

2006 Federal Pre-Budget Consultations

“A Creative New Way of Thinking”

Submission by the Canadian Conference of the Arts

“We need a new way of thinking, a new vocabulary. We have nineteenth-century thinking, but technology is so fast. We have to change our brains. That is why I’m so for art, because art will give us a new way of thinking.”

Andrei Voznesensky (Russian poet)

Overview: Changes in the Canadian labour force

The CCA has watched the evolution of the Canadian economy and labour market with great interest. For many years the interests of Canadian artists, creators, and arts professionals were at stark variance to those of the majority of Canada’s labour force.

The arts and culture sector has one of the highest rates of self-employment in the Canadian economy, with workers who possess a range of sophisticated skills necessary to pursue several different opportunities simultaneously to earn a livelihood. The arts and culture sector includes many different lines of business: 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 CCA continues to participate in pre-budget consultations to emphasize these differences in the cultural labour force dominated by self-employed professionals and to seek solutions to the challenges the sector faces working in a labour, taxation, and social benefit system that has been developed for employees.

This year marks somewhat of a departure from that tradition. The shift in thinking stems from the reality that Canada’s economy continues to evolve from an industrial base, into an economy that is based on information, innovation, and creativity in all sectors of Canadian life. We have seen the growth of the self-employed throughout the Canadian labour force, and we have also witnessed the erosion of the industrial economy’s greatest myth: workers will have one job for life, a single source of income, and will retire at the age of 65.

It is now clear to the CCA that it is time to recalibrate many of the policies and regulations that recall an era where self-employment was an aberration. Now, self-employment is the norm. It is time to ensure that the federal government enables and protects all Canadians who elect self-employment and multiple sources of income as the basis of their livelihood.

In this 2006 pre-budget submission “A Creative New Way of Thinking”, the CCA is electing to situate its recommendations against this broader canvas of social and economic change in all sectors of Canadian life. The intent of these recommendations is to encourage a substantive response by the federal government to these fundamental changes that affect hundreds of thousands of Canadians in all fields of endeavour.

The CCA encourages the Minister of Finance, Members of the Standing Committee on Finance, and federal policy makers to give serious consideration to the following recommendations, and step through the looking glass into a 21st Century where Canadians exercise greater choices in their career management than ever have been considered before.

1. The Arts and Culture Sector – Generating Benefits for All Canadians

Despite conventional views, Canada's arts and culture sector is not a rarified or disconnected element of society. In 2001 the cultural industries were responsible for directly employing 611,000 Canadians, or 4.1% of Canada's overall workforce (in the same year, the Agriculture and Forestry industries, combined with the Mining, Oil and Gas industries, employed 602,200 Canadians¹. The arts and culture sector enjoys one of the highest educated work forces, with 41% having a university degree, diploma or certificate compared to 22% in the overall labour force. Through their labour, arts and culture workers make vital contributions to our economy and our society on a daily basis.

On the economic side, Canadian consumers spent \$ 22.8 billion on cultural goods and services in 2003, and in 2002 the cultural industries contributed \$40 billion to Canada's GDP (whereas during that same year, Mining and Oil and Gas Extraction contributed \$35.4 billion and the Agriculture and Forestry industry contributed \$21 billion to Canada's GDP in 2002, approximately half that of the cultural sector² **Public funding of the not-for-profit performing arts alone generates a return in tax revenue of 176%**³.

Artists, creators, and arts professionals are deeply rooted in their communities and are regarded as living indicators of the quality of life within cities, towns and villages. Academics such as Richard Florida have documented the critical role that the arts play in economic renewal in communities, particularly in urban centres, but this phenomenon can be seen in rural areas as well. In Canada, the CCA is well aware of the transformational power of the arts and culture sector in places like Stratford, Ontario, Chemainus, British Columbia, Caraquet, New Brunswick and Banff, Alberta, just to name a few instances. As Canadians, we should celebrate these achievements, though we must work together to create the social and economic conditions for even more of these "creative communities".

2. Investing in Canada's children

The CCA congratulates the Government for the development of the Children's Physical Activity Tax credit announced in the 2006 federal budget that will take effect on January 1, 2007. The objective of this credit is to provide tax benefits to parents who enrol their children in physical activities to bolster their development and fitness. The CCA notes with satisfaction that some artistic training will likely be captured by this new measure because of its cardiovascular impact (dance and some circus arts).

¹ Statistique Canada, Emploi selon la branche d'activité, 2006

² Statistics Canada, Gross Domestic Product by industry, 2005

³ Statistics Canada, Economic Contribution of Culture, 2005

It is our contention however that the benefits of such training for our children extend beyond the mere physical and are to be found in other forms of artistic endeavours. The CCA is of the opinion that the government should take a more global approach to our children's fitness and recognize the very positive and very well documented effects of artistic training in a child's development. This is why the CCA has prepared a submission for the Minister of Finance and the Blue Ribbon Panel on the Children's Physical Activity Tax Credit encouraging the extension of this credit to include artistic activities as well. Members of the Finance Committee will also receive a copy of that brief. The CCA has reviewed extensive research that demonstrates the broad and significant individual and social benefits derived from the participation of children and young people in the arts.

Recommendation

The CCA sees the extension of the child physical activity tax credit to include artistic activity as another form of benefit to Canadian families and children, and we urge members of the Standing Committee on Finance formally to endorse our position.

3. Encouraging creativity:

In the context of the evolving basis of the Canadian economy, we have heard many voices call for an increase in productivity, innovation and creativity in all sectors of Canadian life. The capacity to generate new ideas, new forms of expression, and to build better mousetraps (and perhaps, even mice!), is central to our collective ability to prosper in the new economy.

Rewarding innovation and creativity by Canadians would be a welcome step towards achieving our productivity goals. For some time, the CCA has advocated for the exemption of a portion of copyright and residual income from federal income tax. The Canadian Council of Chief Executives (CCCE) recently endorsed this concept in its February 2006 "From Bronze to Gold" paper and broadened the CCA's proposal to include all forms of intellectual property.

The Government of Quebec introduced a similar measure in 1995. The Quebec exemption works on a sliding scale enabling creators and copyright owners to deduct a maximum of \$ 15,000.00 per year in copyright income. The measure has been amended to include income from the private copying levy, the public lending right program, and the neighbouring right in sound recording.

Performing artists in film and television feel that such a measure should also include residual payments for public use of productions in which they performed. These residual payments are not currently covered under copyright law, but are analogous to royalty revenues for creators and copyright owners. To achieve equity in the development of a federal exemption, the realities of these performers must be accommodated.

The extension of a similar scheme at the federal level would allow creators and innovators to fully enjoy the economic fruits of their labour, offering an important stimulus to innovation and creativity in all fields of endeavour. The CCA recommends that as a minimum, the exemption for such revenue should be \$ 30 K.

The tax treatment of grants to individuals has been a long-standing concern for the arts and culture sector. The CCA is aware that the Canada Revenue Agency has developed a complex and elaborate system of assessing the tax status of grants, prizes, bursaries and other forms of assistance to individuals. CCA member organizations representing individual artists and creators are seeking a tax exemption for grants to individuals. This is an issue that requires expert advice and guidance in order to ensure that consistency can be achieved in the tax treatment of grants to individuals. The CCA has written to the Blue Ribbon Panel on Grants and Contributions asking for their views on this matter. The CCA will also attempt to obtain independent analysis of the issue of tax exemption for grants to individuals to include in next year's pre-budget submission.

Recommendation

The CCA recommends that the Standing Committee on Finance endorse the benefits of these taxation measures and asks the Minister of Finance to include them as part of the 2007 federal budget. These measures include a minimum \$ 30 K exemption on revenue deriving from copyright and residual payments and tax exemption to grants to individual artists and creators.

4. Equitable treatment for self-employed Canadians:

In a similar vein, the CCA proposes that the government take a first step in dealing with the growing numbers of self-employed Canadians. In the current tax system, self-employed Canadians must pay the employer and employee share of the Employment Insurance (EI) and Canada Pension Plan (CPP) programs. The irony of this situation is that while the premiums must be paid, self-employed Canadians are de facto excluded from Employment Insurance and many of the so-called soft benefits from the Canada Pension Plan, such as maternity benefits and disability allowances.

Recommendation

The CCA recommends that a constructive approach be taken by the government to resolve the inequity for self-employed Canadians when it comes to EI and CPP programs.

By raising the basic personal deduction to \$10,000.00 the Government can accomplish several laudatory goals at the same time. Such a move would provide compensation for the statutory payments made to the EI and CPP programs by self-employed workers.

Another accommodation to the realities of the self-employed would also be useful. For decades, the members of the CCA, which includes tens of thousands of professional artists, creators, and arts professionals, have called for restoration of "income averaging" provisions within the *Income Tax Act*.

The CCA has received detailed responses from a series of Ministers of Finance over the years telling us why this is not feasible. The CCA has shared this information with its members who persist in developing some form of compensation for fluctuating income levels representing disproportionate tax assessments in boom years, while failing to recognize a series of low income years leading up to the higher income year.

This reality is now being felt by other self-employed Canadians who must weather the year-by-year vagaries of opportunities that translate into income. The CCA appreciates the efforts of several Ministers and their officials to disabuse the arts and culture sector of the feasibility of restoring income averaging, however, it remains a constant on the list of “fairness” measures that the sector would like to see included in federal tax policy.

The CCA finds the suggestion that the use of RRSP contributions has the potential to provide a similar benefit suspect, at best.

Recommendation

At a minimum, the CCA recommends that the Standing Committee on Finance discuss this issue of income averaging with officials from the Department of Finance to determine if a new system could be developed. The CCA also asks that the basic personal deduction limit for self-employed Canadians be raised to \$10 K.

5. Federal Investments in the Arts and Culture Sector

“No one can predict the future now. None can make long-range plans. The best we can hope for, to quote Robert Bridges, is the masterful administration of the unforeseen”. Ride the whirlwind. That’s the most we can do.”

Arthur C. Clarke

In its past representations to the Standing Committee on Finance, the Standing Committee on Canadian Heritage and in dealing with Government departments and officials, the CCA has repeatedly called for **increased and stable funding** for the arts and culture sector.

An important part of that funding is invested in creativity via the Canada Council for the Arts. In “Setting the Stage”, last year’s CCA submission to the federal pre-budget consultations, we endorsed the Canadian Arts Coalition’s appeal to increase federal spending on the arts by \$5 per capita, through the Canada Council for the Arts. This position received broad support from across the country, and the arts and culture sector was pleased to receive news of the increase of \$ 50 million over the next two fiscal years to the budget of the Canada Council for the Arts that was announced in Budget 2006.

This announcement was regarded as an important endorsement by the Government of its role as a source of funding for the arts and culture sector in general, and as recognition of the vital role that the Canada Council for Arts has played in cultural development over the past fifty years. But the CCA and its colleagues in the Canadian Arts Coalition maintain the position that substantially more investment in artists and creators is required from the federal government, and that the Canada Council is a most appropriate mechanism for distributing public money, as the Auditor General’s special examination will no doubt confirm.

Recommendation

The CCA supports requests for further increases in the budget of the Canada Council and asks that the increase of \$ 30 million to the Council's 2007-08 budget announced in the May 2005 federal budget be made permanent.

In the meantime, however, the CCA wishes to underscore the ongoing financial challenges facing many of our national cultural institutions that comprise the Canadian Heritage portfolio. Curtailing public access, delaying important capital repairs and improvements, and struggling to fulfill their mandates have become staples in the diets of many of these important agencies and institutions.

Recommendation

The CCA asks the Standing Committee on Finance to ensure that it understands the unique funding needs of each of the Department of Canadian Heritage (PCH) agencies and institutions, and recommends to the Minister of Finance and his officials that they address the critical nature of these budgetary challenges.

The funding situation of the national museums was the subject of concerns expressed by the Auditor General of Canada Sheila Fraser in the review of federal museum and heritage institutions. On 1 April, 2004, close to two and a half years ago now, the Auditor General made the following statement in a presentation to Members of the Standing Committee on Canadian Heritage regarding her November 2003 report on heritage institutions:

“Our audit revealed that cultural heritage under the protection of the federal government is exposed to serious risks of loss, as shown by the following examples:

“- The National Archives has difficulty identifying and collecting documents of historic value because first, it has not yet developed the tools it needs to acquire efficiently those government documents that may be of historic interest and archival importance; and second, departments have given little attention to information management in recent years.

“- More than 90 percent of the collections of the National Library of Canada are housed in buildings that do not meet current standards for temperature and humidity.

“- More than two thirds of national historic sites administered by the Parks Canada Agency and federal heritage buildings are showing signs of deterioration. This will have to be addressed in the next two to five years to prevent their closure to the public, rapid deterioration of the sites, or the permanent loss of the sites' historically significant components. The needed restoration work ranges from re-roofing buildings to stabilizing the foundations of structures and monuments.

“Once a piece of our history is lost, it is lost forever. If nothing is done, generations to come may not have access to key parts of their heritage or may have to bear higher costs to preserve them.”

In addition to federally-operated museums and heritage institutions, Canada's museums community has been engaged in discussions with officials in the Department of Canadian Heritage to develop and implement a new federal museums policy. This process has been underway for a number of years, however, the Minister of Canadian Heritage, the Hon. Bev Oda, recently reported to the Standing Committee on Canadian Heritage this past June 1 2006:

"I am going to propose that (a new federal museums policy) might take longer than one would suspect, because I believe truly that we have to confer and meet with as many representatives.... We've met with the museum associations. I've asked some of my colleagues to talk to the local museums to see what, from their perspective, are their greatest challenges right now. When you try to undertake this kind of in-depth, in-community consultation without undertaking a very costly and lengthy process.... I'm trying to expedite it, but I think the reality is that it will be longer in coming than in the near future."

Many local museums and heritage institutions across Canada are facing challenges as daunting as the situations articulated in the Auditor General's report of November 2003 involving federally-operated institutions. In some cases, these pressures are endangering the very existence and integrity of precious collections of Canada's shared cultural heritage.

Recommendation

The CCA encourages the Minister of Finance and the Standing Committee on Finance to address the funding situation of the federal museum and heritage institutions in the upcoming federal budget, as well as the urgency of the development and implementation of a new federal museums policy.

The CCA would also like to thank the Government for the changes in the capital gains tax treatment of gifts of appreciated property to charitable organizations. These changes are a welcome tool that will facilitate the ability of arts and culture institutions to increase revenues from charitable donations. With the creation of matching funds programs at the federal and provincial levels of government, the impact of this revision will be seen and appreciated within a very short time period.

Last year, the 2006 federal budget announced an extension of the suite of funding programs that operate under the rubric of the program "Tomorrow Starts Today" (TST). These programs, which provide support for organizational sustainability, capital improvements and developments, bring the arts and artists to communities across Canada and celebrating the achievements of Canadian communities in the arts have become an important part of the survival kit for hundreds of arts organizations in all parts of Canada.

The CCA has heard from its members that placing these programs on a permanent footing would do much to increase financial stability for dozens of arts and culture organizations. The programs provide access to funding that helps in the regeneration and revitalization of the arts and culture sector.

The TST programs have recently been evaluated and have been found to be an effective form of federal support that have been administered in keeping with the highest standards of accountability and transparency.

Recommendation

The CCA calls upon the Standing Committee on Finance to recommend placing the PCH's "Tomorrow Starts Today" suite of programs on a permanent funding basis and expand matching fund programs to complement the changes in the capital gains tax treatment announced in Budget 2006.

6. Reasonable Accountability Measures

In last year's submission, the CCA referred to an ever-increasing administrative workload placed upon the recipients of federal funding. This burden of "over-accountability" is as high for a recipient of \$ 25,000.00 in public funding as it is for the recipient of \$ 2,500,000.00.

The CCA fully supports measures to ensure the responsible use of public funds, however, it has heard from arts and cultural organizations that, coupled with all the difficulties of applying for funds, reporting on whatever amount received places unrealistic burdens on the staff of these organizations. The primary role of these organizations is to produce plays, orchestra and ballet series, festivals, media and visual arts exhibitions for the enjoyment of all Canadians. And, while the staff and boards of these organizations must also find the funding and audiences necessary to support and sustain their work, an inordinate amount of time spent away from their primary function distracts them from their mission of engaging Canadians in a range of diverse arts experiences.

The CCA has endorsed the submission made by Imagine Canada to the Blue Ribbon Panel on Grants and Contributions seeking a lighter, nonetheless, sufficiently rigorous accountability framework for recipients of arts and culture funding. The framework should reflect both the size of the investment, as well as the risk factors associated with the specific funded activity.

Recommendation

The CCA recommends that the Standing Committee on Finance address this concern about "over-accountability" in their report to the Minister of Finance.

7. Conclusion - The Federal Cultural Policy Agenda

In the coming months, the federal government will be addressing some critical cultural policy issues central to the interests of the arts and culture sector and of all Canadians. Reviews are underway (or about to begin) on a wide swath of issues from international policy, television policy, museums and heritage policies, as well as consultations on issues such as the fiscal imbalance, infrastructure programs, grants and contributions, foreign ownership in telecommunications and broadcasting, the impact of new

technologies on broadcasting, the future of Canadian content regulation, and federal procurement policy, to name but a few.

The CCA is eager to engage these issues on behalf of the arts and culture sector, alongside our members and colleagues in other arts service organizations. The arts and culture sector makes an important contribution to our national economy, to the development of our children, and to our image abroad. It is our collective task to make sure these facts are recognized and taken into account in public policy making.

The CCA welcomes these reviews and is confident that the Government, in democratic cooperation with civil society organizations and individual Canadians, will ultimately make Canada a better place for creativity, the imagination, and the quality of life of all Canadians.

Summary of the Canadian Conference of the Arts's Pre-Budget Recommendations

(1) The CCA sees the extension of the \$ 500 children's physical activity tax credit to include artistic activity as another form of benefit to Canadian families and children, and we urge the Standing Committee on Finance to formally endorse our position.

(2) The CCA recommends that the Standing Committee on Finance also endorse the benefits of taxation measures to support creativity and asks the Minister of Finance to include them as part of the 2007 federal budget. These measures include a minimum \$ 30 K exemption on revenue deriving from copyright and residual payments, and tax exemption to grants to individual artists and creators.

(3) The CCA recommends that a constructive approach be taken by the government to resolve the inequity in EI and CPP programs for self-employed workers.

(4) At a minimum, the CCA recommends that the Standing Committee on Finance discuss the ongoing issue of income averaging with officials from the Department of Finance to determine if a new system could be developed. The CCA also requests that the basic personal deduction limit for self-employed Canadians is raised to \$10K.

(5) The CCA supports requests for further increases in the budget of the Canada Council and asks that the increase of \$ 30 million to the Council's 2007-08 budget announced in the May 2005 federal budget be made permanent.

(6) The CCA asks the Standing Committee on Finance to ensure that it understands the unique funding needs of each of the PCH's agencies and institutions, and recommends to the Minister of Finance and his officials that they address the critical nature of these budgetary challenges.

(7) The CCA encourages the Minister of Finance and the Standing Committee on Finance to address the funding situation of the federal museum and heritage institutions in the upcoming federal budget, as well as the urgency of the development and implementation of a new federal museums policy.

(8) The CCA calls upon the Standing Committee on Finance to recommend placing the PCH's "Tomorrow Starts Today" suite of programs on a permanent funding basis and expand matching fund programs to complement the changes in the capital gains tax treatment announced in Budget 2006.

(9) The CCA recommends that the Standing Committee on Finance address the concern about "over-accountability" in their report to the Minister of Finance.