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INFORMATION TECHNOLOGY ASSOCIATION OF CANADA

ASSOCIATION CANADIENNE DE LA TECHNOLOGIE DE L'INFORMATION

ITAC 2018 FEDERAL PRE-BUDGET SUBMISSION

– *Strengthening Canada's Place in a Digital World* –

As Canada's national Information and Communications Technology (ICT) business association, the Information Technology Association of Canada (ITAC) champions the development of a robust and sustainable digital economy. More than 37,000 Canadian ICT firms create and supply goods and services that contribute to a more productive, competitive, and innovative society. The ICT sector employs almost 600,000 Canadians and invests $4.6 billion annually in R&D, more than any other private sector segment in Canada.

In our 2018 Pre-Budget Submission, ITAC has brought forward nine requests from our membership that we feel will help secure Canada's place in a digital world. ITAC would welcome the opportunity to present our recommendations to the Standing Committee on Finance in either Toronto or Ottawa when hearings begin.

1. ACCELERATE CAPITAL COST ALLOWANCE TO EXPAND ICT INFRASTRUCTURE

In December 2016, the CRTC set out ambitious minimum service targets for broadband internet–50 Mbps download, 10 Mbps upload–with the aim of making them available to 90% of Canadian homes and businesses by 2021. Minister Bains has also been charged with increasing high-speed broadband coverage.

Achieving these targets will require substantial investments from Canada's telecommunications companies and internet service providers–private businesses that are currently making significant annual investments to create, upgrade and maintain the foundational infrastructure for the digital economy.

Under federal income tax regulations there are currently several classes of depreciable assets that relate to telecommunications network equipment, including broadband networks, each with different capital cost allowance (CCA) rates:
- Class 8: radiocommunication equipment (CCA rate of 20%)
- Class 42: fibre optics (CCA rate of 12%)
- Class 46: data network infrastructure equipment and systems software (CCA rate of 30%)

For many pieces of equipment (particularly those on Class 46), these rates do not accurately reflect the product lifecycle. Moreover, new technologies can span CCA categories, creating confusion as to how they should be rightly classified. Over the past

year, ITAC has been meeting with senior federal officials to discuss these challenges and provide evidence to policymakers.

Recommendation- ITAC recommends Budget 2018:
- **Harmonize CCA rates for telecommunications network equipment falling under (or between) Class 8, 42 and 46.**
- **Encourage greater ongoing private sector investments in ICT infrastructure and more accurately reflect real depreciation costs by accelerating CCA to 50% for all ICT class assets.**

2. <u>INNOVATE THE SR&ED PROGRAM</u>

In Budget 2017, the government announced a holistic review of federal R&D programs including the Scientific Research and Experimental Development (SR&ED) tax credit, which drives $4-billion in R&D annually.

For the past year, ITAC has been meeting with Government officials to advance several tweaks to the SR&ED program which our members feel will:
a) Encourage innovative companies to scale-up;
b) Create market-based mechanisms to guide tax-payer investments in R&D; and
c) Increase access to risk capital.

Specific tweaks identified by ITAC include:

- **Support Scale-up:** Reward successful innovators by reducing the SR&ED Grind Down for growing companies. Potential options include:
  o Demonstrating a high percentage of their revenue is generated from exports.
  o Providing a higher threshold for taxable income in the SR&ED expenditure limits.
  o Remove the threshold for taxable capital in the SR&ED expenditure limit as innovative companies need access to capital.
- **Encourage Collaborative Innovation:** Allow large firms to access a portion of unused SR&ED credits to fund collaborative R&D with Canadian SMEs – increasing risk capital and providing SMEs with access to global supply chains.
- **Encourage SMEs to grow through mergers and acquisitions:** Encourage SMEs to merge and create larger, more globally competitive businesses by creating a 3-5 year "SR&ED Holiday," wherein the merged company can still access SR&ED credits at the rates previously available to the smaller entities.
- **Improve SR&ED Administration for the ICT industry:** Reduce administrative burden of the SR&ED program to deliver better value for taxpayer dollars. SR&ED

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accountability requirements and timelines should also be more flexible to support innovative sectors with more continuous R&D cycles, like software development.

Recommendation: ITAC recommends Finance Canada and ISED work with ICT industry experts to advance ICT-industry recommended adjustments to SR&ED.

3. INVEST IN 5G

The next generation of wireless networks, known as 5G, is expected to revolutionize the way we use and leverage technology. If Canadian researchers, businesses and entrepreneurs want to play a role in developing the technologies and applications that will leverage 5G's capabilities, the federal government needs to act now and invest in the development and deployment of new networks, including a national 5G testbed.

Recommendation: Budget 2018 should allocate adequate funding to build a national test bed and innovation corridor for 5G wireless technology.

4. CYBER SECURITY

Cyber threats pose an increasing risk for our economy and society. Even though the World Economic Forum has listed cyber-security as one of the greatest threats to businesses and economic stability around the world, a new cyber security strategy for Canada and supporting investments were conspicuously absent in Budget 2017.

Canada has a robust cyber security industry with expertise in emerging areas like quantum cryptography and artificial intelligence that form the basis of next generation technologies.

In Budget 2018, ITAC recommends the federal government:
- **Appoint an externally focused Chief Information Security Officer for Canada to act as a high-profile convener, champion and bridge between the public, business community and government on cyber security issues.**
- **Encourage and support business adoption of cyber security solutions, especially among SMEs.**
- **Develop federal public education programs to encourage a national culture of cyber hygiene.**
- **Centralize cyber security leadership within the federal government and provide Shared Services Canada with the necessary investments to protect the Government of Canada's cyber perimeter and critical infrastructure. Government should also increase investment and strive to be a model procurer of new cyber innovations.**

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- **Invest in the development of cyber security talent and encourage students to pursue cyber careers.**
- **Fund the research, development and commercialization of new cyber security technologies, and develop programming to support the growth of Canada's dynamic cyber security industry to take advantage of a $100B global cyber economy.**

5. INTRODUCE A "SMART INFRASTRUCTURE LENS" FOR NEW INFRASTRUCTURE INVESTMENTS

Investments in "smart infrastructure," assets that can collect, communicate and act on data, can represent better long-term investments for tax payers. The data generated by sensors embedded within assets can inform maintenance schedules and, if combined with other data sets, can support a range of other policy or public benefit purposes.

To promote innovation and future-proof taxpayer investments, the federal government should require funding applicants to consider opportunities to embed "smart technologies" into new infrastructure projects.

Recommendation: Budget 2018 should introduce a "Smart Infrastructure Lens" for all federal infrastructure investments, including investments made by the Canada Infrastructure Bank, which requires applicants to evaluate opportunities to leverage connected technologies and data in new infrastructure projects.

6. INSTITUTIONALIZE DIGITAL GOVERNMENT APPROACHES ACROSS THE GOVERNMENT OF CANADA

Digital adoption by the federal government can drive productivity and fuel innovation across the economy. Budget 2016 included several measures to support the transformation, modernization and digitization of federal services, such as the creation of the Canadian Digital Service, and the creation of *Innovative Solutions Canada*. These exciting initiatives should be expanded.

While pursuing transformative changes, it is essential that the government make ongoing investments to maintain legacy systems and ensure program integrity.

Recommendation: ITAC recommends that Budget 2018:
- **Expand Funding for Digital Experiments. While Budget 2017, allocates some funding to Treasury Board Secretariat for digital experimentation under Innovative Solutions Canada, additional funding should be earmarked.**

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- **Invest in Back Office Transformation: The government needs investments to modernize back office government services that will support the government as it innovates and digitizes operations.**
- **Invest in Talent: The federal government needs to invest in attracting and developing the skilled employees that will be able to lead and manage transformative digital projects.**

7. <u>IMPLEMENT 21ST CENTURY PROCUREMENT RECOMMENDATIONS</u>

The federal procurement process for information technology products and services has long been acknowledged as a frustrating barrier that slows deployments, dampens innovation and increases costs for government and industry alike.

In March 2017, ITAC brought together senior leaders from Treasury Board Secretariat, Shared Services Canada and Public Works and Procurement Canada along with over 100 IT procurement experts from industry and other levels of government to discuss challenges and co-create solutions for a 21st Century procurement process in the federal government. This event was highly successful and delivered an ambitious set of recommendations including:

- **Innovate contracts, terms and conditions to align with industry norms focusing on fairness, limiting the allocation of risk and opening the possibility of negotiations with bidders to access confidential inputs.**
- **Consider international best practices from the UK and U.S. to develop a vendor performance framework, including a central repository to review past vendor performance.**
- **Engage with industry at the idea stage to ensure business cases are developed with a broad understanding of the marketplace, emerging technologies and delivery methods–before procurements are constructed.**
- **Collaborate with industry on the design and implementation of a socio-economic development strategy that works for all suppliers. Accelerate the implementation the strategy so that Canadians see these benefits.**
- **Raise the sole sourcing threshold to the NAFTA limits so that small and medium-sized enterprises can take full advantage of Government's allowable limits.**
- **Work with industry to develop and implement an annual refresh cycle for the federal procurement process so that each year government is evolving and strengthening how it engages with industry on what it buys.**

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In Budget 2018, the government should affirm its commitment to modernize procurement. A 21st Century procurement framework is mission critical to building innovating service delivery to Canadians.

8. TALENT DEVELOPMENT

Canada's technology industry – indeed the entire economy – is fueled by the skills, knowledge and capabilities of ICT professionals. Canada's long-term prosperity depends on developing workers with the right skills for the rapidly evolving digital economy. At a high level, Canadians and their government need to transition to a life-long understanding of education – and embrace educational technologies to support ongoing skills development across the workforce.

The *Innovation and Skills Plan* announced in Budget 2017 was an important move by government to further address Canada's ICT talent gap. Canada's ICT industry, through ITAC's Talent division, has a long history of working with governments, employers and educators to inspire and educate the next generation of ICT professionals.

To continue to ensure Canada's talent meets the needs of ICT employers, ITAC requests the following measures in Budget 2018:

- **Create a rapid response program to design and launch new post-secondary professional ICT programs for in-demand emerging technologies – for example, in artificial intelligence/machine learning, cybersecurity, and intelligent mobility systems.**
- **Beyond coding and promoting STEM, work with educators, industry, and parents to inform and inspire students to pursue the wide variety of ICT related career paths. Integrate information that specifically engages women, Indigenous Canadians, and any students who presume that ICT is not for them.**
- **Launch a project to achieve global leadership in ICT-related labour market information technologies and data. Leverage ICT sector capabilities such as advanced information technologies (e.g. artificial intelligence-based analytics) and social media (e.g. business social networks).**

ITAC has drafted detailed, costed proposals for each of these recommendations which we look forward to developing further with federal officials.

9. SUPPORT AND SUSTAIN DIGITAL INNOVATION IN HEALTHCARE DELIVERY

Digital technology offers some of the greatest opportunities to improve the efficiency, effectiveness, safety and inclusiveness of our health care system. While the federal

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government regularly supports digital health pilots with the provinces, seldom does funding become sustainable.

One of the most transformative ways in which technology can impact our communities is through telehealth. Telehealth benefits urban Canadians by offering a convenient and efficient alternative to traditional touch points with medical practitioners.

Recommendation: ITAC recommends that Budget 2018 allocates additional transfer funding to support and sustain digital healthcare innovation, including funding to Canada Health Infoway specifically targeted at developing and sustaining new telehealth opportunities.

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