# Grandfathering clause gives short-term shelter relief

## • Finance modifies regulations

TORONTO – Taking a step back, the federal government has given film industry investors a little breathing space by delaying implementation of some of its proposed tax reforms.

Finance Minister Michael Wilson, on August 31, announced three basic changes to proposals first outlined in his June White Paper on Tax Reform.

Wilson said the new transitional rules will ease the change to the new system governing film industry investment "consistent with the government's firm commitment to the growth of the film industry in Canada."

The Canadian Film and Television Association (CFTA) thanked Wilson in a letter the next day stating that the amendments will help members in the short term. The CFTA also said it will help some producers to be better equipped to finance their operations in future.

Sam Jephcott, CFTA executive director, told *Cinema Canada* concern still exists about smaller independent producers of culturally significant Canadian-content productions working under the system proposed in the white paper.

"Further consideration" may still be needed, particularly for regional and French-language producers, the CFTA letter states.

The changes outlined August 31 by Wilson include:

– allowance for television series with principal photography completed before 1989 to fall under the 1987 100 per cent capital cost allowance system when certain conditions are met.

The new rules apply to the whole series if the pilot episode or first series of episodes fall under the old rules and future episodes are made at a fixed cost. Wilson's release states that this change will allow such films, which are in various stages of production, to complete their production cycle.

– film productions started before the end of 1987 get an extension to July 1, 1988 to be completed and qualify under the old tax system. Originally, films started in 1987 would have had only 60 days after year's end to be completed.

– the cumulative net investment loss proposal will not apply to productions taking the 100 per cent capital cost allowance for 1987 and 1988. This means the capital gains exemption will continue to apply to such films in 1987 and 1988.

On June 18 last Wilson's White Paper on Tax Reform proposed that the 100 per cent capital cost allowance for film investors over two years be dropped to 30 per cent per year on a declining basis.

Strong film industry lobbying followed hard on the heels of the announcement.

Members of the industry anxiously anticipated a clarification of the tax reform proposals, grandfathering clause and new provisions to get 1988 productions treated the same as those in 1987.

The National Ad Hoc Committee, formed within days of the June 18 delivery of the White Paper on Tax Reform, sent a brief, in August, to Finance outlining the impact of tax reform on the film industry.

At that time, Jephcott and Peter Mortimer, co-ordinator of the committee, began to express concern that regional and smaller producers would be hurt most if, as proposed, the 100 per cent capital cost allowance was reduced to 30 per cent. They argued that the more culturally significant films, such as **Dancing in the Dark** and **The Decline of the American Empire** would never have been made without an incentive for film investment.

# Astonishment follows broadcasting hitch

TORONTO – The fall release of a new broadcasting act has been put on hold by federal government requests for a review of several key broadcasting issues.

In a surprise move, Minister of Communications Flora MacDonald has asked a parliamentary committee to examine CBC efficiency, the most appropriate roles for the National Film Board and Telefilm Canada programs, and options to the current Canadian content regulation system.

MacDonald raises the questions in a letter to MP James Edwards, chairman of the Standing Committee on Communications and Culture. The five-page letter marks the government's response to two recent committee reports on Canadian broadcasting.

The Alliance of Canadian Cinema, Television and Radio Artists (ACTRA) has charged that the delay means MacDonald is reneging on a promise for a revised broadcasting act to be passed within the mandate of the current government.

"We suspect she's doing that, and the government has reneged on other promises, because those commitments conflict with the demands of United States free trade negotiators," ACRTA general secretary Garry Neil said.

"In our opinion Canada's cultural industries are a major issue at the free trade bargaining table, despite repeated assurances to the contrary," Neil added.

MacDonald explains in her letter that there is a need to examine a wider range of solutions to Canadian broadcasting problems than those outlined in the massive $3 million Caplan/Sauvageau task force on broadcasting released in 1986.

Before framing any long range broadcasting policy, MacDonald says the government is waiting for the parliamentary committee's final report, which is due in the fall of 1987.

Patricia Dumas, MacDonald's press secretary, told *Cinema Canada* that the timing of the release of the new broadcasting bill will depend on when the committee issues its final report. However, many broadcasting industry observers anticipated the release of the bill sometime this fall.

Dumas said work is going on "full speed" toward the production of the legislation, but more information on broad policy is needed before the bill can be completed.

"As analysis progressed here internally it became totally evident that you can't move on legislation in a fundamental way if you haven't established what the broad policy is going to be."

Dumas explained that the questions raised in the letter

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## •Quebec alarmed

MONTREAL – Time is running out on Quebec-based film producers who are facing the grim likelihood that federal tax reform will go ahead as proposed without any significant amendments. In the White Paper on Tax Reform (June 18), the federal government has proposed that a 100 per cent Capital Cost Allowance for investment in certified Canadian films be reduced to 30 per cent.

At risk since June 18 is close to $120 million in 28 television and 18 threatrical feature productions registered with the Quebec Securities Commission between Jan.1, 1987 and July 1, 1987. Of this aggregate production budget, close to $76 million has been publicly offered in investment prospectus.

Several meetings between a six-member committee representing Quebec producers and the federal department of Finance, have failed to win any reassurances that tax reform will not severely undermine film investment in Quebec.

The producers say they are powerless in their efforts to stem a massive exodus by brokers and investors from film portfolios and that an Aug. 31 announcement by Finance Minister Michael Wilson will by no means solve the problems that tax reform causes for Quebec producers in particular.

It is too early to determine whether the (announced) six month extension (to July 1, 1988) of the the grandfather clause to exempt films acquired and in production prior to January 1. 1988 will restore a semblance of investor confidence in the film industry. The producers had proposed a one-year extension to Jan. 1, 1989.

(Also exempt are television shows with principal photography completed before 1989.)

Wilson's announcement makes certain that capital gains from films covered by the grandfather clause will not be nullified by the tax reform. This requires a second grandfather clause regarding the investment loss account.

Producer Charles Ohayon, chairman of the Quebec producers' committee, told *Cinema Canada* that Finance has questioned the difference an extended grandfather clause would make and is reluctant to be seen as backing down on tax reform.

The painful truth, says Ohayon, is that 1987-1988 is the first year that brokers were going into film "in a big way."

Without an attractive tax shelter, there is little else to lure the investor to Quebec films, says Ohayon. Pre-sales

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# Telefilm releases figures

MONTREAL – Telefilm Canada will publish details of its investments in film and television on a yearly basis, says executive director Peter Pearson, who with Chairman Jean Sirois presented the corporation's annual report and financial statements for the 1986/1987 fiscal year during the Montreal World Film Festival.

Pearson also announced that Telefilm is temporarily suspending an administration fee of 2.5 per cent charged to clients on all transactions.

He explains that this initiative to assist the industry during a difficult period with regard to tax reform and financing productions, is retroactive to August 1, 1987 and will continue to March 31, 1988.

At a press conference, consisting mainly of reporters and Telefilm executives, it was learned that Telefilm contributed $86 million to the film, television and video industries between April 1, 1986 and March 31, 1987.

Of this total, television programs received $56.3 million, feature films received $19.8 million. Other investment categories include short term loans $1.3 million; industrial and professional development $1.1 million; distribution, marketing and versioning of film and television $1.7 million; festival grants $1.1 million and $2.7 million for production and development projects not covered by various Telefilm funds.

Recoupment in 1986/1987 on all investment amounted to $9.3 million, a figure that Pearson says will increase in time.

"Cultural properties increase in value the longer they stay in the market," says Pearson, "we will recover more as time goes on."

The Feature Film Fund, es-

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