

# **Ensuring a Sustainable Future to Connect and Inspire Canadian Magazine Readers**

**Magazines Canada Submission for Pre-Budget Consultations in  
Advance of the 2020 Budget**

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July 30, 2019

## List of Recommendations

**Recommendation 1:** That the Government of Canada provide additional funding in the amount of \$25 million per year to the Canada Periodical Fund in order to ensure it continues to effectively support Canadian magazine publishers.

**Recommendation 2:** That the Government of Canada amend Sections 19 and 19.01 of the Income Tax Act in order to extend the deductibility of advertising costs to domestic digital platforms.

**Recommendation 3:** That the Government of Canada amend Sections 19 and 19.01 of the Income Tax Act in order to deem advertising on foreign digital platforms a non-deductible expense.

## Introduction

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, magazines have evolved to offer Canadians a deep dive into just about any subject on any platform (print and digital), including news and politics; business and industry; arts and culture; lifestyle and food; and sports and leisure. This is made possible by continued support for the sector through a combination of legislation, regulations and funding from departments and national institutions.

Recent technological innovation in the media sector has led to many benefits, including increased choice and diversity of Canadian content for audiences both in print and online. In keeping with the government's focus on climate change, the proliferation of digital platforms has also helped the magazine sector greatly reduce its carbon footprint. Canadian magazine publishers take their environmental responsibilities seriously, and print recycling is a significant area of advocacy for the industry.

However, the digital revolution over the past decade has also brought challenges. As Canadians shift their news consumption from print to digital platforms, print advertising revenues are rapidly shrinking, and the vast majority of digital advertising spending is being awarded to global online platforms like Facebook and Google rather than Canadian online platforms. Magazines must continue to publish on all platforms, all the time, with an ever-shrinking pool of print advertising revenue and no reliable way as yet to monetize their digital content.

The Canada Periodical Fund (CPF) supports Canadian magazines and Canadian non-daily newspapers. While a modernization of the CPF is well underway, the program requires additional investment in order to remain sustainable. Without it, Canada's magazine publishers will face difficult choices in the future when it comes to staffing, resources and even viability.

### Recommendation 1:

**That the Government of Canada provide additional funding in the amount of \$25 million to the Canada Periodical Fund in order to ensure it continues to effectively support Canadian magazine publishers.**

The Canada Periodical Fund (CPF) 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.

Magazines Canada is calling for the Government of Canada to increase the annual budget envelope of the CPF from \$75 million per annum to \$100 million per annum beginning in 2020–21.

The CPF is of critical importance to the sustainable operations of the Canadian magazine sector, which currently employs 15,000 Canadians and contributes \$1.7 billion annually to Canada's GDP. The financial support allows magazines to provide a unique medium for

storytelling and journalism read by audiences across Canada and the world, while also developing new content and delivery platforms.

Despite rapidly-changing economic conditions caused by digital disruption, there has not been an increase in the CPF budget envelope in a decade. With the modernization of the CPF well underway, now is the time to boost funding.

The Department of Canadian Heritage is currently working on modernizing the CPF to better respond to the realities of publishing in a digital world. Instead of the current model—where a magazine’s annual contribution is based on the number of printed copies sold—a magazine’s contribution in a modernized CPF would be based on the magazine’s investments in creating Canadian editorial content. For example, the salaries of employees involved in conceptualizing, producing, developing, creating, and curating the content in the magazine. This will ensure that publishers’ investments in these jobs are captured by the program.

Part of growing and bolstering the CPF could include expanding the pool of eligible recipients. Right now, of Canada’s more than 2,600 magazine titles, only 391 (15%) of industry titles are funded through the CPF. Magazines Canada believes that in order for the CPF to remain relevant to Canadians and representative of the diversity of voices that make up our society, certain eligibility criteria should be expanded.

If more magazines access the CPF in the future, additional money will be required beyond the \$75 million allocated in order to avoid a reduction in the amount available for current recipients. A \$25 million per annum increase would make a considerable difference in the impact and reach of this program, ensuring there is a diversity of Canadian magazines, including B2B, professional, consumer, rural, cultural, and literary publications.

## **Recommendation 2:**

### **That the Government of Canada amend Sections 19 and 19.01 of the Income Tax Act in order to extend the deductibility of advertising costs to domestic digital platforms.**

Tax incentives encourage Canadian magazines and advertisers to continue pursuing digital solutions that offer Canadian audiences more choice while also reducing the sector’s impact on the environment. Specific changes to the Income Tax Act would help achieve these goals.

Section 19 allows Canadian advertisers to claim tax deductions against the cost of placing ads in Canadian print newspapers and magazines (Section 19.01), and on Canadian broadcasters (Section 19.1). This encourages Canadian advertisers to use Canadian rather than foreign print and broadcast platforms, supports Canadian ownership in the domestic magazine, newspaper and broadcasting sectors, and allows Canadian media companies to compete fairly with their foreign-owned counterparts.

However, Section 19 has not been updated to include advertising on domestic digital platforms, even as more and more Canadians consume their news online. It is time to update this aspect of the Act.

The digital shift has led to a steep decline in advertising revenues from traditional print and broadcast advertising, yet Canadian magazines must continue to publish on these platforms while also investing resources in the digital sphere. If the government creates tax incentives for advertisers to place ads on the digital platforms created and maintained by Canadian media, this could help boost revenues and pave the way for a more sustainable business model.

### **Recommendation 3:**

**That the Government of Canada amend Sections 19 and 19.01 of the Income Tax Act in order to deem advertising on foreign digital platforms a non-deductible expense.**

Section 19 of the Income Tax Act creates a major imbalance. Ads placed by Canadian advertisers on foreign-owned digital media platforms are currently tax-deductible, while ads placed on Canadian-owned platforms are not. This means a Canadian advertiser could buy digital ad space on *theatlantic.com* and claim a tax deduction, but the same ad placed on *macleans.ca* would not be tax-deductible. With this in mind, there is a disincentive for advertisers to make investments in Canadian digital platforms.

If ads placed on foreign digital platforms were no longer tax-deductible, and Sections 19 and 19.01 of the Act were amended to allow Canadian advertisers to claim tax deductions for ads placed on domestic digital platforms instead (Recommendation 2), advertisers would have a big incentive to buy ad space in Canada. This would modernize the rules to be in line with existing rules on Canadian-owned print platforms, level the playing field for Canadian media companies, and provide tax fairness.

## **Conclusion**

Canadian magazine publishers have always been innovators, embracing change and the opportunities it brings. Pragmatic, forward-looking and future-focused, they began adapting their content and operations to digital platforms years ago.

The result is a sector that not only creates jobs in the digital economy and contributes to economic growth, but also does its part in the broader transition to a low carbon economy. Reducing the sector's environmental impact and cutting back on waste require significant investments in personnel and infrastructure.

The key to a sustainable future for Canadian magazines is sufficient funding and regulations that address changing economic realities while encouraging investment in the multiple platforms Canadians use to stay informed and inspired.

The value of federal support to ensure the sector's success has been regularly reaffirmed by federal governments, most recently in 2009, when Prime Minister Stephen Harper's government brought in the updated Canada Periodical Fund. The program recognizes the vibrant, uniquely Canadian media role played by magazines, which have readership across all age groups, and across all regions. Importantly, these publications, covering topics of every variety and focused in many rural and urban areas, allow Canadians to tell their stories and speak to each other in ways that instill understanding, diversity, tolerance and a sense of identity for all.

By implementing the above-noted recommendations in Budget 2020, the government can continue to support the industry as it strives to sustain and expand its role as a lynchpin of both Canada's modern life and its heritage.

Thank you for your time and consideration.

**About Magazines Canada**

Magazines Canada is the national association representing 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. Topics include arts and culture, business and professional, lifestyle and food, news and politics, sports and leisure, and women and youth. The association focuses on government affairs, professional development, distribution, research, and delivering services that meet the needs of the magazine sector.