



INFORMATION TECHNOLOGY  
ASSOCIATION OF CANADA

220 Laurier Avenue West  
Suite 1120  
Ottawa, Ontario K1P 5Z9  
Tel: 613-238-4822  
Fax: 613-238-7967  
www.itac.ca



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December 5, 2008

The Honourable Dwight Duncan  
Minister of Finance and Chair of Management Board of Cabinet  
Ministry of Finance  
7 Queen's Park Crescent, 7<sup>th</sup> floor  
Toronto, ON M7A 1Y7

Dear Minister Duncan:

ITAC, as you know, is the voice of the information and communications technology industry in Canada. The majority of the activity in the ICT sector occurs in Ontario. Our sector prides itself on being a mature knowledge-based industry with a keen understanding of the key requisites for successful competition between enterprises and between nations.

We have consulted closely with many members of Premier McGuinty's Government and their departments over the past two years and are confident that the Government of Ontario and your department have an excellent grasp of the transitional nature of our economy at the beginning of the 21<sup>st</sup> century. Ontario is in the process of transforming itself from the leader of Canada's industrial economy to a leader in a Canadian economy predicated on knowledge and innovation. Wise investments in education, in 21<sup>st</sup> century infrastructure and in programs designed to foster innovation and high value knowledge-based jobs will help to ensure that Ontario emerges from the present economic tumult equipped to succeed in a transformed economy. The most pressing challenge for the Ontario Government right now is to keep its focus on the elements necessary for success in the 21<sup>st</sup> century. Even the future of our traditional industries will have to be based more and more on knowledge, technology and innovation. We support the leadership that Ontario has demonstrated in its efforts to transform the economy and are pledged to serve as allies and a resource in this process. This spirit has guided the formulation of our answers to the pre-budget questions you posed to Ontarians.

**1. During this period of economic uncertainty and fiscal challenges, what should the Ontario Government's top priorities be for the 2009 Document?**

Investment and policy measures to strengthen the knowledge and skills of Ontario's people must be given the highest priority. The Government's 2008 Budget contained many provisions which reflected this strategy – launch of the Next Generation of Jobs Fund, creation of the 2<sup>nd</sup> Career Program for retraining and ongoing commitment to robust investment in higher education. It may be easier to commit to investments of this nature in times of surplus. But we believe the urgency of this strategy only grows as we face economic challenges.

**2. During challenging economic times, should the Ontario Government work towards achieving a balanced budget or run a deficit in order to do everything it can to protect priority program and services?**

No responsible government deliberately decides to spend more than it takes in. Deficits are the result of a series of choices and, depending upon the choices made, may be acceptable if their order of magnitude is kept to a minimum and there is resolve to restore balance as quickly as possible. The Ontario Government, for example, has made bold commitments to post-secondary education. This choice stems from a belief that, to quote the Premier "education is the foundation for citizen engagement and a strong democracy. It enriches the enjoyment of our lives and it is essential to our economic success." ITAC, with many other stakeholders in the knowledge-based economy, strongly supports that view. We must make our choices based on our vision of what will build the strongest future for Ontario.

Complicating our choices further is the requirement to deliver essential services, such as healthcare. We concur with your observation that the Government should do everything it can to protect the core services that are important to Ontarians. However, we believe that, particularly in healthcare delivery, appropriate applications of technology can significantly improve patient outcomes and allow us to do more with the funding envelope we have. ITAC continues to work closely with the Ministry of Health to promote this view throughout the whole healthcare delivery system. Funding of Ontario's eHealth strategy is absolutely essential to the sustainability and performance of our healthcare system, and in turn to the competitiveness of Ontario.

**3. Given the current fiscal challenges, what Government programs should be delayed, phased in more slowly or eliminated?**

Containing spending is usually a prudent strategy, unless the prospective spending can have the impact of producing economies or improving productivity over the mid to long term. We note one of your suggestions is to restrict spending on information technology along with travel, accommodation and consulting.

Minister, ICT investments are precisely the kind of forward-looking expenditures that can assist governments in fulfilling their service obligations within a shrinking funding envelope. To view ICT as merely another discretionary overhead would be wrong-headed. Countless enterprises and governments have profited from timely ICT investments as critical measures to ensure sustainability, competitiveness and excellence in client service. Sacrificing strategic ICT investments in times of economic challenge is not a progressive measure. It will ultimately impede the effectiveness of government service delivery and the effective execution of policy.

Indeed we urge you to pay careful attention to the recommendations of The Task Force on Competitiveness, Productivity and Economic Progress: “Investment in assets like machinery and technology and in our own skills and knowledge is a critical driver of increased productivity, and productivity growth is necessary if we are to realize our full prosperity potential. Ontarians need to step up our investments.”

Our members have reflected on one measure announced in Budget 2008 – the prospective tax holiday for enterprises commercializing Canadian IP. First of all, we salute officials in your Ministry for their forward thinking in formulating new measures to build innovative capacity. Innovative public policy making goes hand in hand with this objective. But our reflections suggest that this excellent idea may benefit from further study and refinement. The white paper that I have attached (and have also shared with the tax policy officials) draws from the experience of several entrepreneurs or serial entrepreneurs in ICT regarding the role of IP in the formation of innovation-driven enterprises. It suggests that current thinking about the role intellectual property licenses play in knowledge-based ventures may be overstated while the role of the talent behind the innovative technology may be understated. We hope that this viewpoint may prompt further thought regarding this initiative. We believe it shows that in any event the initiative should not generate any loss of tax revenue for the foreseeable future.

#### **4. What further steps can the Ontario Government make to promote economic growth and job creation?**

Beyond maintaining the focus on 21<sup>st</sup> century capacity building programs like the Next Generation of Jobs Fund, we recommend two further steps.

1. Continue to work toward harmonization of sales tax.  
The current sales tax regime in Ontario continues to be the major impediment to business tax competitiveness in the province. Overcoming this obstacle challenges the political will of both the provincial and the federal governments and this challenge will only grow as both budgets shrink. Nevertheless harmonization must be addressed.  
Interim solutions may provide some relief without incurring the cost of complete harmonization. ITAC has argued for some time that Ontario’s sales tax on telecommunications and custom software are unfairly levied and impose a particular disincentive to the adoption of productivity enhancing technology. We continue to stress that some of the ‘irregularities’ in the application of sales tax on these categories of services (the tax on telecom is duplicative and on customer software is confusing) should be corrected. Alternatively, the taxes themselves should be removed.
2. Continue to address the needs of the venture capital markets in Ontario  
The current financial crisis has placed strain on the availability of capital. A great deal of public policy focus currently rests on measures to bolster conventional financing institutions. However, many advanced technology ventures are not typically financed by these institutions. They are seeded by personal investment, family and friends and venture capitalists.  
These ventures represent our future. Their existence and health is critical to our ability to transform our economy and to recover from our current economic adversity. We urge you therefore to keep careful watch on the whole of Ontario’s financial system.

We applaud measures such as the creation of the Ontario Venture Capital Fund and your commitment to assist angel investors. They are excellent examples of Ontario's leadership in this important area. But this leadership must continue. Venture capital investment in early stage Canadian companies has dropped by 42 per cent since 2002. Industry (investors and entrepreneurs) and government must work more ingeniously in our jurisdiction to restore these investments to healthier levels. We will work closely with all our stakeholders and with your department to develop new approaches to deal with this problem.

**5. How can the Ontario Government work more effectively with other levels of government and other key partners during challenging economic times?**

Times of crisis may be viewed as an opportunity to transcend politics. We believe in times like these true leadership will be rewarded. We urge you to reinvigorate the discourse on harmonization in light of this new opportunity.

The research based ventures of Canada, the majority of which are based in Ontario, require your continuing support for the reform of federal programs such as SR&ED and IRAP. These programs are also vital to the formation of 21<sup>st</sup> century ventures. Improving their policies administration and funding envelopes will help to ensure the survival of many Ontario-based technology firms in difficult times.

Minister, you have a challenging task before you. We wish you every success in finding the right choices for Ontario.

Yours very truly,



Bernard A. Courtois  
President and CEO

Enclosure