



**Submission to the Standing Committee on Finance**

**Pre-Budget Consultations 2012**

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Submitted by

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## ABOUT US

The Alliance of Canadian Cinema, Television and Radio Artists (ACTRA) is the national organization of professional performers working in the English-language recorded media in Canada. ACTRA represents the interests of 22,000 members across Canada – the foundation of Canada’s highly acclaimed professional performing community.

The Canadian Federation of Musicians (CFM) is the foremost organization of professional Canadian musicians representing more than 17,000 members.

## EXECUTIVE SUMMARY

Canada’s cultural industries play an important role in our nation’s financial well-being. Culture contributes more than \$46 billion and more than 640,000 jobs to our economy.<sup>1</sup> Taking in direct, indirect and spin-offs, cultural industries make-up 7.4% of Canada’s GDP, making it three times bigger than Canada’s insurance industry and twice the size of Canada’s forest industry. Many industries rely on government support to develop and to attract private investment, culture is no different.

ACTRA and the CFM appreciate that the government is facing numerous fiscal challenges and pressures. However, the best way to protect against economic uncertainty is to invest in industries with a proven record of creating jobs and of spurring innovation; culture is one such industry. Culture is not a ‘frill’; it is a major industry driven by innovators and entrepreneurs, based on renewable resources.

Content and those who create it are at the heart of the digital economy. The government has a tremendous underutilized resource in Canada’s content creators. We have some of the most diverse, educated, and creative minds in the world. From videogames to music, TV to experimental digital art, we have the skilled workers who can deliver some of the most innovative creative content in the world, and the global appetite for that content grows every day. There is a demand for high-quality, distinctive Canadian content, content no other country in the world can create.

To ensure we seize on the full-economic potential of this dynamic industry, the government must make several strategic investments: bolster tax incentives for content production to spur private investment, implement a fair tax system for creators, and invest in the cultural institutions that create Canadian content.

ACTRA and the CFM have three specific recommendations for inclusion in the 2012 federal budget:

- 1) Increase the value of the Canadian Film or Video Production Tax Credit (CFVPTC) and the Production Services Tax Credit (PSTC), thereby increasing production capacity in Canada and with it high paying jobs as well as spin-off benefits for other industries.
- 2) Make taxes more equitable for self-employed creative entrepreneurs by reintroducing income averaging and exempting revenues earned on copyright and residual payments.
- 3) Support our public broadcaster with increased, long-term funding for the CBC

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<sup>1</sup> Conference Board of Canada, *Valuing Culture: Measuring and Understanding Canada’s Creative Economy*, July 2008.

## DETAILS ON OUR RECOMMENDATIONS

### # 1: Bolster tax incentives to attract private investment

Expanding and enhancing the existing tax credit menu for audio-visual content creation is critical to building a sustainable digital economic plan. Audio-visual tax credits are an efficient and effective way to increase Canada's competitiveness and attract investment.

We recommend the government increase the Canadian Film or Video Production Tax Credit (CFVPTC) and the Production Services Tax Credit (PSTC): a rise from 25% to 35% in the CFVPTC as recommended by the House Finance Committee's 2004 report, and a rise from 16% to 26% in the PSTC. We also suggest that the eligibility criteria be broadened to include **all** costs including post-production costs, as both Ontario and Quebec have done, and not just labour costs involved in production.

Finally, we recommend that the federal government introduce labour-based tax credits for digital and interactive media similar to those available in a number of provinces.

Further incentives could help drive advertisers to support Canadian websites that feature Canadian content. The *Income Tax Act* could be amended to allow advertisers tax deductions for advertising on Canadian-owned websites or services only if it gives prominence to Canadian digital media content but not on sites that do not qualify. This provision is based on the existing provisions of Section 19.1 which provide rules related to the non-deductibility of advertising on U.S. border broadcasting stations which encourage advertisers to instead advertise on Canadian broadcasters. These tax deductions exist in the magazine and newspaper industries as well and should be extended to include all media platforms.

### #2 Makes Taxes Fair for Creators

Cultural workers face many challenges in operating their small businesses. For example, self-employed performers, musicians and other artists do not have the full, automatic access to programs such as Employment Insurance and the Canada Pension Plan that full-time employees do. They also face a tax system that is geared towards 'employees' and doesn't address the unique needs of self-employed creative entrepreneurs whose incomes can fluctuate wildly from year-to-year. For example, a performer's sudden emergence as a lead in a television series may have followed many lean years of training, intermittent work, tireless self-promotion and attendance at hundreds of auditions. But if the series doesn't catch on, they may soon return to more challenging times. Yet, they will be taxed in their successful year as if that was their normal annual income.

To rectify this inherent unfairness, many jurisdictions allow artists to average their income over a number of years for tax purposes. In 2004, Quebec implemented tax averaging for performers and other artists that allows them to defer the tax on a portion of their income. In Australia, the *Income Tax Assessment Act, 1997*, allows artists with fluctuating incomes to average their income for tax purposes for a period of up to five years.<sup>2</sup> UNESCO has reported that income averaging for cultural professionals is also practised in Germany, Denmark, the Netherlands, Greece, France, the United Kingdom and Luxemburg among other countries.

Income averaging is not a new concept in Canada. For decades, our federal tax laws recognized the volatile nature of artists' incomes and contained provisions for income averaging. Unfortunately these provisions were abolished in 1988. It is time to bring income averaging back. Income averaging will

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<sup>2</sup> Australian *Income Tax Assessment Act, 1997*, Chapter 3, Part 3-45, Division 405, pp. 461-473.

allow self-employed entrepreneurs to better-predict their tax burden and make a fair contribution based on their ability.

ACTRA and the CFM also recommend that the government grant professional artists a \$15,000 exemption from taxes on revenues earned on copyright and residual payments. This practice is already in place in Quebec; when an artists' total income is under \$30,000, their first \$15,000 in copyright royalties is tax-exempt.

Tax averaging and an exemption on copyright and residual income will result in fair and equitable tax laws that will encourage creativity and value cultural productivity.

### **# 3 Invest in content creation**

The Canada Media Fund (CMF), Telefilm Canada, Canadian Broadcasting Corporation (CBC) and the National Film Board (NFB) are at the fore of creating, producing, and distributing of compelling Canadian content. They must be given the resources they need to flourish, to create jobs and to make Canada a world leader in digital content.

#### **CBC**

The CBC was created to bring radio to all Canadians; it led the way in delivering Canadian television content. As we move into the digital era, Canada's public broadcaster must be the leader in bringing original, distinctive Canadian digital content to the world. In fact, CBC.ca is already playing an impressive role in Canada's digital space. It is consistently Canada's most popular English-language news and media site with 4.8 million unique visitors per month, or an average of approximately 750,000 weekly streams – 575,000 video and 175,000 audio.<sup>3</sup>

A recent study by Deloitte showed that every dollar invested in public broadcasting creates almost four dollars in economic value for the Canadian economy. That is a sound investment.<sup>4</sup> Unfortunately, per capita public funding for CBC is among the lowest funding for a public broadcaster in any industrialized country in the world; while the global average is \$80 per citizen, per year CBC/Radio-Canada only gets \$33. To that end we support the 2008 recommendation of the Standing Committee for Canadian Heritage that the annual allocation for the CBC be increased by \$7 per Canadian to a total of \$40 per Canadian to bring it into line with other industrialized nations.

We also urge the government to pursue the development of a seven-year contract between Parliament and the CBC that sets expectations and guarantees funding indexed to inflation. As part of this understanding, the government should heed the Heritage Committee's recommendation that the Board of CBC be appointed free from political patronage and that the Board, not the Prime Minister, hire and fire CBC's President. Such a move would ensure the CBC both greater fiscal autonomy and responsibility.

#### **Canada Media Fund**

The Canada Media Fund (CMF) supported the creation of 4,400 hours of new Canadian content hours of new Canadian programming in 2009-10 alone.<sup>5</sup> These productions create thousands of direct and indirect jobs for Canadians of a wide-range of specialties and skills, including professional performers and musicians as these programs often feature underscored music recorded by Canadian musicians.

We applaud the government's commitment in the 2011 Budget to make the funding for the CMF permanent. We also welcome the CMF's newly expanded role in funding content for emerging digital

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<sup>3</sup> "Great Successes, Greater Challenges" CBC-Radio Canada Annual Report, 2008-09.

<sup>4</sup> Deloitte, *The Economic Impact of CBC/Radio Canada*, June 2011.

<sup>5</sup> Canada Media Fund, *Annual Report 2009-10*. November 2010.

platforms while continuing to support conventional made-for television. However, we are concerned that without additional resources, the CMF will struggle to meet its expanded mandate and urge the government to increase its investment in this important engine of Canadian content.

### **Telefilm Canada**

Like traditional television content, the digital age brings new means of distributing and showcasing Canadian feature film content. While our feature films have struggled to get screen time in the finite space of movie theatres, digital technology brings unlimited potential for distribution. Now Canadians and audiences around the world want access to these films through alternative secondary, legal distribution channels; we need to ensure that there is quality, Canadian feature film content to meet that demand.

Investments by Telefilm Canada make sure Canadian films get made by leveraging private sector investment at home and abroad, generating greater economic activity and stimulating job creation: each dollar invested in a Telefilm production triggers \$2 in additional financing for digital media projects and \$3 for feature film projects. Canadian films must not only be made so they can be accessed through online distribution, but funds must be made available to take advantage of the increased marketing opportunities that digital and social media provide. The Canada Feature Film Fund (CFFF) is up for renewal in 2011; it must be renewed and given long-term increased funding in order to continue ensuring there is Canadian feature film content available for digital distribution.

### **NFB**

For 70 years, the NFB has created groundbreaking documentaries, animations, dramas, digital media productions and more. The NFB has crafted over 13,000 productions and received more than 5,000 awards, including 12 Oscars and more than 90 Genies. Unfortunately, over the past 15 years, the NFB has been subject to repeated cutbacks. Despite these challenges, the NFB has proven to be an innovator in embracing new technology to bring Canadian films and digital media projects to a global audience.

The NFB's online Screening Room not only brings Canadian films out of the vaults and bring them to the world but it also provides a showcase for exciting innovative digital content. It has already garnered over 5 million views and widespread critical praise since its launch in 2009. For example, deemed one of the best apps of 2009 by iTunes Canada and named Best Use of Content in 2009 by TheAppleBlog, the NFB's iPhone app has been downloaded more than 235,000 times, with 821,000 film views, as of June 1, 2010.

Despite these limited resources the NFB is a leader in producing innovative content and making it available to Canadians and global audiences. As a proven digital innovator and Canada's premiere public film producer and distributor, the NFB deserves increased, long-term stable so it can continue sharing unique Canadian perspectives and stories with the world.

### **CONCLUSION**

Success in today's digital economy requires public policy designed to ensure Canadian cultural products and services have a prominent place on TV and radio, online, in our movie theatres, and on our stages, in our art galleries and concert halls. Canada can be a world leader in audio-visual production. Given the right tools in today's digital economy, Canada's cultural industries will continue to be an engine of Canadian economic innovation and growth, job creation, and the development of new technologies. We urge the government to harness the full economic potential of this important industry with a solid, long-term investment in the coming budget and the years ahead.