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

By the Canadian Wireless Telecommunications Association (CWTA)

CWTA's recommendations for Budget 2019:

- **Recommendation 1**: That the government increases the Capital Cost Allowance (CCA) rates for classes of depreciable assets that relate to telecommunications equipment to stimulate new capital investment by service providers, which will, amongst many things, facilitate the deployment of 5G networks.

- **Recommendation 2**: That the government reviews the research and development tax credit program to facilitate telecommunications equipment investment and innovation in Canada.

- **Recommendation 3**: That the government ensures taxation parity among all suppliers of digital goods to Canadians.

August 3, 2018

The Honourable Wayne Easter
Chair, Standing Committee on Finance
House of Commons
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 2019 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 file its comments with respect to the above-noted consultation.

2. In advance of the 2019 Budget, the Finance Committee has asked respondents for submissions on the topic of *Economic Growth: Ensuring Canada's Competitiveness* and more specifically, asked for recommendations "on what steps the federal government can take to support and/or encourage Canadians and their businesses to grow the economy in the face of a changing economic landscape".

3. Canada's facilities-based wireless service providers and their suppliers have long been drivers of economic growth as they provide the backbone for the new digital economy and enable the adoption of innovative and disruptive technologies that enhance competitiveness across all sectors and in all regions of the country. Wireless network infrastructure expansion and enhancement creates jobs and contributes to GDP[1], and enables a mobile workforce, thereby removing geographical barriers for rural businesses and communities to participate fully in the Canadian economy. Wireless connects all Canadians, allowing them to contribute to our shared national identity.

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[1] For example, according to Norcity, in 2016 Canada's wireless industry contributed $25.2 billion to Canada's GDP and created close to 138,000 net new jobs (see The Benefits of the Wireless Telecommunications Industry to the Canadian Economy in 2016).

4. Each new generation of wireless technology has resulted in a burst of economic growth, led to new innovations and disruptive business models, and changed the way Canadians live and work. Primarily as a result of the investments made by Canada's facilities-based carriers[2], Canadians currently enjoy some of the best mobile wireless networks in the world. Our 4G, or LTE, networks offer fast and reliable mobile wireless connectivity and are available to approximately 99% of all Canadians. We are now on the cusp of the next mobile wireless revolution, the introduction of 5G wireless networks.

5. 5G networks will not only be faster, they will also be ultra-reliable, offer higher capacity, and ultra-low latency. This will enable entirely new ways for individuals, businesses, governments to use wireless networks to connect and communicate. A recent study by Accenture estimates that the deployment of the next generation wireless networks – commonly referred to as 5G networks – will result in incremental annual GDP contribution of $40 billion by 2026 and by this same time add close to 250,000 permanent jobs to the Canadian economy.[3]

6. The arrival of 5G networks to Canada in a timely manner is not guaranteed. Accenture estimates that in order to deploy 5G networks in Canada, an estimated $26 billion dollars in infrastructure spending primarily by facilities-based carriers, from 2020 to 2026 will be required.[4] This does not include the amounts that must be spent on acquisition of new spectrum licenses necessary for full 5G deployment. Facilities-based carriers will be challenged to reach these levels of investment without strategic government policies that facilitate investment in wireless network infrastructure and ensure a balanced playing field within the creative and digital economy.

7. Specifically, CWTA respectfully submits the following recommendations to this committee:
    - **Recommendation 1**: that the government increases the Capital Cost Allowance (CCA) rates for classes of depreciable assets that relate to telecommunications equipment to stimulate new capital investment by service providers, which will, amongst many things, facilitate the deployment of 5G networks;
    - **Recommendation 2**: that the government reviews the research and development tax credit program to facilitate telecommunications equipment investment and innovation in Canada; and
    - **Recommendation 3**: that the government ensures taxation parity among all suppliers of digital goods to Canadians.

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[2] Between 1985 and 2016, Canada's facilities-based wireless carriers invested more than $44.96 billion in wireless infrastructure (source: historical data from Nordicity, CRTC and CWTA), and spent more than $14 billion in spectrum auction fees between 1987-2016 (Source: ISED).

[3] Fuel for Innovation: Canada's Path in the Race to 5G, Accenture Strategy, June 2018.

[4] *Ibid.*

Accelerated capital cost allowance for telecommunications equipment

8. Under the income Tax Regulations, there are currently several classes of depreciable assets that relate to telecom network equipment, each with different Capital Cost Allowance rates:

    - Class 8: radiocommunication equipment;
    - Class 42: fiber optics; and
    - Class 46: data network infrastructure equipment and systems software.

9. All three classes highlight activities that are integral parts of wireless infrastructure investments. To further enable ongoing and future investment in the expansion and enhancement of Canada's wireless network infrastructure, including the deployment of 5G network infrastructure, CWTA recommends that Budget 2019 increase the CCA – from current rates to 100% - for all three classes, a policy which has successfully been implemented in the U. S[5]. This acceleration of the CCA rate would permit facilities-based carriers to recover new investments more quickly It would also enable more rapid and more significant investments in network expansions and upgrades, including 5G network deployment. At a minimum, CWTA recommends that Budget 2019 introduces a 50% CCA rate for all telecom-related classes of depreciable assets.

10. Such a change to the income tax system will return significant benefits to Canadians and the Canadian economy. In a December 2015 report, The Conference Board of Canada projected that increasing the CCA rate for Class 46 (currently set at 30%) to 50% would increase telecommunications investment by more than 5% or $122 million per year in the near term[6]. If the CCA rate is increased permanently to 50%, the increased investment would total as much as $225 million per year[7]. Furthermore, this would lead to a $163 milion increase in GDP and an additional 1,660 jobs created[8]. Beyond the direct impacts, additional investment in telecommunications infrastructure could further improve productivity, enable businesses in all regions of the country to compete on a national and global level, and connect all Canadians with constantly improving wireless capabilities. We expect that these economic benefits would be even greater should these CCA rate be increased to 100%.

11. It is also worth mentioning that the House of Commons Finance Committee made a similar recommendation in its 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*.[9])

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[5] https://taxnews.ey.com/news/2018-0063-tax-cuts-and-jobs-act-will-affect-telecommunications-industry

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

[7] Ibid

[8] Ibid

[9] Creating the Conditions for Economic Growth: tool for people, businesses and communities, Report of the Standing Committee on Finance, p.38

Increased R&D tax credits to sustain capital investments

12. 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.

13. 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 unfair competitive advantage provided to foreign suppliers of digital products and services in Canada

14. Canadians consume more wireless data than ever and data consumption, fueled primarily by the consumption of mobile video content, is projected to continue to grow rapidly for the foreseeable future. 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, as they are not required by law to do so. In the process, these foreign companies effectively enjoy an unfair price advantage of up to 15% compared to their domestic counterparts.

15. 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[10]. 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. Finance Minister Bill Morneau himself acknowledged the potential disruption major technology companies can have on government revenue[11].

16. CWTA recommends Budget 2019 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.

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

[11] https://www.bloomberg.com/news/articles/2018-03-20/morneau-says-canada-will-study-issue-of-taxing-technology-giants

17. This policy has been endorsed by both the Standing Committee on Canadian Heritage[12] and the Standing Committee on International Trade[13] and has also been enacted by the province of Quebec, which recently adopted provisions in its budget 2018 which require foreign digital service providers to collect and remit the QST beginning January 1, 2019. It is therefore paramount that the federal government follows suits and levels the playing field for Canadian digital service providers.

Conclusion

18. Canadian wireless service providers are at the forefront of the data and digital revolution. They are architects of the backbone infrastructure that is crucial to Canada's innovation strategy and ensuring that Canadians can adapt to the changing economic landscape and remain competitive across the country and the world. To ensure that Canada's leadership in wireless is sustained, CWTA submits that the Government should:
    - Accelerate the depreciation of telecommunications equipment assets to 50%
    - Reinstate some of the previously eligible deductions, such as those for capital expenditure with the SR&E tax credit; and,
    - Protect Canadian digital content providers by ensuring that foreign suppliers of such services do not enjoy unfair fiscal advantages.

19. CWTA appreciates the opportunity to share its views as part of this important process.

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

[13] E-Commerce: Certain Trade-Related Priorities of Canada's Firms, Report of the Standing Committee on International Trade, House of Commons, April 2018, p.21