ROGERS

August 3, 2016

The Honourable Wayne Easter
Chair, House of Commons Standing Committee on Finance
House of Commons
Ottawa, Ontario
Canada
K1A 0A6

Dear Mr. Easter,

We are writing in response to the invitation by the House of Commons Standing Committee on Finance for proposals on measures for potential inclusion in the 2017 Federal Budget.

As Canada's largest provider of wireless communication services and one of Canada's leading providers of cable television, high-speed internet and telephone services to consumers and businesses, Rogers Communications Inc. is particularly interested in the Committee's focus on measures related to broadband and other types of infrastructure that will stimulate Canada's economic growth and ensure residents of urban, rural and remote communities make desired contributions to such growth.

Rogers is a Canadian public company that currently **employs more than 27,000 people** in Canada. In our most recent fiscal year, we recorded **$13.4 billion in sales** and we spend over **$2 billion annually** developing our Canadian network infrastructure.[1]

EXECUTIVE SUMMARY

There is a substantial body of economic literature that illustrates the positive benefits of investment in telecommunications for the economy at-large.

Increased telecommunications infrastructure is linked to higher productivity and employment in the areas where this infrastructure is deployed. Canada has an enviable "digital infrastructure" – the infrastructure that supports the delivery of digital products and services to Canadians and Canadian businesses (small and large) – built largely by private sector investment, including by Rogers. Continuing to invest in digital infrastructure will ensure that Canada has a national broadband network that connects Canadians from coast-to-coast, extends to rural and northern areas, has the capacity to handle growing consumer and business interests and is fast and, most importantly, secure.

To ensure there is continual investment to sustain and enhance our digital network capabilities, we recommend the Government **reduce the marginal effective tax rate (METR)** on such investment through **enhancements to the current Capital Cost Allowance (CCA) system or a reduction to corporate income tax rates**. We also recommend the introduction of a **mandatory registration**

[1] For further details about Rogers' Canadian economic contributions, see our 2015 Corporate Social Responsibility report at **http://about.rogers.com/about/corporate-social-responsibility**.

requirement for foreign-based suppliers of supplies in the digital economy to Canadian residents similar to the approaches taken in other jurisdictions.

These recommendations would help sustain spending in Canada's digital infrastructure providing growth opportunities for Canadians and Canadian businesses in urban, rural and remote communities throughout Canada.

THE TELECOMMUNICATIONS INDUSTRY

Driving Productivity and Employment – Enabling Innovation

Increased activity of telecommunications companies creates employment in the telecommunications sector, as well as in industries that supply telecommunications companies with equipment, services, and other business inputs. These indirect impacts create additional jobs in manufacturing, construction, trade, professional services, and other industries.

Continual investment to upgrade broadband internet infrastructure has produced "cascades of innovation" spurring significant job creation and growth. The advent of new generations of wireless technology enhances the overall benefits of internet connectivity enabling productivity gains and promoting the development of new products, services, and industries in areas such as online retail, education, banking, energy and business services, to name a few.

Increase in virtual mobility allows small and medium sized enterprises in urban, rural and remote areas to access global markets while lowering their overhead costs and increasing employee efficiency and productivity. Broadband is critical to delivering modern public services (e.g., policing, health care and justice) in a cost efficient manner.

Increasing Need for Telecommunications Industry Investment

Telecommunications is one of the most capital intensive businesses in the world and companies must take on enormous capital risk to one day make a return.

The costs of investing and replacing capital assets to sustain, upgrade and expand network service are substantial. The capital stock required per employee is almost four times larger for the telecom industry than for other service industries. **Over 60%** of Rogers' operating margin is consumed by capital expenditures and financing costs. Further, these costs are larger in Canada than in much of Europe and the US given Canada's geography and population density.

Canada's wireless industry compares very well internationally in terms of capital intensity (ratio of capital expenditures to industry revenues). At just over 14% (2012)[2], Canada is ahead of countries such as France Germany, Sweden and UK but less than the U.S. However, in terms of capital expenditures per subscriber, Canada led its peers in 2012.

Traffic on Canada's networks is growing exponentially, requiring continuous capital investment and renewal on the part of Canada's carriers if consumers and businesses are to continue to receive world-

[2] The capital intensity ratio for Rogers in 2015 was approximately 18%. In 2014, Rogers' capital intensity ratio was 44% reflecting the significant investments made in spectrum licences.

class, high-bandwidth services they have come to expect.

TAX POLICY PROPOSALS – In Support of Economic Growth through Telecommunications Industry Investment

Corporate taxes reduce financial returns on capital projects, causing fewer projects to be undertaken. Taxes also affect the cost of capital.

> "There is increasing evidence to support the argument that lowering the user cost of capital would have a significant impact on firms' investment. In particular our results suggest any potential policy initiatives should be focused on permanent and sustainable changes in the user cost." (Department of Finance)

Any factor that lowers the user cost, such as a reduction in the corporate income tax rate or an increase in depreciation allowances, will encourage capital formation. A more favourable tax environment will stimulate investment and increase the stock of information and communications technology capital available.

Canada continues to compare favourably to the U.S., and other G7 and OECD countries in terms of the METR on investment, although it has slipped considerably vis a vis these countries from 2013-15. As important, while Canada's overall METR is currently about 20.1%, there is considerable disparity in METRs between industries – 9.0% and 12.4% for Forestry and Manufacturing, respectively, versus 24.2% and 25.2% for Communications and Other Services, respectively.[3]

If the current income tax rate structure is to be sustained for the foreseeable future, the METR disparity between industries in Canada, in particular the disparity between the telecommunications and manufacturing industries, strongly suggests that the Government should "level the playing field" by introducing measures to support investment in the telecommunications industry by lowering the METR on such investment.

Enhancements to the Canadian CCA System

An underlying objective of the Canadian income tax system is to achieve economic prosperity and growth. The federal government has used the CCA system to foster economic policy initiatives, including those that stimulate certain industries during economic downturns or achieve other overall economic objectives.

Below are proposals to alter the current Canadian CCA system to reduce the cost and increase the amount of investment by the telecommunications industry in digital infrastructure. The proposals listed below accelerate tax deductions for current expenditures that taxpayers would otherwise be able to claim in future years. In other words, the cost to the government is timing only.

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[3] See P. Bazel and J. Mintz, reference forthcoming.

1. Accelerate CCA Rate for Telecommunications Network Equipment & Fibre Cables to 50%

Budget 2015 extended for 10 years the temporary accelerated CCA in Canada for manufacturing and processing equipment "in order to support continued investment in machinery and equipment and help bolster productivity".

Given recent reports about Canada's lackluster business investment and productivity, and the positive economic synergies resulting from investment by the telecommunications industry, this incentive should be extended beyond the manufacturing industry to the telecommunications industry.

The most significant investments of the telecommunications industry are included in classes 8 (CCA rate 20% - radio-communication equipment), 42 (CCA rate 12% - fibre optic cable and telephone or data communications equipment that is a wire or cable) and 46 (CCA rate 30% - data network infrastructure equipment and systems software for that equipment).

Including all telecommunications investment in class 46 and increasing the CCA rate of class 46 from 30% to 50% would lower the cost and increase the amount of investment in this area.[4]

2. Temporary Expensing of Canadian Labour Costs

Direct labour costs incurred by a telecommunications company (and others) related to the acquisition, installation, upgrade or construction of a fixed asset/capital project are capitalized into the value of the asset rather than deducted when the labour costs are incurred. These costs are primarily related to corporate departments that perform engineering or IT development, network construction-related activities and subscriber installation activities.

Of course, direct labour "income" is fully taxable on receipt.

We propose that the rules be changed to allow for the temporary expensing of Canadian labour costs that are capitalized under current law.

This proposal could be extended to a wide range of industries to stimulate infrastructure investment and employment. This will have both a direct impact and a positive indirect spillover effect by lowering the cost of investing in business assets in Canada.

3. Temporary Suspension of the "Available-for-Use" (AFU) and "Half-Year" Rules

The AFU rule requires capital assets to be ready and available for use before they can be depreciated for tax purposes. This largely affects capital assets that are built or constructed over a period of time. The "half-year" rule limits the amount of CCA deductible in the first year in respect of most acquisitions of property to 50% of the amount otherwise deductible.

The tax policy rationale for these rules is to achieve a better matching of costs and revenues in determining income for tax purposes.

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[4] The Conference Board of Canada, "From Landline to Mobile Broadband. Tax Drivers of Investment for Canada's Telecom Industry" (December 2015).

The combined effect of the AFU and "half-year" rules significantly reduces the amount of CCA that can deducted in the year when an expenditure is incurred, particularly for taxpayers that consistently spend hundreds of millions of dollars each year on business assets. For certain expenditures, the combined impact of the AFU and half-year rules is that a taxpayer may be unable to claim full depreciation in respect of an asset for over 12 months thereby increasing the after-tax cost of the investment.

Matching of costs and revenues should not be the primary concern in an environment where business investment is lagging and there is a need to encourage infrastructure investment.

We propose the temporary suspension of the AFU and "half-year" rules on telecommunications network equipment and fibre cables to reduce the METR on broadband network investment.

E-Commerce Sales to Canadian consumers by Non-resident Suppliers

Domestic suppliers of e-commerce sales (e.g., e-books, on-line streaming and downloads of music, and movies, online or downloaded video games and software, etc.) are required to register for and collect GST/HST on their supplies to their domestic consumers while a non-resident supplier could structure its affairs so that it collects and remits no tax. This not only leads to an ever increasing loss of tax revenue, it also creates a competitive disadvantage for Canadian companies, discouraging investment in Canada.

We recommend the introduction of a mandatory GST/HST registration requirement for non-resident suppliers of digital supplies to Canadian consumers. This approach has been adopted by many other Value-Added Tax jurisdictions and has been recognized as the most viable approach by the OECD.[5]

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We thank the Committee for the opportunity to present our proposals.

Sincerely,

Nick Pantaleo, FCPA, FCA
Senior Vice President, Corporate Finance
Rogers Communications

[5] See Rogers' submission on Effective Collection of Sales Tax on E-Commerce Sales by Foreign-Based Vendors, June 2014 (http://www.fin.gc.ca/consultresp/tpme-pfm/pdf/tpme-pfm-05.pdf).