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The Internet Association
Pre-Budget Consultation Submission

Executive Summary

While Canadians are world leaders in Internet usage, Canadian businesses have been slow to adopt digital technologies, which negatively affects our international competitiveness. In order to encourage Canadian Small to Mid-sized Enterprises (SMEs) to invest in digital technologies, The Internet Association proposes a targeted Digital Renovation Tax Credit (DRTC), which would permit Canadian SMEs to claim eligible expenditures incurred for digital "renovation" or enhancement projects. The proposed DRTC would not only assist SMEs to fully capitalize on the productivity-enhancing and market-expanding benefits of digital technologies but would also indirectly stimulate economic activity by increasing demand for digital professionals.

I. Introduction

The Internet Association[1], a trade association representing leading Internet companies, is pleased to provides its submission to the House of Commons Standing Committee on Finance's pre-budget consultation. Our industry plays a critical role in developing economies around the world, and we encourage the Canadian Government (Government) to increase its investments in digital technologies to take full advantage of the social and economic benefits afforded by the Internet. To increase the rate of adoption for digital technologies, The Internet Association proposes that the Government apply a targeted, non-refundable Digital Renovation Tax Credit (DRTC) to incentivize Canadian owned and controlled small and medium sized enterprises to expand their online presence.

[1] The Internet Association's membership includes: The Internet Association, the unified voice of the Internet economy, represents the interests of the leading Internet companies including Airbnb, Amazon, AOL, Auction.com, eBay, Etsy, Expedia, Facebook, Gilt, Google, Groupon, IAC, LinkedIn, Lyft, Monster Worldwide, Netflix, Practice Fusion, Rackspace, reddit, Salesforce.com, SurveyMonkey, TripAdvisor, Twitter, Uber Technologies, Inc., Yelp, Yahoo!, and Zynga. The Internet Association is dedicated to advancing public policy solutions to strengthen and protect Internet freedom, foster innovation and economic growth, and empower users.

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II. Canada's Digital Challenge

In absolute terms, Canada is an active participant in the digital economy. Canadians are prolific Internet users, ranking number one in the world in the number of webpages visited per month[2] and second only to the United States for the average number of hours spent online per user.[3] Canadians are extensive users of social media, with 69 percent visiting at least one social networking site in 2013, giving Canada the most social networking users in the world on a per capita basis.[4]

Canadians are also sophisticated users of e-commerce services. More than half of Canadian consumers have used the Internet to order a good or service,[5] purchasing $122 billion worth of goods and services in 2012 - more than double 2007 levels.[6] Indeed, with 93 percent of Canadians reporting that they research online before buying, the Internet is now more influential in helping Canadians make purchase decisions than family, friends and co-workers.[7]

However, while Canada ranks highly in terms of Internet usage, Canadian businesses have been slow to adopt Internet technologies that are mainstream among key competitors globally. Only 45.5 percent of Canadian businesses have a website, and among small to mid-sized enterprises

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[2] Comscore (2014). Canada Digital Future in Focus 2014. http://www.comscore.com/Insights/Presentations_and_Whitepapers/2014/2014_Canada_Digital_Future_in_Focus (Comscore 2014).
[3] CIRA (2014). Fact Book 2014. The Canadian Internet Registration Authority.
[3]http://www.cira.ca/factbook/2014/index.html (CIRA 2014).
[4] eMarketer. Where in the World Are the Hottest Social Networking Countries? (2012)
[4]http://www.emarketer.com/Article/Where-World-Hottest-Social-Networking-Countries/1008870 (eMarketer 2012).
[5] CIRA 2014.
[6] Statistics Canada (2012). Survey of Digital Technology and Internet Use. http://www23.statcan.gc.ca/imdb/p2SV.pl?Function=getSurvey&SDDS=4225&Item_Id=131990&lang=en (StatsCan 2013).
[7] Fleishman Hillard (2012). Understanding the Role of the Internet in the Lives of Consumers.
[7]http://www.harrisinteractive.com/vault/HI_UK_Corp_Insights-Fleishman-Hillard-DDI-2012.pdf (Fleishman Hillard 2012).

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(SMEs), that figure is only 41.1 percent.[8] Further, with only three percent of the Canadian retail economy online, Canadian retailers are falling significantly behind the United Kingdom (23 percent), the United States (7 percent) and others on e-commerce and digital marketing adoption. This lag drives 68 percent of Canadian online shoppers to purchase from retailers headquartered outside of Canada and ceding the Canadian market to international competitors.[9]

Given the significant discrepancy between consumption and adoption of Internet technologies, it is not surprising that virtually every major comparative study done in the past few years shows Canada to be firmly in the middle of the pack with respect to the digital economy's contribution to GDP. The average contribution of the Internet economy to Canada's current GDP is a full 25% below its G-20 peers.[10] Moreover, the Boston Consulting Group (BCG) predicts that Canada's relative position will worsen, putting it 33% lower than the G20 average by 2016.[11]

In assessing the Internet's contribution to growth, Canada falls even further behind. A report by the McKinsey Global Institute found that between 2004 and 2009, the Internet contributed approximately 10 percent to Canada's GDP growth - well below the average contribution of 21% to GDP growth in other advanced industrialized economies over the same five-year period.[12]

It is clear that Canadian firms chronically underinvest in digital technologies, and this lack of investment adversely impacts Canada's poor performance in the digital economy. There is no easy explanation for why this is the case. But if Canadian enterprises are to remain prosperous, Government must break this cycle of underperformance by putting digital technology use at the centre of Canada's economic policies.

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[8] CIRA 2014.

[9] L2 Think Tank (2014). L2 Intelligence Report: Omnichannel Retail: Canada.

[9] L2. https://www.l2thinktank.com/research/omnichannel-retail-canada-2014 (L2 2014).

[10] CIRA (2013). Fact Book 2013. The Canadian Internet Registration Authority. http://www.cira.ca/factbook/2013/index.html (CIRA 2013). The Internet economy contributes an estimated 3% to Canada's national GDP, compared to the 4% average contribution among other G20 countries. By 2016, BCG estimates that the gap will widen to 3.6% and 5.3% respectively.

[11] Boston Consulting Group (2012). The $4.2 Trillion Opportunity: The Internet Economy in the G20. http://www.bcg.com/documents/file100409.pdf (BSG 2012).

[12] Pélissié du Rausas, Matthieu et al. (2011). Internet matters: The Net's Sweeping Impact on Growth, Jobs, and Prosperity. McKinsey Global Institute. http://www.mckinsey.com/insights/high_tech_telecoms_Internet/Internet_matters (Pélissié du Rausas 2011).

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III. Digital Renovation Tax Credit

The potential impact of digital technologies on productivity and growth for SMEs is profound. Not only do digital technologies make existing processes faster, less expensive, and more accessible, they make it possible to create new processes as well.[13] Traditional services can be delivered in entirely new ways, creating opportunities for innovative application in such sectors as agriculture, education, energy, transportation, financial services and healthcare.[14] Internet technologies allow SMEs to obtain the same benefits of scale larger firms enjoy and make it easier for businesses to get established through effective and affordable business services. These technologies also promote growth through online advertising and marketing, increased productivity through cloud storage and analytics, and competition globally by providing communications and logistics supports to reach new customers and suppliers. The McKinsey Global Institute found that SMEs that take advantage of the Internet earn twice as much revenue from exports and create twice the number of jobs as those that do not.[15]

Part of the problem is that SMEs outside of the conventional information and communications technology (ICT) sector -- accountants, contractors, engineers, etc. -- are much less likely to invest in productivity-enhancing technologies than their larger counterparts. Despite the proportionately higher benefits for smaller enterprises, some SME managers believe that digital technologies are not worth the investment in time and resources.[16] Canadian SMEs are more likely to rely on investments in labour and traditional machinery to generate growth because they lack information about how to effectively use digital technologies in their businesses.[17]

In order to address lower adoption of digital technologies among Canadian businesses, The Internet Association recommends that the Government adopt a targeted tax credit aimed at incentivizing SMEs to get their business online. Similar to how the Home Renovation Tax

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[13] Council of Canadian Academies (2012). Catalyzing Canada's Digital Economy: A Response to a Public Consultation on Canada's Digital Economy Strategy. http://www.scienceadvice.ca/uploads/eng/assessments%20and%20publications%20and%20news%20releases/digital%20economy/2010-07-12_catalyzing_digital_economy.pdf (CCA 2012).

[14] Wolfe, D.A. & Bramwell, A. (2010). Growing the ICT Industry in Canada: A Knowledge Synthesis Paper. Report prepared for the Social Sciences and Humanities Research Council Project on the Digital Economy in Canada. http://www.utoronto.ca/progris/presentations/pdfdoc/2010/Growing%20the%20ICT%20Industry%20in%20Canada_synthesis%20paper_edited%2014DE10.pdf (Wolfe 2010).

[15] Pélissié du Rausas 2011.

[16] CCA 2012.

[17] Wolfe 2010.

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Credit incentivized Canadians to retrofit their homes, a Digital Renovation Tax Credit (DRTC) would encourage SMEs to retrofit their online presence.

The DRTC would be a non-refundable tax credit available exclusively to Canadian owned and controlled SMEs. Under the DRTC, SMEs could claim eligible expenditures incurred for digital "renovation" or enhancement projects such as:

- getting a website,
- advertising online,
- optimizing an existing website via mobile,
- developing applications, and
- implementing e-commerce.

By encouraging Canadian SMEs to adopt productivity-enhancing digital technologies and leverage the Internet to expand into new markets, the DRTC will "increase the competitiveness of Canadian businesses through research, development, innovation and commercialization."[18] Furthermore, by increasing local demand for web designers, graphic designers, programmers and other technology professionals, it would also indirectly stimulate economic activity and "maximize the number and types of jobs for Canadians."[19] Importantly, SMEs are likely to turn to professionals and firms in their own communities for these services - thereby multiplying the impact of the DRTC in communities across Canada.

The Internet Association also recommends the Government deploy a communication campaign in association with the roll-out of the DRTC to educate Canadian SMEs about the benefits of adopting digital technologies for their business. We appreciate the opportunity to submit these comments.

Respectfully submitted,

/s/ Michael Beckerman
Michael Beckerman
President & CEO
The Internet Association

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[18] Press Release, Parliament of Canada House of Commons Standing Committee on Finance, Canadians are Invited to Share Their Priorities for the 2015 Federal Budget (June 6, 2014), *available at* http://www.parl.gc.ca/HousePublications/Publication.aspx?DocId=6653302&Parl=41&Ses=2 (Press Release June 6, 2014).
[19] Press Release June 6, 2014.

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