Association canadienne des télécommunications sans fil
Canadian Wireless Telecommunications Association

August 3, 2017

The Honourable Wayne Easter, P.C., M.P.
Chair, Standing Committee on Finance
131 Queen Street, 6th Floor
Ottawa, Ontario K1A 0A6

Re: CWTA Submission to the House of Commons Standing Committee on Finance's consultation in advance of the 2018 Budget

1. The Canadian Wireless Telecommunications Association (CWTA) is the authority on wireless issues, developments and trends in Canada. It represents wireless service providers as well as companies that develop and produce products and services for the industry, including handset and equipment manufacturers, content and application creators and business-to-business service providers. CWTA is pleased to submit its comments with respect to the above-noted consultation.

2. The defining feature of the first two decades of the 21st century has been the rapid ascendancy of digital technology facilitated by wireless broadband networks that have enabled individuals and businesses to consume information in a mobile manner. The wireless mobile revolution has facilitated a new global economy in which standards, platform technologies and business models have emerged with breathtaking speed. Canada's facilities-based wireless service providers, and the associated network equipment, handset, software and component manufacturers that support them, are on the front lines of this technological revolution. The transmission of knowledge and data reliably over radio frequency spectrum and fiber optic cable has become a foundational strength of the Canadian economy.

3. The Government of Canada chose to recognize this development with a heavy focus on innovation in Budget 2017. In its 2017 Budget, the Government of Canada laid out an ambitious agenda of embracing the digital technologies that are "reshaping the world we live in." Specifically, the Federal Government has identified "risk sharing to develop platform…and disruptive technologies that will boost Canada's competitiveness"[1] and make us "a world leader in innovation." Canada's wireless sector sees itself as critical to enabling key sectors to shift to the digital economy. CWTA members share the Government's objective of disseminating the benefits of advanced wireless networking and heightened connectivity across "sectors as diverse as transportation, manufacturing, agriculture, logistics, energy distribution, tourism,

[1] Building a Strong Middle Class Budget 2017, Department of Finance, Ottawa, 2017, p.80.

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media and entertainment, healthcare and education."[2] The mobile broadband networks deployed by Canadian companies will knit together the entrepreneurs, manufacturers, farmers, scientists, researchers, investors, technologists, public sector officials and others who will shape the new digital economy.

4. In advance of the 2018 Budget, the Finance Committee has asked respondents to detail those measures that will equip our companies "to undertake research, innovation, commercialization, purchase advanced technology and equipment …(to) increase their international market share." Canada's wireless companies understand this; they witness first-hand the far-reaching change and disruption that is being delivered to Canadian industry, to our resource and agricultural sectors, and to Canadian citizens and consumers who are experiencing change in everything from health care, to banking and finance, to how they communicate with family and friends. Furthermore, Canada's wireless sector acknowledges that the benefits of a successful transition to the digital, mobile and networked world must be shared widely among all Canadians, including Aboriginal communities and those residing in rural regions.

5. The wireless networks that are the backbone of the new digital economy must remain resilient if they are to resist the full-throttle pace of change bearing down upon them. The emerging imperatives of scalability, unlimited connectivity and extremely low latency are ushering in a new era in telecommunications. Wireless companies need supportive public policy if they are to tackle the challenges posed by signal coverage gaps in geographically challenging and remote areas, massive data throughput requirements brought on by machine-to-machine connectivity, and the need for exceptionally low latency in automated vehicle and healthcare applications.

6. To date, wireless companies have invested billions in acquiring the rights to new radio frequency spectrum and in the physical deployment of towers, fiber and other network infrastructure. Between 1987 and 2016, firms in the sector have spent roughly $58 billion in private investment: $44.8 billion in capital expenditures to construct expansive mobile broadband networks, along with a further $13.8 billion (since 2001) to acquire the necessary spectrum at auction. The challenges associated with intelligent communities, the emergence of autonomous vehicles and precision agriculture, or the expansion of robotic-based manufacturing, will all necessitate a further expansion of the speed and reliability of their networks.

7. Between 2016 and 2021, Canadian mobile data traffic is expected to grow by 465%.[3] The vast majority of this growth will be generated by smart devices in which intelligence in the form of autonomous computing and communication with other devices or objects, has been embedded. Many of the use cases that will be made possible by the Fourth and Fifth Generation of radio frequency networks are novel such as autonomous driving or robotic operations performed remotely by surgeons on the other side of the world. Advances in network technology truly make possible the Internet of Things (IoT). Our facilities-based carriers are preparing

[2] The Benefits of the Wireless Telecommunications Industry to the Canadian Economy in 2016, Nordicity, Ottawa, 2017, p.2.
[3] VNI Mobile Forecast Highlights, 2016-2021, Cisco.

themselves to handle the predicted massive increases in data flows and digital transmissions that will be the chief feature of this new economy.

8. The wireless industry, in support of the Government's objectives described above, seeks an evolution of current federal policy in the following three areas:

Accelerated capital cost allowances for telecommunications equipment

9. Telecommunications is a highly capital-intensive industry. Canadian businesses and consumers constantly demand improvements in functionality, speed, security and reliability of networks. To meet these challenges, wireless operators must make significant investments in fiber, RAN equipment and other infrastructure. Wireless operators must also increasingly invest behind the scenes in software-defined network virtualization and other less visible systems and equipment that are nevertheless critical to providing high-quality services to Canadians.

10. Under the Income Tax Regulations there are currently several classes of depreciable assets that relate to telecom network equipment and networks, each with different Capital Cost Allowance (CCA) rates:

- Class 8: electronic communications equipment (currently 20%);
- Class 42: fiber optics (currently 12%); and
- Class 46: data network infrastructure equipment and systems software (currently 30%).

11. To further enable the ongoing investment in wireless network infrastructure, the CWTA recommends that the 2018 Budget increase the CCA from current rates in Classes 8, 42, and 46 to 50% for these classes of assets. Accelerating the CCA rate would permit telecommunication companies to recover new investments more quickly, enabling more rapid reinvestment in network expansions, upgrades and other improvements. A more favorable tax environment where the CCA rate is accelerated will push down the user cost of capital (UCC), stimulating investment and increasing available information and communications technologies (ICT) capital.[4]

12. Such a change to the income tax system would return significant benefits to Canadians and the national economy. It is projected that increasing the CCA rate for Class 46 to 50% would increase total telecommunications investment by more than 5%, or $122 million per year in the near term. If the CCA rate is increased permanently to 50%, the increased investment would total as much as $225 million per year.[5]

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[4] From Landline to Mobile Broadband: Tax Drivers of Investment for Canada's Telecom Industry, Conference Board of Canada Briefing, December 2015, p. 3.
[5] From Landline to Mobile Broadband, Conference Board of Canada, p.3.

13. The direct impact of the increased telecommunications network infrastructure investment enabled by these proposed CCA rate changes would be a $163 million increase in GDP, and an additional 1,660 jobs.[6] Beyond the direct impacts, additional investment in telecommunications infrastructure would help more Canadians maximize their contributions to economic growth, particularly by enabling businesses across the country to expand, prosper and serve more customers in Canada and internationally.

14. The CWTA notes its support for the recommendation concerning CCA rates included in the Finance Committee's December 2016 report: "that the Government of Canada review and alter capital cost allowance rates to reflect changes in technology and the useful life of assets."[7] The 2018 Budget will be an important occasion to fulfill the Government's commitment to innovation, cluster strategies and the digital economy of the 21st century.

Increased R&D tax credits will facilitate additional telecommunications investment and innovation in Canada

15. Recent changes to the Scientific Research and Experimental Development program reduced the overall SR&ED tax credit rate from 20% to 15% and eliminated the deduction for capital expenditures. The SR&ED tax credit reductions were somewhat offset by an increased emphasis on direct funding for R&D activities. Direct subsidies or loans, however, are less predictable and impose a higher administrative burden compared to refundable tax credits, which are neutral, accessible and attractive to innovative companies.

16. Wireless technology innovation and R&D is evolving rapidly as companies develop the 5G network technologies that will keep Canada's digital economy at the global forefront. Canada can capture much of this innovation if it provides a competitive environment for facilitating telecommunications innovation and investment. CWTA therefore submits that the Government review the SR&ED program with the goal of reinstituting some of the competitive tax credits, including those for capital expenditures.

Address the competitive advantage provided to foreign suppliers of digital products and services in Canada

17. Canadians are inveterate consumers of mobile content, including on-demand entertainment and news content. Much of this content originates from foreign companies that sell digital products to Canadians but do not collect Canadian sales tax or contribute to Canadian content production funds. Foreign companies effectively enjoy an unfair price advantage of up to 15% compared to their domestic Canadian competitors. Currently foreign suppliers of digital products and services – including music, movies and software – are not required to collect or remit GST/HST. This discrepancy encourages Canadians to spend money outside of the Canadian economy.

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[6] From Landline to Mobile Broadband, Conference Board of Canada, p.4.

[7] Creating the Conditions for Economic Growth: Tools for People, Businesses and Communities, Report of the Standing Committee on Finance, House of Commons, December 2016, Recommendation 32.

18. According to research conducted by the University of Sherbrooke, had Netflix been required to collect the GST/HST on subscriptions sold in Canada, it would have brought in close to $31.2 million for the federal government and $56 million for the provinces in 2016.[8] Canadians' growing preference for digital-based products and services makes closing this loophole more important than ever. Indeed, as consumer preferences increasingly shift to digital options at the expense of physical goods, Canadian firms will be further disadvantaged and federal and provincial governments will suffer a corresponding erosion in revenues.

19. CWTA therefore strongly recommends that the 2018 Budget commit to ensuring taxation parity among all suppliers of digital goods in Canada, removing the competitive advantage currently enjoyed by foreign firms. This would bring Canada's regime in line with the OECD's International VAT/GST Guidelines and the approach adopted in many other Value Added Tax jurisdictions.

Conclusion

20. Canada's standing in the digital and knowledge-driven global economy is very much dependent on the quality of its advanced wireless networks and the viability of its creative content sector. To achieve this outcome, the CWTA submits that the Government should:

    - enhance the depreciation schedule for telecommunications equipment to permit a 50% write-down per year in key asset categories;

    - reinstate some of the previously eligible deductions, such as those for capital expenditure, within the SR&ED tax credit; and,

    - protect Canadian digital content providers by ensuring foreign suppliers of such services do not enjoy unfair fiscal advantages.

21. Thank you for the opportunity to submit our comments.

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[8] Disruption: Change and Churning in Canada's Media Landscape, Report of the Standing Committee on Canadian Heritage, House of Commons, June 2017, p.36.