Testimony: Senate Standing Committee on Transport and Communications
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Mr. Chair and distinguished members, it is a pleasure to appear before you today. I am the
President and CEO of Magazines Canada, the national association representing the majority of
Canadian-owned, Canadian-content magazines. French, English, Indigenous and ethnic
member titles cover a wide range of interests, trades and communities across the country.

I am intrigued by this committee’s mandate: Transport and Communications—it strikes me that
much of our nation-building of Canada has in fact come as a result of either our transportation
infrastructure or our communications, often the two in tandem. In fact, Senator Keith Davey in
his landmark report on the media in 1970, claimed that: “In terms of cultural survival, magazines
could potentially be as important as railroads, airlines, national broadcasting networks, and
national hockey leagues. But Canadian magazines are in trouble [and] their survival is [not]
assured.”

So I view your discussion on digital tax policy as it relates to media as a very important and
timely one.

Canada is home to nearly 2,700 magazines that help create “communities of readers”—these
may be geographic or linguistic; they may help define a group via shared identities, lifestyles or
beliefs; they may serve a trade, professional or creative class; they may provide critical
business intelligence, news and long-form journalism; or they may deliver information,
entertainment and inspiration. For everyone, everywhere in Canada, there’s a magazine.

Canadian magazines are published in 34 different languages, in every province and territory in
the country. By editorial focus, consumer titles represent 51% of the total, followed by business
and professional magazines, including farm titles, at 39%. Ethnic and Arts/Cultural titles each
represent 5% of the total.

Magazine brands reach over three-quarters of Canadians, of all ages, across all platforms and
venues: print, digital and mobile, social, video, webinars, live events... even virtual reality.

Unfortunately, over the past few years, the underlying economics of consumer magazine
publishing in Canada have collapsed. Canadian print advertising spending has migrated to
digital platforms, and digital advertising has, in turn, migrated offshore, largely to U.S.-based
digital content distributors. Between 2007 and 2017, advertising revenues decreased by half (-
47%), from $732 million to $390 million. This decline has accelerated in the last four years: by
one-third (-32%). If anything, I understate the numbers, which have likely dropped even more.

Now that you have a sense of our industry, let me return to the “infrastructure” which helps
support it.
From the earliest days of our national railways—where the train stations were also radio stations, which eventually led to the formation of our national broadcaster—our ability to connect with our fellow citizens has been established through supportive infrastructure and proactive cultural policy.

Canada's direct support for the magazine sector is older than the country itself—it predates Confederation. Like the railways, the original Postal Subsidy was designed to ensure that Canadians across the country had access to each other through the information and stories that tie us together.

The ongoing principal support for magazines is the Canada Periodical Fund: an essential program for our industry. The Canada Periodical Fund is buttressed as well by the Foreign Publishers Advertising Services Act of 1999, which limits how much space foreign publishers can sell to Canadian advertisers in a Canadian ‘split’ edition; and by Section 19.01 of the Income Tax Act. As you know, however, this was never applied to digital properties, which largely did not exist at the time the legislation was drafted.

Private advertisers, and indeed our own Government, continue to spend record amounts on foreign digital advertising, with Facebook and Google accounting for over 70% of total revenue and taking 90% of every new dollar spent. This money is leaving the country untaxed, supporting foreign content aggregators who do not create jobs in Canada or local content, and is no longer providing a revenue stream to our own media and cultural creators.

I note that the top two recommendations coming out of the Public Policy Forum’s January 2017 report, The Shattered Mirror call on policymakers to enhance Section 19 of the Income Tax Act to cover digital in order to level the playing field among platforms and incentivize ad-purchasing from Canadian media; and further to extend GST/HST to digital subscriptions and advertising revenues in order to remove a tax disadvantage imposed on Canadian companies vs. their foreign competitors.

The more recent study shared with this committee by the Friends of Canadian Broadcasting, Close the Loophole, has as its main premise that advertising purchased on foreign internet-delivered media that act as broadcast and news services should not continue to be deemed a deductible expense under the Income Tax Act. Magazines Canada agrees with both positions.

Indeed, your own colleagues in the House of Commons in this very session of Parliament, have also had similar findings:

As the Committee members will know, the House Standing Committee on Canadian Heritage issued its Disruption report in June 2017: The report recommends amending Section 19, 19.01 and 19.1 of the Income Tax Act to ensure foreign advertisers and content platforms are subject to the same tax obligations as Canadian businesses.

More recently, the E-Commerce report of the House Standing Committee on International Trade from April, 2018 recommends the Government ensure the tax system is fair and equitable by ensuring online sales are taxed in the jurisdictions where the products are consumed and where the income-related activities occur, and that the Government should apply sales tax on digital products and services sold here by foreign sellers.

Many countries have begun to eliminate tax holidays for foreign digital companies, including the European Union, New Zealand, Australia, South Africa, South Korea, Japan, Israel and others.
Confronted with the ‘borderless digital world’, most of these jurisdictions have decided to shift taxation from the location of the company to the location of its customer—and the large companies conducting business in their jurisdictions have generally complied.

I am at a loss as to why Canada cannot begin to address this issue in order to provide a level playing field, tax fairness, and once again ensure the infrastructure of our nation supports the cultural and communications industries that help bring us together.

Thank you.

**Disruption: Change and Churning in Canada’s Media Landscape**

**Recommendation 4:** The Committee recommends that the Government of Canada amend sections 19 (newspapers), 19.01 (periodicals) and 19.1 (broadcasters) of the Income Tax Act to allow deduction of digital advertising on Canadian-owned platforms.

**Recommendation 6:** The Committee recommends that the Government of Canada level the playing field among industries publishing Canadian news, on all platforms, by ensuring that foreign news aggregators, which publish Canadian news and sell advertising, directed to Canadians, are subject to the same tax obligations as Canadian providers.

**E:Commerce: Certain Trade-Related Priorities of Canada’s Firms**

**Recommendation 1:** That the Government of Canada ensure the existence of a taxation system that is fair and equitable for all Canadians. The Government should work with other countries in ensuring that online sales, and the profits earned by firms making such sales, are taxed in the country where the products are consumed and where the economic activities that created the income occur, which would be consistent with relevant recommendations made by the Organisation for Economic Co-operation and Development.

**Recommendation 3:** That the Government of Canada apply sales taxes on tangible and intangible products that are sold in Canada by domestic firms and by foreign sellers, including when such sales occur using an e-commerce platform.