



Advantage Canada:
How the Canadian Arts and Culture Sector Is
Essential to a Strong Future Economy

Brief presented by the Canadian Conference of the Arts

December 15, 2006

Background

On November 23, 2006 the Minister of Finance, the Hon. Jim Flaherty, released an economic plan called *Advantage Canada: Building a Strong Economy for Canadians*. The document seeks to offer a context through which, “it will achieve a better quality of life for Canadians by creating five Canadian advantages”:

- 1) Tax Advantage
- 2) Fiscal Advantage
- 3) Entrepreneurial Advantage
- 4) Knowledge Advantage
- 5) Infrastructure Advantage

In this submission, the Canadian Conference of the Arts (CCA) will address each of the Government’s five “advantages” proposed in *Advantage Canada* and will indicate how the arts and culture sector can play a larger and more productive role in the evolution of the Canadian economy into an information society where innovation, creativity, and knowledge are central to prosperity and competitiveness.

The Canadian Conference of the Arts (CCA) has been the national forum for the arts and cultural community in Canada since 1945. It provides research, analysis and consultations on public policies affecting the arts and the Canadian cultural institutions and industries. The CCA fosters informed public debate on policy issues and seeks to advance the cultural rights of Canadians.

Advantage Canada and the Arts and Culture Sector

1) Tax Advantage:

One of the key features of the arts and culture labour market is the rate of self-employment. This tax status reflects the way that artists, creators, and arts professionals earn their livelihood: not from one employer or one source of income, but from a diversity of revenue sources. For many years this characteristic was rather unique to the arts and culture sector, but now we see this trend increasing across the spectrum of occupations within the Canadian labour force.

The arts and culture sector has one of the highest rates of self-employment in the Canadian economy and includes many different lines of creative activities: from broadcasting to book publishing, the performing arts, music and sound recording, work in film, video and new media, as well as work that explores and celebrates our diverse and evolving cultural heritage, including the vital contributions of aboriginal peoples and new Canadians.

The structure of the current income tax system is firmly rooted in the employer/employee model from the industrial economy. As a result, self-employed Canadians find that the application of traditional tests to determine employment status heavily biased toward the employment model.

The CCA has advocated a number of revisions to the current tax system that would better reflect the changes in the Canadian labour market and reward innovation, creativity, and knowledge. Among these measures are:

a) The presumption of self-employment for artists:

The CCA has worked with the officials of the Canada Revenue Agency (CRA) with little significant progress toward this goal. While the CCA acknowledges that the tax status of each Canadian must be judged on its own merits, the starting point for the assessment process of artists should be the presumption of self-employed status. If during the course of the assessment of the claim facts do not support a self-employed status, it is entirely the prerogative of the Canada Revenue Agency to challenge the employment status of the claimant.

Cultural labour organizations representing performing artists have literally spent hundreds of thousands of dollars on legal fees in recent years in attempts to seek redress in cases where the self-employed status of individuals and entire classes of professions have been contested. In many of these cases, the Courts have upheld the self-employed status of the performing artists, but the issue is forever coming back.

The CCA stands ready to work with officials at the Department of Finance and the Canada Revenue Agency to articulate the interpretation provisions necessary to achieve this long-sought objective. Given the growth of the self-employed in the Canadian labour market, such measures may prove helpful in the assessment of the tax status of other professions where self-employment is growing.

b) Raising the Basic Personal Deduction for Self-employed Canadians:

Another constructive accommodation to the self-employed would be an increase the basic personal deduction to \$ 10,000.00. The self-employed rarely have access to the mainstream social benefits programs that were designed for an industrial economy where employer/employee status is the norm.

The increase in the basic personal deduction would give some chance for the self-employed to access private benefit plans and also to better reflect the level of uncertainty of income inherent in self-employment status.

c) The Development of a New Approach to Income Averaging:

The high level of self-employment in the arts and culture sector also sees highly fluctuating income levels from year to year. The issue of developing an approach to moderating taxation levels during high income years by averaging it over lower income years has been a perennial preoccupation of the CCA's representations to the federal government.

While every Minister of Finance in the last quarter century has dismissed this possibility, the CCA believes that a new approach is required to achieve the overall objective of the call for income averaging.

Here again, the CCA is prepared to work with officials in the Department of Finance and the Canada Revenue Agency in an effort to develop an effective solution to the problem of taxation of fluctuating revenue by the self-employed.

2) Fiscal Advantage:

The CCA appreciates the importance of eliminating the net public debt borne by federal governments over the course of the years. The elimination of the net debt would be an achievement, providing future federal governments with a great deal of leeway to invest the savings from debt repayments into social programs aimed at the improvement of the quality of life for Canadians.

The *Advantage Canada* documents indicate that the federal government will achieve this debt repayment, in part, by focusing on areas of federal responsibilities and constraining the use of the spending power.

The lack of clarity within sections 91 and 92 of the Constitution Act on the federal responsibility for the arts and culture has always been a concern for the CCA and its members. The CCA would welcome an indication from the government that it does not intend to vacate those areas in which its presence has been established through the use of the spending power. Such assurances would also include a continued commitment by the federal government to maintain its support for programs designed to assist the arts and culture sector and thus ensure a vibrant cultural life across the whole country.

Artists, creators, and arts professionals play a major role in the development of the information and knowledge economy. The federal government has played a critical role over the decades in fostering and enabling a healthy arts and culture sector in Canada, which benefits all Canadians and enhance the quality of life in our society. The CCA sees sustainable, long-term, increased federal investment programs for arts and culture as part of the equation to a buoyant creative economy. And it is interesting to note, for example, that public funding of the not-for-profit performing arts alone generates a return in tax revenue of 176%¹.

The CCA and its members would appreciate any formal clarification that the Minister or the Government of Canada can provide on this issue of a sustained presence in direct arts funding and cultural support.

3) Entrepreneurial Advantage:

Streamlining regulation and reducing red tape are admirable objectives for any Government interested in efficiencies and competitiveness. Central to the issue of regulation though is the question of what the regulations were designed to achieve, and the determination of the ongoing need for such measures.

In the arts and culture sector regulations governing the ownership of cultural enterprises and the management of the broadcasting system have been critical to the success of the Canadian film, video, new media, and sound recording production sectors. The CCA recognizes that the convergence of existing technologies and the introduction of new distribution platforms represent serious challenges to the existing regulatory framework,

¹ Statistics Canada, *Economic Contribution of Culture*, 2005

which we articulated in a brief to the CRTC this past September for the purposes of its study on the impact of new technologies on broadcasting, in particular.

Nonetheless, it is the view of the CCA that foreign ownership restrictions and a coherent regulatory framework concerning the production and distribution of Canadian content applied evenly and fairly across the full panoply of content production and distribution systems are of durable value to our national interests.

The current approach to regulating broadcasting content and requiring investment in new content development must be rationalized to ensure that all content creators and providers are contributing in a substantive manner to the celebration and articulation of the diversity of Canadian cultural life.

There is no doubt a need for a comprehensive review of regulatory measures in the arts and culture sector. There may be some areas where the regulatory disciplines are no longer effective or are, in fact, ineffective. The CCA calls upon the Government to entrust the task of a regulatory review to the Standing Committee on Canadian Heritage. Once the Standing Committee has an opportunity to conduct such a review and develop a final report, the government would have the best advice possible to proceed in enhancing the entrepreneurial advantage for artists, creators, arts professionals and Canadian audiences.

4) The Knowledge Advantage:

The Canadian arts and culture sector is among the most educated of the Canadian labour market, with 41% having a university degree, diploma, or certificate, compared to 22% in the overall labour force. On the economic side, cultural industries contributed \$40 billion to Canada's 2002 GDP (compared to the natural resources sector's \$56 billion)².

Artists, creators and arts professionals are actively contributing to the quality of life of Canadians and their communities in all parts of the country. They are constantly upgrading their personal skills and knowledge to be able to wring the creative potential out of existing and new technologies. They have come to be recognized around the world for the high quality of their work and professionalism.

The CCA believes that it is important to provide the necessary incentives for creators to continue their work in innovation and creative pursuits. Borrowing from examples in Ireland and Quebec, the CCA continues to propose a federal income tax exemption for copyright and residual income of \$ 30,000.00. Such an exemption would provide a real incentive for creators and innovators to continue to press the boundaries of their imagination and enhance Canadian cultural contribution to the world.

The CCA also attaches great importance to the proposed revisions of the *Copyright Act*. In order that the legislation articulates and defends the economic and moral rights of creators and copyright owners, the government must find a more effective and timely system for the revision of the *Copyright Act*.

² Statistics Canada, Gross Domestic Product by industry, 2005

The CCA encourages the government to move forward with the next round of revisions in the clear understanding that the knowledge advantage is central to the success of the *Advantage Canada* plan.

5) The Infrastructure Advantage:

The CCA wishes to congratulate the Minister of Canadian Heritage, the Hon. Beverly Oda and her colleague the President of the Treasury Board, the Hon. John Baird, for their announcement of December 4, 2006. The decision of the federal government to provide additional resources to five key national cultural institutions is a long overdue investment in our collective cultural heritage.

It is the hope of the CCA that this announcement is the first step in addressing critical infrastructure issues in the arts, culture and heritage sectors. The CCA joins with the Canadian Museum Association (CMA) in calling for the implementation of a broad new national museums policy, including an infrastructure component, in the 2007 federal budget.

In addition to these investments, the aging infrastructure of the arts, culture, and heritage sectors is in serious need of attention. Many of these facilities were constructed in honour of the Centennial celebrations of 1967 and they have made a major contribution to the quality of life of our cities and communities across the whole country: most are now in need of capital and technical upgrades to better attract, retain, and broaden audiences for all the cultural activities which are so important to our lives as citizens of a civilized country.

Greatly encouraged by the December 4, 2006 announcement, the CCA looks forward to new initiatives to include the arts, culture and heritage sectors as integral elements of the Infrastructure Advantage.