Federal budget has little to affect film/television financing

The May 1985 federal budget held very little of direct consequence for the film and television production industry. However, generally the budget increased the benefits to be had from investing in the industry.

The Capital Cost Allowance remains for the time being, but it is subject to review as part of the discussion paper on Minimum Tax. The government has proposed implementing such a minimum tax January 1, 1986, although such an early implementation is unlikely given the public discussion of the issue sought by the government. In the meantime, because production investment is one of the few remaining tax shelters and because of the surtaxes on personal and corporate income, it is anticipated that there will be a greater number of production industry investment opportunities this year than last. It is also anticipated that some offerings will include features to defer revenue until after the surtax is lifted January 1, 1987. This will help investors beat the surtax twice. Once on the original monies sheltered and again on the income flowing from the film investment.

It is not yet known what impact the $500,000 ($50,000 in Québec) lifetime Capital Gain exemption will have on tax deferral-based production investment. The comparison is not simple. For example, the investor who doesn't have sufficient cash to pay taxes owing may be interested in deferring those taxes by investing in quality tax shelters. Even investors with surplus cash are having second thoughts about only investing for anticipated capital gains using after-tax-dollars. The shock of paying all their taxes last year, deferring none of it, has made many of them swear never to do it again.

The timing and degree of permanence of the exemption have become significant considerations. Phil Dunn, a partner in the accounting firm of Ernst & Whinney, points out that because "the capital gains exemption is being phased in over a six-year period commencing in 1985, with larger exemptions available in later years, it is unlikely to be a major consideration during the next few years for film investors with significant funds to invest."

Finally, because the capital gains exemption is only of use once an investment has been sold for a profit, investors are concerned that the exemption benefit may be short term. If the capital gains exemption does not show any sign of providing stimulation to the economy through increased private investment, the government could just as easily take the exemption away in three of four years, just before the next federal election.

In Quebec the capital gains exemption is even less attractive. The Quebec government has stated that the exemption will be phased in over two years and the exemption for Quebec investors is $50,000 rather than $500,000. However according to Michael Prupas, of Heenan Blaikie Jolin Potvin Trepanier Cobbett of Montreal, "The Quebec government has not ruled out increasing the exemption at a later time."

To the extent that the capital gains exemption exists however, the production industry will also benefit. Increased investment activity should benefit companies such as Astral Bellevue Pathé, Cineplex, and Tegra (VSE), to name a few with post-production, distribution or exhibition interests. Benefits should also be available for production companies whether they be private or public such as the existing VSE listing, Moonshine Productions Ltd. which has produced ***Samuel Lount.***

Phil Dunn points out that the Minimum Tax mentioned in the budget, depending upon how it is implemented, could "provide a dampening effect on film investment, although this is uncertain, until the system itself is determined. However, the three alternatives open for discussion all include film investment deductions in the list of 'tax preferences'." He explains that "tax preferences are intended either :

– Not to be allowed as a deduction for tax purposes, or
– To be taxed at a flat rate, or
– Limited as a deduction for tax purposes, with a carryover to future years."

There has been no word yet as to how the producers' associations are going to advise the government on this issue during the period of consultation. It is presumed that they will. Well prepared submissions to the government appear to be effective with the government. Prior to the budget it was rumoured that the capital cost allowance would disappear. The producers' associations, the Association of Canadian Film and Television Producers (ACFTP), the Canadian Film and Television Association (CFTA) and the Association des producteurs de films du Québec (APFQ) submitted briefs to the Department of Finance and Revenue Canada a month prior to the budget. It is now rumoured that this activity resulted in the Capital Cost Allowance being retained for films. In addition to the Minimum Tax, future discussions with the government will also need to address measures to increase investment flexibility and improve administrative simplicity. In a January survey conducted by Screen Investor Services, improvements to the federal government treatment of the production industry were suggested which would make the industry more attractive to investors. These included flow-through shares, enriched CCA, and other measures to reduce risk, increase liquidity, reward success and quality and which would encourage investment in production funds and production companies as well as individual productions.

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Fund depleted for English production

TORONTO – The Broadcast Fund, which last year was unable to spend its annual production allocation, has in the first three months of its fiscal year committed all of it English-language production funds.

Between April 1 and the end of June, $36 million has been allocated under the new Telefilm guidelines announced by Marcel Masse, federal Communications minister, last March. The new rules increased Telefilm's ability to invest in projects from 33% of budget to 49% under certain conditions. As well, Masse introduced a one-year scheme for Telefilm to match license fees paid to producers by broadcasters. These factors together with the opening of the Fund to educational broadcasters and documentaries have been named as the key reasons for the Fund's early depletion.

One of the architects of the new rules suggested that the rapid disbursement of the Fund had been anticipated and was partly a result of producers requesting decisions early in the year to allow for production. However, independent producers are dismayed at how quickly the well has run dry.

Iain Patterson, president of the Association of Canadian Film and Television Producers, told Cinema Canada that "its not a good situation. We need to be assured our projects will find a home with Telefilm." He noted that the industry has suffered chronically from the turning on and off of "the tap." He said that the industry needed "a reliable, consistent source of funding available on a continuing basis. Projects ready to go in November have to have the same chance as those ready in April. To wait nine months for Telefilm funding is impossible. Projects will evaporate."

Sam Jephcott, executive director of the Canadian Film and Television Association, expressed similar concerns. Pat Ferns, head of Primedia, said that it is "a worry." He added that Telefilm may have been going into a number of things without look as hard as it might have at the business potential." He noted that the "49% rule is the reason things are spent out."

Stephen Ellis, immediate past-president of the CFTA, expressed surprise that Telefilm should have gone through the money so quickly.

Victor Solnicki, chairman of CFTA's Telefilm Committee, said he was dismayed. "Most of us thought it might be used up by next fall. It's a surprise to all of us."

One solution that has been mooted is not to fund the renewal of successful series through Telefilm. Producers argue that once a series is launched and proved successful, renewals could be financed through realistic broadcast license fees and private investment. Series funded at the 49% level "sop up a disproportionate share of the fund," according to Solnicki.

Productions that have been approved since April 1 include *Anne of Green Gables* ; *Striker's Mountain* ; *Time for Miracles* ; *The Body Electric* ; *The Campbells* ; *Danger Bay* (second series) ; *Goose Bumps* ; *A Judgement in Stone* ; and *Keeping Track*.

It is almost certain that Telefilm will be able to continue to fund English language production through a roll-over fund – $15 million of unspent monies from previous years' Telefilm allocations. Peter Pearson, newly appointed head of Telefilm, told Cinema Canada, "We have roughly $75 million worth of demands and $15 million to fill them. Our criteria will be to make the best investment we can." Claude Daigneault, Telefilm's head of public relations, noted that Telefilm had ample funds left for French production.

Delegation returns from China

MONTREAL – A Canadian delegation, led by government film commissioner and chairman of the National Film Board François Macerola, returned to Montreal May 31 after a two-wee visit to the People's Republic of China. The delegation had been formally invited to China by the ministry of Culture as part of an on-going reciprocal agreement between the two countries.

Last year the National Film Board hosted an official delegation from the People's Republic of China which came to Canada to gather information for the construction of a planned film palace in Beijing.

The mandate of the Canadian delegation was to maintain and to reaffirm the friendly ties between Canada and the People's Republic of China. Discussions focussed on possible documentary and television co-productions as well as sharing Canada's expertise on large-screen projection systems such as IMAX.

The itinerary included visits to Beijing, Xian, Shanghai and a three-day stopover in Japan to see the audio-visual presentations at the Tsukuba Fair.

The Canadian delegation was composed of Société Général du Cinéma president Nicole Boisvert ; Crawley Films Ltd. president William H. Stevens Jr. ; department of Communications senior deputy minister Alain Gourd ; president of the Association des distributeurs et exportateurs de films and Film Option International Maryse Rouillard ; president of the Alberta Motion Picture Development Corporation Lorne MacPherson ; director of administration, finance and personnel of the National Film Board Barbara Emo, and office of the minister of Communications chief-of-staff Dr. Stephen Ash.

Co-ops rendez-vous

MONTREAL – At the National Independent Film and Video Conference held from May 27-June 2 in St. Johns, Newfoundland, the Independent Film Alliance/Alliance du cinéma indépendent (IFAci) decided by referendum, to change its name to the Independent Film and Video Alliance (IFVA).

At the same meeting, Jean-Pierre Lefebvre was awarded the first annual Alliance Award given by the members for outstanding contribution to independent film and video in Canada.

Federal budget analysis brings little news of immediate impact

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budget was the taxation of video cassettes. Michael Prupas states that "effective January 1, 1986 the tax rate will be increased from 10% to 11% and will be applied at the wholesale level rather than the manufacturing level." This reduces the inequity which existed in favour of companies which duplicated their cassettes in the United States but sold them in Canada. They paid less tax than those companies which duplicated in Canada. Now they all pay the same higher tax. According to Michael Prupas, "The retailer may be hurt most by this measure." Competitive pressures may make it hard for them to pass on the increase to the consumer.

Ian McCullum

Ian McCallum is president of Screen Investor Services which, in association with Ernst & Whinney, provides investor representation, contract management, trustee and other services to the production industry.