

**Written Submission for the Pre-Budget
Consultations in Advance of the 2019 Budget**

**By: Matthew Holmes
President & CEO
Magazines Canada
555 Richmond Street West, Suite 604
Toronto, Ontario M5V 3B1**

List of Recommendations

- **Recommendation 1:** That the government provide funding in the amount of \$50 million to modernize the Canada Periodical Fund and that the government ensure the CPF is protected so it continues to support Canadian magazine publishers.
- **Recommendation 2:** That the government amend Section 19 and 19.01 of the *Income Tax Act* in order to extend the deductibility of advertising costs to digital platforms, and that, in keeping with how the *Act* treats the deductibility of print advertising in foreign publications, that advertising on foreign digital platforms be deemed a non-deductible expense.
- **Recommendation 3:** That the government introduce non-profit and charitable models that enable private giving and philanthropic support for media organizations.

Recommendation 1: That the government provide funding in the amount of \$50 million to modernize the Canada Periodical Fund and that the government ensure the CPF is protected so it continues to support Canadian magazine publishers.

The Canada Periodical Fund is a Grants and Contributions program administered by the Department of Canadian Heritage that provides direct funding to publishers of Canadian magazines in the form of annual contributions.

Canada's support for its magazine sector predates Confederation. The Postal Subsidy was designed to ensure that Canadians across the country had equal access to the information and stories that tied us together as a nation. Today, the government continues to support the Canadian magazine sector through a strategic combination of legislation, policies and regulations, and financial support delivered by national institutions and government departments.¹

The Canada Periodical Fund, however, must be considered foremost among the various elements of this support network, because it is the CPF that has enabled Canadian magazines to contribute to the country's economic growth, now and over time, currently employing 15,000 Canadians and contributing \$1.7 billion annually to Canada's GDP. [check]

The CPF is of critical importance to the sustainable operations of Canadian magazines, supporting them in their efforts to reach audiences across Canada and internationally, develop new content and platforms for the delivery of that content, and make important and needed contributions to Canada's economic and social cohesion by providing a venue for storytelling and journalism, as well as professional insights and industrial best practices.

Following a comprehensive review of federal cultural policies and programs, which included the Canada Periodical Fund, in September 2017 the Honourable Mélanie Joly, Minister of Canadian Heritage, released her *Creative Canada Policy Framework*, which affirmed that the CPF would remain the primary support vehicle through for Canadian magazines.

The Department of Canadian Heritage is working to modernize the CPF to better respond to the realities of publishing in a digital world, where print is only one of many platforms, so that the program can continue to support Canadian magazines' contributions to Canada's economic growth and competitiveness. Currently, a magazine's annual contribution from the CPF is calculated based on the number of printed copies the magazine sells. The flaw in this model is obvious: The program is unable to respond to a magazine's engagement with readers on digital platforms where it publishes content, including web, tablet, mobile, social media and video.

¹ Legislation is comprised of the *Foreign Advertising Services Act* and the *Income Tax Act*; financial support is comprised of the Canada Periodical Fund administered by the Department of Canadian Heritage and the Canada Council for the Arts; policies and regulations include the Foreign Investment Policy in the Periodical Publishing Sector.

Rather than chase continually-evolving publishing platforms—a losing battle—the modernized CPF will see a magazine’s annual contribution calculated based on the magazine’s investment in the jobs at the magazine that produce Canadian content and are involved with conceptualizing, developing, creating and producing the Canadian content in the magazine. The modernized CPF will ensure that Canadian magazine publishers can contribute to growing the Canadian economy and to Canadian competitiveness in the face of a changing economic landscape.

Canadian magazines are no strangers to change. Indeed, Canadian magazine publishers have been operating in the face of rapidly-changing economic and technological landscapes for the last decade, as revenues from print advertising dwindle and the shift to digital platforms compels magazines to publish for all platforms, all the time, without a reliable monetization model, as of yet, on these digital platforms. The pace of this change shows no signs of slowing, or ending, anytime soon, which is why the Canada Periodical Fund is so critical to the sustainable operations of Canadian magazines; especially in this period of disruption.

Change, however, is inevitable. Unlike some media sector stakeholders, Canadian magazine publishers have always been innovators, embracing change and the opportunities it brings. Pragmatic, forward-looking and future-focused, Canadian magazines began adapting their content and operations to digital platforms years ago. And because this digital focus requires employees with digital-first skills, the Canadian magazine sector employs Canadians in innovative, knowledge-economy jobs, which have a direct impact on Canada’s continued economic growth and competitiveness in the face of a changing economic landscape.

The modernized Canada Periodical Fund, where a magazine’s contribution amount will be calculated based on the magazine’s expenditures on its employees’ salaries, will ensure that magazine publishers’ investments in these digital-first jobs are captured by the program.

It is noteworthy that of Canada’s more than 2,600 magazine titles, only roughly 400 (15%) [check] of industry titles are funded either through the Canada Periodical Fund or Canada Council for the Arts programs. The CPF needs to remain relevant to Canadians and representative of the diversity of voices that make up Canadian society. It needs to support Canadians employed by Canadian magazines—and Canadian magazines themselves—to contribute to the growth and competitiveness of the Canadian economy. To achieve this, the modernized CPF should expand certain eligibility criteria in order to support more Canadian magazines. Accordingly, a \$50 million per annum increase to the CPF would make a considerable difference in the impact and reach of this program.

With a potentially expanded pool of eligible recipients, however, there will need to be additional funds over and above the \$50 million allocated to the CPF to accommodate any newly-eligible recipients and so as not to dilute the funding envelope available for current recipients.

Recommendation 2: That the government amend Section 19 and 19.01 of the *Income Tax Act* in order to extend the deductibility of advertising costs to digital platforms and that, in keeping with how the *Act* treats the deductibility of print advertising in foreign publications, that advertising on foreign digital platforms be deemed a non-deductible expense. Doing so will allow Canadian

magazine publishers to compete more fairly with foreign-owned magazines, on all platforms including digital platforms, and contribute to Canada's economic growth.

Section 19 of the *Income Tax Act* allows Canadian advertisers to claim tax deductions against the cost of placing advertisements in Canadian print newspapers (Section 19), print magazines (Section 19.01) and on Canadian broadcasters (Section 19.1). This creates a tax incentive for Canadian advertisers to advertise on Canadian platforms rather than on foreign platforms, supports Canadian ownership in the Canadian magazine, newspaper and broadcasting sectors, and allows Canadian media companies to compete fairly with foreign-owned media companies.

There's only one problem, though: Section 19 has not been updated to reflect the digital age. What's equally burdensome is the fact that ads placed by Canadian advertisers on foreign-owned digital platforms *are* currently tax-deductible, whereas they aren't tax-deductible on Canadian-owned digital platforms. So, a Canadian advertiser can buy digital ad space on a foreign-owned digital platform, say on theatlantic.com, and claim a tax deduction, but the ad space that same Canadian advertiser might buy on a Canadian-owned digital platform, say on macleans.ca, is not tax-deductible.

If ads placed on foreign digital platforms were no longer tax-deductible under the *Income Tax Act*, and if Sections 19 and 19.01 of the *Act* were extended to allow Canadian advertisers to claim a tax deduction for ads placed on Canadian digital platforms, then Canadian advertisers would have an incentive to buy ad space on Canadian-owned digital platforms, as they do on Canadian owned print platforms.

The Standing Committee on Canadian Heritage², the Public Policy Forum³ and Friends of Canadian Broadcasting⁴ have all, in recent reports, recommended these same amendments to the *Income Tax Act*. Magazines Canada stands with them, and recommends that Section 19 and 19.01 of the *Income Tax Act* be extended to the digital sphere to allow Canadian advertisers to claim tax deductions against the cost of advertising on Canadian-owned digital platforms, and that concomitantly, advertising on foreign-owned digital platforms be deemed a non-deductible expense under the *Income Tax Act*.

By implementing this recommendation, the government can level the playing field for Canadian media companies, provide tax fairness, and ensure that this aspect of tax policy as it relates to media companies is aligned with the economic and cultural policies that lead to its implementation in the first place.

Recommendation 3: That the government introduce non-profit and charitable models that enable private giving and philanthropic support for media organizations, thus opening up an

² House of Commons Standing Committee on Canadian Heritage. *Disruption: Change and Churning in Canada's Media Landscape*. (June 2017, 42nd Parliament, First Session); Hon. Hedy Fry, Chair. Recommendation 4.

³ Public Policy Forum. *The Shattered Mirror: News, Democracy and Trust in the Digital Age*. (January 2017). Recommendation 1.

⁴ Miller, Peter and David Keeble (Friends of Canadian Broadcasting). *Close the Loophole! The Deductibility of Foreign Internet Advertising*. (March 2018).

additional potential revenue stream for these organizations. This would allow media organizations to continue to contribute to Canada's economic growth and competitiveness in these fast-changing times.

Consistent with recommendations made in the Standing Committee on Canadian Heritage's⁵ and Public Policy Forum's⁶ reports, the government stated its intention in Budget 2018 to explore this concept further. This could be achieved by changing the definition of a registered charity in the *Income Tax Act* to include non-profit media organizations or foundations, or through other models.

A number of important and influential Canadian magazines already employ some form of non-profit status or charitable foundation. The Canadian magazine sector has experience and models to provide the wider news and media sector with, and, as such, Magazines Canada wishes to be included in the scope of future models as they are developed.

About Magazines Canada

Magazines Canada is the national association representing the majority of Canadian-owned, Canadian-content consumer, cultural, specialty, professional and business magazines. French, English, Indigenous and ethnic member titles cover a wide range of interests, trades and communities across the country and across multiple platforms, including arts and culture, business and professional, lifestyle and food, news and politics, sports and leisure, women and youth.

⁵ House of Commons Standing Committee on Canadian Heritage. *Disruption: Change and Churning in Canada's Media Landscape*. (June 2017, 42nd Parliament, First Session); Hon. Hedy Fry, Chair. Recommendation 19.

⁶ Public Policy Forum. *The Shattered Mirror: News, Democracy and Trust in the Digital Age*. (January 2017). Recommendation 3.