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The Honourable Wayne Easter
Chair, House of Commons Standing Committee on Finance
House of Commons
Ottawa, Ontario
Canada
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Dear Mr. Easter,

We are writing in response to the invitation by the House of Commons Standing Committee on Finance for proposals on measures for potential inclusion in the 2018 Federal Budget.

As Canada's largest provider of wireless communication services and one of Canada's leading providers of cable television, high-speed internet and telephone services to consumers and businesses, Rogers Communications Inc. is particularly interested in the Committee's focus on measures that will improve the productivity and competitiveness of Canadians and Canadian businesses.

Rogers is a Canadian public company that currently **employs more than 25,000 people** in Canada. In our most recent fiscal year, we recorded **$13.7 billion in sales** and we spend over **$2 billion annually** developing our Canadian network infrastructure.[1]

EXECUTIVE SUMMARY

There is a substantial body of economic literature that illustrates the positive benefits of investment in telecommunications for the economy at-large.

Increased telecommunications infrastructure is linked to higher productivity and employment in the areas where this infrastructure is deployed. Canada has an enviable "digital infrastructure" – the infrastructure that supports the delivery of digital products and services to Canadians and Canadian businesses (small and large) – built largely by private sector investment, including by Rogers. Continuing to invest in digital infrastructure will ensure that Canada has a national broadband network that connects Canadians

[1] For further details about Rogers' Canadian economic contributions, see our 2016 Corporate Social Responsibility report at **https://about.rogers.com/about/responsibility/**.

from coast-to-coast, extends to rural and northern areas, has the capacity to handle growing consumer and business interests and is fast and, most importantly, secure.

To ensure there is continual investment to sustain and enhance our digital network capabilities, we recommend the Government **reduce the marginal effective tax rate (METR)** on such investment through **enhancements to the current Capital Cost Allowance (CCA) system or a reduction to corporate income tax rates**. We also recommend the introduction of a **mandatory registration requirement for foreign-based suppliers of supplies in the digital economy** to Canadian residents similar to the approaches taken in other jurisdictions.

These recommendations would help sustain spending in Canada's digital infrastructure providing growth opportunities by improving the productivity and competitiveness of Canadians and Canadian businesses throughout Canada.

THE TELECOMMUNICATIONS INDUSTRY

Driving Productivity and Employment by Improving Competitiveness and Enabling Innovation

Increased activity of telecommunications companies creates employment in the telecommunications sector, as well as in industries that supply telecommunications companies with equipment, services, and other business inputs. These indirect impacts create additional jobs in manufacturing, construction, trade, professional services, and other industries.

Continual investment to upgrade broadband internet infrastructure has produced "cascades of innovation" spurring significant job creation and growth. The advent of new generations of wireless technology enhances the overall benefits of internet connectivity enabling productivity gains and promoting the development of new products, services, and industries in areas such as online retail, education, banking, energy and business services, to name a few.

Increase in virtual mobility allows small and medium sized enterprises in urban, rural and remote areas to access global markets while lowering their overhead costs and increasing employee efficiency and productivity. Broadband is critical to delivering modern public services (e.g., policing, health care and justice) in a cost efficient manner.

Increasing Need for Telecommunications Industry Investment

Telecommunications is one of the most capital intensive businesses in the world and companies must take on enormous capital risk to one day make a return.

The costs of investing and replacing capital assets to sustain, upgrade and expand network service are substantial. The capital stock required per employee is almost four times larger for the telecom industry than for other service industries. O**ver 60%** of Rogers' operating margin is consumed by capital expenditures and financing costs. Further, these costs are larger in Canada than in much of Europe and the US given Canada's geography and population density.

Traffic on Canada's networks is growing exponentially, requiring continuous capital investment and renewal on the part of Canada's carriers if consumers and businesses are to continue to receive world-class, high-bandwidth services they have come to expect.

TAX POLICY PROPOSALS – In Support of Improving Productivity and Competitiveness through Telecommunications Industry Investment

Corporate taxes reduce financial returns on capital projects, causing fewer projects to be undertaken. Taxes also affect the cost of capital.

> "There is increasing evidence to support the argument that lowering the user cost of capital would have a significant impact on firms' investment. In particular our results suggest any potential policy initiatives should be focused on permanent and sustainable changes in the user cost." (Department of Finance)

Any factor that lowers the user cost, such as a reduction in the corporate income tax rate or an increase in depreciation allowances, will encourage capital formation. A more favourable tax environment will stimulate investment and increase the stock of information and communications technology capital available.

Canada continues to compare favourably to the U.S., and other G7 and OECD countries in terms of the METR on investment, although it has slipped considerably vis a vis these countries from 2013-15. As important, while Canada's overall METR is currently about 20.1%, there is considerable disparity in METRs between industries – 9.0% and 12.4% for Forestry and Manufacturing, respectively, versus 24.2% and 25.2% for Communications and Other Services, respectively.[2]

If the current income tax rate structure is to be sustained for the foreseeable future, the METR disparity between industries in Canada, in particular the disparity between the telecommunications and manufacturing industries, strongly suggests that the Government should "level the playing field" by introducing measures to support investment in the telecommunications industry by lowering the METR on such investment.

Enhancements to the Canadian CCA System

An underlying objective of the Canadian income tax system is to achieve economic prosperity and growth. The federal government has used the CCA system to foster economic policy initiatives, including those that stimulate certain industries during economic downturns or achieve other overall economic objectives.

Below are proposals to alter the current Canadian CCA system to reduce the cost and increase the amount of investment by the telecommunications industry in digital infrastructure. The proposals listed below accelerate tax deductions for current expenditures that taxpayers would otherwise be able to claim in future years. In other words, the cost to the government is timing only.

[2] See P. Bazel and J. Mintz, The School of Public Policy SPP Research Papers: 2015 Tax-Competitiveness Report: Canada Is Losing Its Attractiveness.

1. Accelerate CCA Rate for Telecommunications Network Equipment & Fibre Cables to 50%

Given recent reports about Canada's lackluster business investment and productivity, and the positive economic synergies resulting from investment by the telecommunications industry, we recommend accelerating the CCA rate for telecommunications network equipment and fibre to encourage continued investment to help bolster productivity.

The most significant investments of the telecommunications industry are included in classes 8 (CCA rate 20% - radio-communication equipment), 42 (CCA rate 12% - fibre optic cable and telephone or data communications equipment that is a wire or cable) and 46 (CCA rate 30% - data network infrastructure equipment and systems software for that equipment).

Including all telecommunications investment in class 46 and increasing the CCA rate of class 46 from 30% to 50% would lower the cost and increase the amount of investment in this area.[3]

2. Eliminate Inconsistency in CCA Rate between Data Network Infrastructure Equipment vs. Computer Equipment

In the alternative to accelerating the CCA rate for all telecommunications equipment as recommended above, we propose at least eliminating the inconsistency in the CCA rate for "data network infrastructure equipment"[4] and computer equipment.

Due to a specific exclusion in Class 50, data network infrastructure equipment and systems software for that equipment currently fall into Class 46 (30% rate) whereas general-purpose electronic data processing equipment (i.e., computer equipment) and systems software for that equipment fall into Class 50 (55% rate).

We submit that the similarities[5] between telecommunications and computer equipment make it inappropriate for the depreciation period for the former to be almost twice as long as that of the latter, and therefore propose that the Class 50 exclusion for "data network infrastructure equipment" be removed so that the CCA rate for such equipment is increased to 55%.

E-Commerce Sales to Canadian consumers by Non-resident Suppliers

Domestic suppliers of e-commerce sales (e.g., e-books, on-line streaming and downloads of music, and movies, online or downloaded video games and software, etc.) are required to register for and collect GST/HST on their supplies to their domestic consumers while a non-resident supplier could structure its affairs so that it collects and remits no tax. This not only leads to an ever increasing loss of tax revenue, it also creates a competitive disadvantage for Canadian companies, discouraging investment in Canada.

Most other OECD jurisdictions have addressed or are in the process of addressing this challenge while Canada continues to delay in adopting a solution. As Canadian e-commerce consumption continues to

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[3] The Conference Board of Canada, "From Landline to Mobile Broadband. Tax Drivers of Investment for Canada's Telecom Industry" (December 2015).

[4] Defined in Regulation 1104(2)

[5] Both function in a similar manner and continue to experience significant growth in innovation and technology which leads to faster obsolescence.

grow, Canadian businesses continue to be disadvantaged and significant revenues continue to be lost by the Canadian government on uncollected tax revenue.

The Standing Committee on Canadian Heritage during its recent hearings on The Media and Local Communities and in its report on those hearings, entitled *Disruption: Change and Churning in Canada's Media Landscape*[6], recognized the issue and has made recommendations to address the tax inequity for the Canadian news industry. However, the solution does not need to be part of an overall strategy for addressing challenges in the Canadian media industry.

The solution is to address the "broken" tax collection mechanism for products and services that are already subject to GST/HST by shifting the collection burden from self-assessment by consumers to foreign-based suppliers doing business in Canada and earning significant revenue from Canadian consumers.

We recommend the approach recommended by the OECD and adopted by most OECD countries, which is require foreign-based suppliers of digital supplies to Canadian consumers to be registered under the *Excise Tax Act* (Canada). A more fulsome discussion can be found in our submission to a previous consultation by the federal government. [7]

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We thank the Committee for the opportunity to present our proposals.

Sincerely,

Nick Pantaleo, FCPA, FCA
Senior Vice President, Corporate Finance
Rogers Communications

[6] Canada, Parliament, House of Commons, Standing Committee on Canadian Heritage, *Disruption: Change and Churning in Canada's Media Landscape* , 42nd Parl., 1st Sess. (June 15, 2017) at pp. 36-37. http://www.ourcommons.ca/DocumentViewer/en/42-1/CHPC/report-6/.

[7] Rogers Communications, Submission on Effective Collection of Sales Tax on E-Commerce Sales by Foreign-Based Vendors, June 2014