

Federal Budget Contains Initiatives For The Information And Communications Technologies (ICT) Sector

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Authors: Hank Intven, Patrick J. McCay, Lorne P. Salzman, and Michele Lefavre of McCarthy Tétrault LLP.

In recognition of the role that ICT can play in improving Canada's productivity, the Conservative Government's 2009 federal budget (Budget 2009) includes several investment initiatives geared to the ICT sector. These include commitments to modernize electronic health records and develop broadband infrastructure in unserved Canadian communities. Budget 2009 also provides additional funding for innovation and Canadian media content, permits faster depreciation of hardware and software and decreases the general federal corporate income tax rate.

Enhanced Write-Off For Computer Hardware And System Software

Budget 2009 will increase the capital cost allowance (CCA) rate for computer hardware and systems software acquired between January 27, 2009 and February 1, 2011 from 50 per cent to 100 per cent. To be eligible for the accelerated CCA, the computer equipment and systems software must:

- be situated in Canada;
- be acquired for use in a business carried on in Canada or to earn income from property situated in Canada or for lease to a lessee who so uses the equipment or software; and
- not have been used, or acquired for use, for any purpose before it is acquired by the taxpayer.

Geared toward stimulating investment in computers and enhancing Canadian productivity, this measure will temporarily allow companies to depreciate 100 per cent of the value of their eligible hardware and software purchases against their taxable income in one year.

While there is a significant cost to this tax incentive, the Information Technology Association of Canada (ITAC) predicts that the measure will have a nearly \$700-million impact on the ICT marketplace over the next two years.

Additional Funding For Electronic Health Records

The government has earmarked \$500 million in Budget 2009 for Canada Health Infoway toward its goal of providing 50 per cent of Canadians with an electronic health record by 2010. The funding will also be used to expedite the implementation of an electronic medical system for physicians, hospitals, community healthcare facilities, pharmacies and patients. The government predicts that this investment should help reduce waste and duplication within the health system.

Support For Innovation

Budget 2009 provides \$200 million over two years to the Industrial Research Assistance Program (IRAP), which provides technical and business-oriented advice along with potential financial support to growth-oriented Canadian small and medium-sized enterprises. According to ITAC, IRAP funding for 2008 had been virtually exhausted by mid-year. Budget 2009's funding will allow the program to double its contributions to emerging knowledge-based companies.

The government has also committed an additional \$750 million to the Canada Foundation for Innovation (CFI) for research infrastructure and \$110 million to the Canada Space Agency to support the development of space robotics and other technologies.

Expansion Of Canada's Broadband Networks To Rural Communities

With a view to closing the gap in broadband access between urban and rural areas, the government has pledged \$225 million to Industry Canada over three years to develop and implement a strategy on extending broadband infrastructure in unserved Canadian communities. Budget 2009 described this funding as an example of the government's commitment to encouraging the private development of rural broadband infrastructure.

Industry Canada has in the past been involved with similar programs. The National Satellite Initiative (NSI), launched in 2003 and delivered jointly with Infrastructure Canada and the Canadian Space Agency, made satellite capacity available for broadband services in northern and remote communities. The Broadband for Rural and Northern Development (BRAND) pilot program, launched in 2002, funded business plan development and implementation of community-based, private-sector-led initiatives to deploy broadband networks in communities unlikely to be served by market forces alone. Applicants were required to meet a number of guidelines, including open access requirements. In 2006, the Final Report of the Telecommunications Policy Review Panel recommended a program called U-CAN, which would employ least-cost subsidy auctions in areas where commercial operators are unlikely to provide service in order to complete the job begun by BRAND of providing ubiquitous broadband in Canada by 2010.

More Canadian Content

Budget 2009 commits \$200 million over the next two years to the Canadian Television Fund. It also confirms funding of \$28.6 million over the next two years to the Canada New Media Fund and \$14.3 million thereafter. Administered by Telefilm Canada, the New Media Fund supports the creation and the distribution of interactive digital cultural content products.

After Budget 2009 came down, the Minister of Canadian Heritage announced plans to combine, reform and rebrand the Canadian Television Fund and Canada New Media Fund as the Canadian Media Fund, adding a further annual allocation of \$20.4 million. The reformed and integrated fund is to be in place by April 1, 2010.

Reduction in the Corporate Income Tax Rate

Budget 2009 reaffirms the government's prior commitment to reduce the general federal corporate income tax rate from 22.12 per cent to 15 per cent by 2012. At that rate, Canada will have the lowest rate in the Group of Seven (G-7). The government expects this change will encourage new investment in Canada.

McCarthy Tétrault Notes:

Some critics contend that the measures implemented by Budget 2009 are insufficient in today's economic context. The Canadian Advanced Technology Alliance (CATA), composed of 33,000 industry members, estimates that at least \$60 billion — almost double the \$34 billion to be invested in Budget 2009 — needs to be spent on the ICT sector to match the intensity of the American response to the economic downturn, put forward by President Obama's new administration.

According to CATA, spending on job sectors employing high tech delivers fast growth, immediate employment, recession-resistance and improved productivity. Putting the infrastructure investment into knowledge-intensive services sector jobs will help Canada most, by driving job creation, exports and long term sustainable competitiveness. For these reasons, it is important that the government invest the necessary amounts in order to ensure the survival of the ICT sector and the strength of the Canadian economy.