



Monday, July 6 2020

Standing Committee on Finance and Economic Affairs (“SCFEA”) – Culture and Heritage
Chair, MPP Amarjot Sandhu
Clerk, Ms. Julia Douglas
99 Wellesley Street West
Room 1405, Whitney Block
Queen’s Park
Toronto, ON, M7A 1A2

Dear Standing Committee members,

We are pleased to submit a written submission following Interactive Ontario’s (“IO”) appearance before SCFEA – Culture and Heritage – on June 30, 2020, 10am.

We very much appreciated the committee’s questions and engagement with **IO’s deputation** comprised of the following Interactive Digital Media (“IDM”) industry leaders:

- Joel Burgess, Studio Director, Capybara Games
- Jonathan Stanton-Humphreys, CEO Hitgrab Game Labs
- Lucie Lalumière, President & CEO, Interactive Ontario
- Mary Sorrenti, Vice-President, Game Pill & VRGEN

Interactive Ontario is the not-for-profit trade association formed by and for the IDM industry in Ontario. IO represents companies from Small-Medium Enterprises (“SMEs”) to multinational corporations, which produce and export **video games, virtual and augmented reality applications, eLearning content**, and other innovative IDM applications. Our Ontario companies are proud contributors to the cultural and economic fabric of Ontario. They are **techno-creative and innovative**, as they continually push the boundaries of creativity and technology to compete worldwide.

Pre-COVID-19, the IDM industry in Ontario was on a steep growth trajectory with a steady need for a young workforce and an international footprint:

- **GDP:** \$3 billion in 2017, an increase of 11% vs 2016, 113% vs 2010¹.
- **Jobs:** 22,375 in 2017, an increase of 10% vs 2016, 62% vs 2010¹.
- Average **employee age**; 31².
- Average **salary**: \$74,000².
- **Export-driven**: 91% of revenue is from international markets².
- **Entrepreneurial**: The province of Ontario has the most video game studios in Canada³.

¹ Statistics Canada, Provincial and Territorial Culture Indicators – PTCI, April 25, 2019

² Interactive Ontario, Measuring Success: The impact of the Interactive Digital Media sector in Ontario, May 2019

³ ESAC, The Canadian Video Game Industry 2019

However, compared to more mature jurisdictions, our ecosystem of companies in Ontario is still emerging. Indeed, most of our companies are small SMEs with over a third of them having been in operation for 5 years or less⁴. While this shows the entrepreneurial and innovative nature of our industry in Ontario, it also underlines its **greater vulnerability to economic uncertainty compared to other more mature jurisdictions**.

According to a Nordicity study on the impact of COVID-19 on the IDM industry⁵, the greatest risks to the IDM sector in Ontario are:

- **Limited cash runway:** As of April 6 2020, IDM companies in Ontario had cash on hand to support 4 months of operations on average.
- **Impeded business development:** IDM companies need to secure work many months in advance, whether it is fee-for-service contracts or production/distribution deals for original intellectual property (“IP”). Since the start of the COVID-19 crisis, business development activities have been severely impacted with suspended contracts and cancelled markets. This is exacerbated by the fact that the COVID-19 crisis has stalled capital fundraising.

Therefore, we must act decisively to prevent a major setback for the Ontario IDM industry, at a time when our sector was poised to grab a bigger piece of the global market, which is booming.

Case in point, the **global market for video games** is estimated to reach US\$159.3Bn by the end of 2020, and grow to US\$200.8Bn by the end of 2023⁶. Like any other form of entertainment, video games are played by people of all ages and genders around the world. In Canada alone, there are 23 million gamers, half of whom are women⁷. Additionally, people have increased their consumption of entertainment products at home during the pandemic. In fact, the World Health Organization is promoting games as a recommended social activity during the pandemic.

There is clearly a market opportunity, especially since the IDM industry can work from home. But to seize it, our Ontario IDM sector must be able to pull through the cash flow and business challenges triggered by the pandemic, and exacerbated by the still-emerging nature of our industry in the province.

IO and a group of eleven business leaders from the IDM sector came together under the auspice of the Ministry of Heritage, Sport, Tourism, and Culture Industries (“MHSTCI”) – **Ministerial IDM Council** – to make recommendations aimed at mitigating the risks generated by the pandemic and also stimulating recovery and growth.

IO fully supports the range of recommendations of the IDM Council and wants to call the attention of SCFEA on one specific component of the IDM Council’s recommendations, i.e. the fact that the **Ontario Interactive Digital Media Tax Credit (OIDMTC) must be improved** in order to ensure recovery, growth and the competitiveness of our province with other jurisdictions.

The OIDMTC has been instrumental to the growth of Ontario’s IDM sector. But it is time to, at a minimum, catch up to best practices implemented by other jurisdictions. The COVID-19 crisis is forcing jurisdictions around the world to look at growth sectors that will create high-paying jobs

⁴ Interactive Ontario, Measuring Success: The impact of the Interactive Digital Media sector in Ontario, May 2019

⁵ Nordicity, Measuring the Impact of COVID-19 on the IDM Industry, April 15, 2020

⁶ Newzoo, 2020 Global Games Market Report

⁷ ESAC, Essential Facts About The Canadian Video Game Industry, 2018

post-COVID. **Other jurisdictions are tuning in to the fact that the IDM industry is an undeniable high-growth sector.**

As an example, our Ontario companies are currently being courted by another jurisdiction that is offering them to open virtual offices of remote staff in their province to leverage their tax credit and access to local talent. It is a clever move that illustrates how competitive jurisdictions are becoming, using their IDM tax credit to attract investment, and create high-paying jobs.

Therefore, it is imperative that we improve the OIDMTC to recover from the COVID-19 crisis, create and retain jobs in the province, and also attract investment. The following are key recommendations that will allow Ontario to, at a minimum, catch up to best practices:

1. **Implement a service standard**, with public-facing KPIs for the issuance of the Certificate of Eligibility and tax refund.
 - a. While there has been significant progress in processing times over the last few months, Ontario must now establish a service standard similar to Quebec's Tax Credit for the Production of Multimedia Titles.
 - b. A prescribed service standard will allow companies to work effectively with the tax credit, plan ahead and re-invest in their people, products, and companies.
2. **Lower the threshold for annual filing** for video game companies who attain a \$50,000 labour threshold under section 93.2.
 - a. The Ontario IDM industry applauded the reduction of the labour threshold for annual filing from \$1M to \$500,000 in the 2019 provincial budget. This was a step in the right direction. However, Ontario is still far from other competitive jurisdictions, like Quebec, that do not have a minimum threshold for annual filing. This, and the other measures explained herein, propelled the Quebec IDM industry to world-renowned success, resulting in a thriving ecosystem that employs almost 3 times the number of full-time equivalents ("FTEs") than in Ontario.
 - b. IO recommends lowering the threshold to \$50,000 in order to allow bona fide IDM companies to qualify for annual filing, instead of project-based filing applications that are only eligible once a project has been completed and accessible to the public.
3. **Enable compatibility with the federal Scientific Research and Experimental Development ("SR&ED") tax credit on OIDMTC-eligible labour activities** similar to what the Manitoba jurisdiction offers to its IDM companies.
 - a. Technical innovation is integral to the success of the IDM industry. Other jurisdictions like Manitoba, recognize that and encourage tech innovation by allowing IDM companies to claim the SR&ED tax credit on the portion of labour that is not claimed under the Manitoba Interactive Digital Media Tax Credit.
 - b. This is another clear competitive advantage that other jurisdictions have over Ontario.
4. **Include the eligible labour activities of new Ontario residents** who establish their residency and file personal income taxes in Ontario in the year they are hired.
 - a. The competition for senior IDM talent is fierce worldwide and jurisdictions are taking actions to attract such talent. Indeed, for each senior acquired, many juniors and intermediates are upskilled. Based on the current OIDMTC legislation, IDM companies are forced to delay hiring foreign talent since they cannot claim OIDMTC on new Ontario residents during the first year of employment in Ontario. This is another obstacle for Ontario companies that is not present in other jurisdictions like Quebec.

- b. IO recommendations would qualify new Ontario residents to be claimed if they file personal income taxes in Ontario in the year they are hired. This would encourage companies to attract senior talent committed to staying in the province.

Ontario has what it takes to become one of the leaders worldwide in interactive digital media, with our diverse workforce, highly-qualified, creative and technical talent, top-notch post-secondary institutions and great entrepreneurial spirit. The window of opportunity to take action is now to ensure that Ontario becomes a competitive and thriving IDM jurisdiction on a global scale.

Interactive Ontario and its members are ready to work with the Province in order to refine the aforementioned recommendations and others recommended by the IDM Council. Together, we can recover from the current crisis, grow and significantly contribute to the economic prosperity of the province.

Best regards,



Lucie Lalumière, President & CEO, Interactive Ontario (IO)
On behalf of IO's board, members and deputation to SCFEA

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