do to secure a position of leadership in the global knowledge economy, including reports by the Council of Canadian Academies and The Science, Technology and Innovation Council, the Canada 3.0 Conference and Minister Clement's Digital Economy Forum. The latter conferences included a very broad cross section and large numbers of Canadian industry and thought leaders, with ITAC and the Canadian Chamber of Commerce publishing white papers on these issues. A common theme through all this is that Canada's future prosperity and success is dependent on innovation and the use of information and communications technology. Canada has many advantages that other countries would love to have. We can and should capitalize on these to secure leadership in the digital economy and come out of the current recession with a stronger competitive position and potential for growth.

Generally speaking, there is strong consensus on the need for Canada to set the goal of being a leader in technology adoption throughout the Canadian economy as well as in government and public services. Another recurring theme is the need to develop a strategy about the skilled

human resources that we will need for success in the 21st century. But the top issues that keep recurring in terms of Government Budgets are the following:

1. We need to address our productivity and prosperity deficit by intensifying our efforts to incent adoption of information and communications technology by Canadian businesses.
2. We need to address our innovation deficit by strengthening and possibly complementing our SR&ED Program.
3. We need to address our venture capital deficit with more aggressive measures to ensure the availability of capital for growth enterprises.

These three priorities, described in more detail below, represent key investments that will pay back handsomely in growth and prosperity for Canada.

- 1. Extend the timeframe for accelerated CCA treatment for computers. Expand the eligible asset classes to include application software and the class of assets most closely associated with broadband networks.**
- 2. Consider augmenting accelerated CCA treatment with a pragmatic approach to directly incent small and medium-sized business owners to invest in ICT.**

Budget 2009 accelerated capital cost allowance and eliminated the half year rule on computer systems and operating software for a two-year period. This is a wise and smart measure, but it has become apparent that it should be enhanced in order to significantly impact lagging business investments in ICT in Canada.

First of all, the provision in Budget 2009 did not extend to application software. Application software has become a vitally important component in the IT ecosystem, actually as important if not more important than hardware. It is also worthy of note to point out that Canada's ICT industry is comprised of many more software producers than computer hardware manufacturers, so a measure to accelerate application software adoption would have the additional benefits of stimulus to many Canadian-based enterprises or operations.

Broadband communications also contribute significantly to the capacity for innovation and productivity of Canadian businesses. Accelerated capital cost allowance on assets associated with broadband networks will serve to expand our broadband networks by improving the

business case for the more rapid roll out of broadband. The heavy burden of government mandated fees imposed upon players in the communications industry is another impediment to the growth of our broadband networks. Our members estimate that mandated fees (outside the cost of securing spectrum via auctions) cost the communications industry as much as \$926 million annually. A review of the appropriateness and size of these fees is particularly timely in light of our expressed aspirations to return to a leadership position in the digital economy.

Secondly, the measure was announced in an environment where businesses were generally cutting back on spending, and it is not clear that an incentive expiring at the end of 2010 will have been in the window long enough to sufficiently affect the investment cycle. We therefore suggest that the capital cost allowance inducements in the 2009 Budget be extended by one more year and expanded to cover application software and broadband equipment in addition to computer hardware and operating systems.

In addition, it is now well understood that the productivity gap between Canada and other leading countries is largely the consequence of significant under-investment in ICT by small and medium-sized businesses. In the current economy, many businesses are focused on fighting to keep their doors open and their staff employed. Our view is that a tax measure to encourage adoption, which is predicated on the business being in a tax paying situation may prove to be insufficient stimulus particularly in the SMB sector.

Therefore, we propose that the Government consider a limited time direct (fully refundable when no tax is payable) incentive program to encourage SMB business owners to invest in ICTs. It should apply to incremental investments in ICT assets and to complementary expenses such as training.

3. Reform SR&ED to ensure all research and development investors can benefit from the program.

Our capacity to recover quickly from our current downturn is predicated on our ability not only to improve our processes and practices but on our ability to commercialize new discoveries as well.

Canada is a persistently mediocre performer in business expenditure on R&D. In spite of our Scientific Research and Experimental Development (SR&ED) tax credit program, we still rank 14th among OECD members for business investments in R&D. Clearly SR&ED as it is currently designed is not enough to vault us into leadership in R&D. While the SR&ED program is quite effective for many firms, there are many others that are not in a position to benefit from it when they invest in R&D. The Science, Technology and Innovation Council, for example, in its “State of the Nation 2008” report noted that while Canada’s tax credits for R&D are one of the highest in the world for small and medium-sized companies, “... other countries, notably economies such as Mexico, France, China, India and Singapore offer much higher credits for R&D performed by larger firms.” And the Council of Canadian Academies has gone a step further, calling for a refundable SR&ED credit to “strengthen the incentive for larger firms to sustain the pace and continuity of R&D through downturns.” Many firms reaching the most promising phase of their growth face reduction in benefits from SR&ED, at a time when their need for capital is most crucial.

Over the past ten years, speaking from the perspective of the largest industrial sector investor in R&D in Canada, and representing a community of both large and small R&D investors, ITAC has advocated reform of the SR&ED program to fulfill one simple principle. We believe that the credits should be refundable so that all R&D investors have access to the credits they earn.

4. Accelerate and increase measures to address the venture capital crisis in Canada.

Since the Fall of 2008, a great deal of attention has focused on the urgent need for liquidity within the Canadian business community. Liquidity in the technology sector hinges on the availability of venture capital. The Federal Government and many provincial governments have recognized this with infusions of capital to existing channels (such as the Business Development Bank of Canada) and through the creation of Funds of Funds.

Many technology firms face the immediate, global crisis in the availability of venture capital, coupled with the underlining lack of size and depth of the venture capital pool in Canada. Many ventures with truly strong growth prospects are faced with choices that mean stunting their growth potential, let alone call into question their very survival. This bodes ill for Canada’s ability to produce the next generation of world-class technology enterprise. We simply must find new ways to expand their options and we must move quickly.

While the measures so far announced to address this problem demonstrate an acknowledgement that our venture capital market is not as healthy as it should be, ITAC believes that the level of funding committed so far is significantly less than required. We also note that the instruments deployed are not as agile as they should be and deal flow continues to be stalled.

This problem is urgent. We need a well-funded, innovative, fleet-footed and multi-dimensional approach to it. Proposals such as the Retail Venture Capital Association's proposal for enhancements to Canada's retail venture capital market would provide a new infusion of capital and should be adopted. Direct investment programs such as the Strategic Aerospace and Defense Initiative should be introduced for all venture-backed enterprises. IRAP funds should be further increased to help sustain early stage companies. But above all, we need to double the current investments in BDC's venture capital channels and we need to set out a policy for their use that can sustain a generation of promising knowledge-based ventures through this economic crisis.