

Entertainment

FEBRUARY 27, 2003

New Canadian Budget Enhances Canadian Production Services Tax Credit Program but Reduces Canadian Television Fund

On February 18, 2003, the Canadian Finance Minister, John Manley, tabled the federal budget (the "Budget") in the Canadian House of Commons announcing, among other things, changes to the Film or Video Production Services Tax Credit (the "Services Credit") and the Canadian Television Fund ("CTF"). Among those of our clients who benefit from the Services Credit, the Budget will give cause to celebrate. For those of our clients, however, who rely on CTF financing for domestic production, the Budget will give cause for concern. For ease of reference, the proposed tax changes are briefly summarized below.

The Services Credit, which is a labour-based tax credit aimed at encouraging foreign production in Canada, currently provides a refundable tax credit equal to eleven per cent (11%) of qualified Canadian labour expenditures. This credit is available to Canadian and foreign-controlled corporations that carry on business in Canada and either own the copyright in an "accredited production" or have contracted directly with the copyright owner of an "accredited production" to provide production services. The Budget increased the existing eleven per cent (11%) credit rate to sixteen per cent (16%) of qualified Canadian labour expenditures incurred after February 18, 2003.

Unlike the Services Credit, no changes were announced to the Canadian Film or Video Production Tax Credit or so-called Canadian content credit (the "Content Credit"), which continues to provide a refundable tax credit of twenty-five per cent (25%) on qualified labour expenditures rendered in connection with Canadian film or video productions produced by eligible Canadian controlled corporations. However, mention was made in the Budget that the federal government will continue to consult with the Canadian film industry to develop criteria for streamlining the delivery of the Content Credit tax refund. The federal government also intends to continue these consultations with a view to ensuring that the structure and operation of the Content Credit are appropriate to achieve the intended support for Canadian film and video productions.

Finally, the Budget reduced by twenty-five per cent (25%) the federal government's annual contribution to the CTF by \$25-million. The Department of Canadian Heritage's contribution will now be \$75-million per year over the next two (2) years. The reduction comes at a critical moment for Canadian producers as the CTF is commencing its annual, month-long evaluation of funding applications for dozens of new and renewed productions.

For more information regarding the Budget, the status of Canadian tax credit programs, CTF, or any other Canadian film and television

THE UPDATE

funding programs, please contact the following members of the Goodmans Entertainment Group:

Toronto

David B. Zitzerman 416.597.4172
dzitzerman@goodmans.ca

Michael A. Levine 416.597.4132
mlevine@goodmans.ca

Ivan Schneeberg 416.597.4298
ischneeberg@goodmans.ca

David Fortier 416.597.4156
dfortier@goodmans.ca

Tara Parker 416.597.4181
tparker@goodmans.ca

Mitchell Sherman 416.597.4189
msherman@goodmans.ca

Vancouver

Joel Guralnick 604.608.4570
jguralnick@goodmans.ca

All Updates are available at www.goodmans.ca. If you would prefer to receive this client communication by email, require additional copies or have a change of address please email smitchell@goodmans.ca. This Update is intended to provide general comment only and should not be relied upon as legal advice. ©Goodmans LLP, 2003.