Canada Revenue Agency Agence du revenu du Canada

Claiming a Canadian Film or Video Production Tax Credit

Guide to Form T1131

RC4164(E) Rev. 06

Canada

Before you start

Is this guide for you?

You will find this information helpful if you are a **domestic-based film or television producer** who employs Canadians to produce films in Canada.

The objective of this tax credit program is to encourage Canadian programming and to support an active film and video industry in Canada.

Forms and publications

This guide will help you complete Form T1131, *Claiming a Canadian Film or Video Production Tax Credit*, which is only available on our Web site at **www.cra.gc.ca/E/pbg/tf/t1131**.

Throughout this guide, we also refer to other forms and publications that are available on our Web site at **www.cra.gc.ca/forms**. You can also order forms and publications by calling us at **1-800-959-2221**.

Do you need more information?

This guide explains current tax situations in plain language. The relevant sections of the *Income Tax Act* and *Income Tax Regulations* take precedence over these explanations.

If, after reading this guide, you want help or more information, contact your film services unit (FSU). For a list of our FSUs, see "At your service" on page 5 of this guide.

What's new?

Due to recent changes in our structure, we are now known as the Canada Revenue Agency.

On July 18, 2005, the Department of Finance released a revised draft of amendments to section 125.4 of the *Income Tax Act* that were announced for the first time on November 14, 2003. The proposed amendments are intended to simplify the Canadian film or video production tax credit (FTC) and make sure that the tax assistance is appropriately targeted. The proposed amendments include the following:

- The limit on the base of qualifying labour expenditures will be raised to 60% of the total cost of a production, up from the existing 48% limit.
- Labour expenditures for non-residents of Canada (other than Canadian citizens) will no longer be eligible for the credit.
- Having a person other than the production corporation hold an interest in a film or video production will no longer disqualify the production from eligibility for a tax credit—unless the production, or one of the investors, is associated with a tax shelter. However, it remains a requirement under the *Income Tax Regulations* that the production corporation have worldwide ownership of copyright.
- If a government entity is an investor, that investment will be treated in the same manner as other forms of government assistance.

The new rules will generally apply to productions for which development started on or after November 14, 2003. Production corporations can elect to apply the new rules to productions for which labour expenditures were first incurred after the last tax year of the corporation that ended before November 14, 2003.

Point. Click. It's that quick!

That's all it takes to get tax information when you need it. Visit **www.cra.gc.ca** today and find out how easy managing your taxes can be.

This guide is only available on our Web site at **www.cra.gc.ca/E/pub/tg/rc4164**.

If you have a visual impairment, you can get our publications in braille, large print, or etext (CD or diskette), or on audio cassette or MP3. Visit our Web site at **www.cra.gc.ca/alternate** or call **1-800-959-8281**.

La version française de cette publication est intitulée *Demande de crédit d'impôt pour production cinématographique ou magnétoscopique canadienne*.

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At your service

Film services units (FSUs)

Our services

FSUs provide services to Canadians and non-residents in the film and television industry. This includes non-resident actors and non-resident behind-the-scenes personnel who provide services in Canada.

They administer or provide access to all Canada Revenue Agency programs dealing with film production in Canada and foreign location filming in Canada. They also deal with tax matters related to non-resident actors and behind-the-scenes personnel, as well as the federal tax credit programs for Canadian and foreign film or video productions.

Contact us

- For services performed in British Columbia:

  Vancouver Tax Services Office
  Film Services Unit
  447-14, 1166 West Pender Street
  Vancouver BC V6E 3H8

  Telephone: (604) 666-7911
  Fax: (604) 666-7436

- For services performed in Alberta, Saskatchewan, and Manitoba (tax credit only):

  Regina Tax Services Office
  Film Services Unit
  P.O. Box 557
  Regina SK S4P 3A3

  Telephone: (306) 780-8245
  Fax: (306) 780-7727

- For services performed in Ontario, Nunavut, the Northwest Territories, and the Yukon Territory:

  Toronto Centre Tax Services Office
  Film Services Unit
  1 Front Street West
  Toronto ON M5J 2X6

  Telephone: (416) 973-3407
  Fax: (416) 952-8334

  Telephone: (416) 954-0542 or
  (416) 954-0534 (waivers/actors)
  Fax: (416) 954-8528 (waivers/actors)

- For services performed in Quebec:

  Montréal Tax Services Office
  Film Services Unit
  10th floor
  305 René-Lévesque Boulevard West
  Montréal QC H2Z 1A6

  Telephone: (514) 283-0512
  Fax: (514) 496-4574

- For services performed in Prince Edward Island, New Brunswick, Nova Scotia, and Newfoundland and Labrador (tax credit only):

  Halifax Tax Services Office
  Film Services Unit
  Ralston Building
  1557 Hollis Street
  Halifax NS B3J 1V4

  Telephone: (902) 426-2252
  Fax: (902) 426-7208

Information on the Web

Information on the FTC is also available at **www.cra.gc.ca/ftc**.

Non-resident actors and behind-the-scenes personnel

For information on non-resident actors and behind-the-scenes personnel who provide services in the film and television industry in Canada, visit **www.cra.gc.ca/fsu**.

Non-residents and income tax

For information on non-residents and income tax, see Guide T4058, *Non-Residents and Income Tax*, at **www.cra.gc.ca/E/pub/tg/t4058**.

Generally, you are a non-resident of Canada for income tax purposes if you permanently live outside Canada and you do not have any residential ties with Canada.

Other services

You may also want to visit other Web sites for information about:

- income tax
  www.cra.gc.ca
- goods and services tax/harmonized sales tax (GST/HST)
  www.cra.gc.ca/tax/business/topics/gst
- customs (Canada Border Services Agency)
  www.cbsa.gc.ca

General information

Abbreviations

We use the following abbreviations in this guide:

CAVCO	Canadian Audio-Visual Certification Office
CRA	Canada Revenue Agency
CFVP	Canadian film or video production
ELE	earliest labour expenditure
FSU	film services unit
FTC	Canadian film or video production tax credit
LE	labour expenditure
PCT	production commencement time
PSTC	film or video production services tax credit
QC	qualified corporation
QLE	qualified labour expenditure

References

The legislation governing the Canadian film or video production tax credit (FTC) is in section 125.4 of the *Income Tax Act* (the Act) and in section 1106 of the *Income Tax Regulations* (the Regulations). The FTC rules came into effect on June 20, 1996. The FTC replaced the former system of film tax shelters.

The following provisions may apply to your claim for an FTC.

Income Tax Act

Sections 37, 67, 67.1, 125.4, 125.5, 127.4, and 247.

Subsections 6(1), 6(6), 13(7.4), 89(1), 164(1), 220(6), 220(7), 248(1), and 250(1).

Paragraphs 12(1)(x), 53(2)(k), 87(2)(j.94), 88(1)(e.2), 123.2(1)(a), 152(1)(b), 157(1)(b), 157(3)(e), and 163(2)(f).

Income Tax Regulations

Sections 1106, 6701, 8201, and 9300.

Subsections 1100(1) to 1100(3), 1100(15) to 1100(21), and 1101(5k.1).

Paragraphs 1100(1)(l) and 1100(1)(m).

Schedule II, Class 10, paragraphs (r), (s), (w), and (x).

Other tax incentives

Federal

Canadian-based film and television producers may also be eligible for the foreign-content based film or video production services tax credit (PSTC). For more information on the PSTC, see Guide RC4385, *Claiming a Film or Video Production Services Tax Credit – Guide to Form T1177*, at **www.cra.gc.ca/E/pub/tg/rc4385**.

If your qualified corporation (QC) has claimed an FTC under section 125.4 of the Act for a production, the QC cannot claim the PSTC under section 125.5 of the Act for the same production.

Provincial or territorial

Provincial or territorial tax incentives may also be available for your film or video productions. Contact your provincial or territorial tax authority to find out more. The telephone numbers are available in the government section of your telephone directory and through our Web site at **www.cra.gc.ca/tax/nonresidents/film/links-e.html**.

Rates

The rate of the FTC depends on whether you are subject to the old rules in effect before November 14, 2003, or eligible to use the new rules in effect after November 13, 2003.

Before November 14, 2003 (old rules)

A QC is eligible for an FTC of 25% on its qualified labour expenditure (QLE). The QLE cannot be more than 48% of the cost (minus any assistance received) of a production.

After November 13, 2003 (new rules)

A QC is eligible for an FTC of 25% on its QLE. The QLE cannot be more than 60% of the cost (minus any assistance received) of a production.

Limit

There is no limit on the FTC that you can receive for a production.

Administration

Canadian Heritage's Canadian Audio-Visual Certification Office (CAVCO) and the Canada Revenue Agency (CRA) jointly administer the FTC program.

CAVCO is responsible for:

- certifying that a production is a Canadian film or video production (CFVP);
- if requested, estimating the qualified labour expenditure (QLE) of a QC; and
- issuing certificates (Part A and Part B) so that Canadian producers can claim the FTC.

CAVCO will issue the CFVP certificate (Part A) after it analyzes the financing plans (including anticipated assistance) and Canadian-content matters. It may issue the certificate before or during production to ease financing of the production or claiming of a tax credit.

CAVCO certifies that the CFVP has been completed by issuing the Certificate of Completion (Part B) no later than six months after the production's application deadline.

Production's application deadline

The application for a Certificate of Completion (Part B) must be filed with CAVCO no later than **24 months** after the end of the QC's tax year in which the principal photography began.

Another **18 months** may be available to apply for a Certificate of Completion (Part B) if:

- the first (and second, if applicable) tax year ending after the principal photography began has not been assessed by the CRA; or
- the QC files Form T2029, *Waiver in Respect of the Normal Reassessment Period*, at **www.cra.gc.ca/E/pbg/tf/t2029**:
  - before the normal reassessment deadline for the QC (three years after the date of the Notice of Assessment or four years in the case of a public company);
  - for the first (and second, if applicable) tax year ending after the principal photography began; and
  - along with a consent letter authorizing the CRA to share information with CAVCO for purposes of administering the FTC program.

  Note
  CAVCO may revoke a certificate if an omission or incorrect statement is made. If a certificate is revoked, it is considered to have never been issued. This will result in the FTC being disallowed to the QC and any previously paid FTC being recaptured.

The CRA is responsible for:

- helping FTC claimants;
- interpreting and applying section 125.4 of the Act and all other provisions in the Act and the Regulations that may affect an FTC;
- reviewing FTC claims;
- assessing corporation income tax returns; and
- issuing timely refund cheques.

Application process

To apply for an FTC, you must:

- apply to CAVCO for a CFVP certificate (Part A) and a Certificate of Completion (Part B). Application forms are available on CAVCO's Web site at **www.pch.gc.ca/cavco**;
- complete Form T1131, *Claiming a Canadian Film or Video Production Tax Credit*, at **www.cra.gc.ca/E/pbg/tf/t1131**;
- on the **front** of your *T2 Corporation Income Tax Return* for the year, attach the following documents:
  - the CFVP certificate (Part A) and, if applicable, the Certificate of Completion (Part B) issued by CAVCO (or a copy); and
  - Form T1131; and
- send your return and attachments to your tax centre. A list of the tax centres is available at **www.cra.gc.ca/tax/business/topics/corporations/return/send-e.html**.

The tax centre will send your claim to your FSU. The FSU will determine whether it should fully review your claim.

> If you are filing electronically, do not send us any papers to support your electronic return. If we need to verify your information, we will contact you.
>
> You must keep your CAVCO certificates (Part A and Part B), information slips, documentation, and records relating to your income tax return for at least **six years**.

Processing time

At the CRA, we are committed to:

- promptly reviewing claims for FTCs;
- keeping confidential the information you provide; and
- providing courteous service.

If we do not audit an FTC claim, we can usually issue a cheque within 60 days of receiving a complete claim. When we audit an FTC claim, we can usually issue a cheque within 120 days of receiving a complete claim.

Your claim will be processed faster if your form is completed properly. If a completed Form T1131 and the CAVCO certificate are attached to your *T2 Corporation Income Tax Return*, your claim is considered **complete**.

If Form T1131 or the CAVCO certificate is missing, your claim will be considered **incomplete** and processing will be delayed. We will ask for the missing documents, and you will have 30 days to send the information to the FSU. If we do not receive the requested information within 30 days, we may process the return without the FTC.

Assignment of credit

The FTC may be assigned to lenders as security for bridge financing of the CFVP. This is provided for under subsections 220(6) and (7) of the Act.

Assigning the FTC does not affect the legal rights of set-off in our favour. In other words, we have no obligation toward the assignee, and the assignee's rights are subject to the legal rights of set-off in our favour. Even if an assignment has been made, we will issue the refund cheque in the name of the QC.

If you want us to send your refund cheque to an address other than your regular mailing address, include a letter with your *T2 Corporation Income Tax Return* that gives this address.

Audit process

If your FTC claim is selected for an audit, we may ask for the following supporting documentation:

- the complete file that supports the application filed with CAVCO;
- the books, records, and supporting documents of the corporation;
- agreements between the QC, or any other related corporations, and Telefilm Canada, the *Société de développement des entreprises culturelles* (SODEC), financial institutions, and any other agency concerning the financing and distribution of the production;
- agreements between actors, producers, directors, and other persons and the QC;
- the minute book of the QC and any related corporations; and
- any other documents that may be needed to support your claim.

Scope of the audit

We normally limit our audit to the QC's claims for the FTC for a given year. However, we may audit other items that could have an impact on the FTC claimed by the corporation. We will send you a letter to tell you when the audit is complete.

We may conduct a second audit of an FTC claim if any of the following situations occurs:

- an expenditure for salary or wages or other remuneration that was included in the production cost was not paid within 180 days after the end of the corporation's tax year;
- fraud or misrepresentation of fact is identified;
- CAVCO asks us to audit items related to Canadian content on its behalf; or
- unusual circumstances affecting the FTC arise after the end of the corporation's tax year.

We may also select the QC's *T2 Corporation Income Tax Return* for audit under our regular audit program. In that case, the FTC will not be re-audited unless one of the situations described above applies.

Objecting to an unfavourable outcome

We will generally reconsider a tax assessment if you file an objection because:

- you are not satisfied with our explanation of your assessment;
- your request for an adjustment has been denied; or
- there is a dispute over the interpretation of the law.

The Appeals Division will do an impartial review of the file. If you are still not satisfied with the outcome, you can appeal to the Tax Court of Canada.

Canadian Audio-Visual Certification Office (CAVCO)

The Minister of Canadian Heritage, through CAVCO, is responsible for Canadian-content certification. For a production to qualify as a Canadian production for FTC purposes, the producer must apply for the CFVP certificate (Part A) and the Certificate of Completion (Part B). Guidelines on how to apply to get a production certified are available from CAVCO's Web site at **www.pch.gc.ca/cavco**.

Section 1106 of the Regulations stipulates that to qualify as a CFVP, a production must meet the following prescribed requirements:

Canadian producer

The producer must be an individual who is:

- in control and the central decision maker of the production;
- directly responsible for the acquisition of the production story, or screenplay, as well as for the development, creative and financial control, and exploitation of the production; and
- identified in the production as the producer of the production.

All positions related to the producer function (including producer, line producer, or production manager) must be held by Canadians. An exemption is granted for treaty co-productions and in limited circumstances to non-Canadian producers (such as "executive producer" or "associate producer") as courtesy credits.

The producer must be a Canadian without interruption from the start of the production to the completion of post-production.

A "Canadian" is defined as a Canadian citizen according to the *Citizenship Act*, a permanent resident according to the *Immigration and Refuge Protection Act*, or a corporation that is Canadian-controlled as determined for the purposes of the *Investment Canada Act*.

Canadian production

Live action

A live action production must earn a minimum of six points based on the following key creative personnel qualifying as Canadians as set out in paragraph 1106(5)(a) of the Regulations.

■ Director (Note 1)	2 points
■ Screenwriter (Note 1)	2 points
■ Highest paid actor (Note 2)	1 point
■ Second highest paid actor (Note 2)	1 point
■ Art director	1 point
■ Director of photography	1 point
■ Music composer	1 point
■ Picture editor	1 point

Note 1
Either the director or the screenwriter must be a Canadian.

Note 2
One of the highest paid or second highest paid actors must be a Canadian.

A documentary production that does not involve performers or functions such as art director or music composer may meet the key-creative-personnel requirements, even if it has not earned the minimum six points. However, Canadians must hold all the key creative "point" positions.

Animation

An animation production must earn a minimum of six points based on the following key creative personnel qualifying as Canadians and the following services provided in Canada as set out in paragraphs 1106(5)(b) to (d) of the Regulations.

■ Director (Note 1)	1 point
■ Principal screenwriter and storyboard supervisor (Note 1)	1 point
■ Highest paid or second highest paid lead voice (Note 2)	1 point
■ Design supervisor (art director)	1 point
■ Camera operator (if camera operation done in Canada)	1 point
■ Music composer	1 point
■ Picture editor	1 point
■ Layout and background (done in Canada)	1 point
■ Key animation (Note 3) (done in Canada)	1 point
■ Assistant animation and in-betweening (done in Canada)	1 point

Note 1
The director, or both the principal screenwriter and the storyboard supervisor, must be Canadian.

Note 2
The highest or second highest paid lead voice must be a Canadian.

Note 3
The key animation must be done in Canada.

Canadian expenditures

Expenditures incurred in making the production must satisfy the following requirements:

- at least 75% of the total of all costs for services (other than post-production work) must be for services provided to or by individuals who are Canadians; and
- at least 75% of the total of all costs incurred for the post-production work must be incurred for services provided in Canada.

Certain costs are not included in these calculations, such as:

- costs determined by reference to the amount of income from the production;
- remuneration paid or payable to the producer or key creative personnel (in "points" positions); and
- amounts paid for insurance, financing, brokerage, legal and accounting fees, and similar amounts, when they relate to the production stage.

Excluded productions

A production will not be eligible for the FTC if it falls within the following list of excluded genres:

- news, current events, or public affairs programming, or a programme that includes weather or market reports;
- talk show;
- production for a game, questionnaire, or contest (other than a production directed primarily at minors);
- sports event or activity;
- gala presentation or an awards show;
- production that solicits funds;
- reality television;
- pornography;
- advertising;
- production produced primarily for industrial, corporate, or institutional purposes; and
- production, other than a documentary, all or most of which consists of stock footage.

A production will also be excluded if:

- the QC has not filed an application for a Certificate of Completion before the production's application deadline (see "Production's application deadline" on page 7);

- a Certificate of Completion (Part B) has not been issued by CAVCO within six months after the production's application deadline;
- there is no written agreement, at fair market value, with a Canadian distributor, or a broadcaster holding a Canadian Radio-Television and Telecommunications Commission licence to have the production shown in Canada no later than two years after production is complete; or
- a person, who is not a Canadian, distributes the production in Canada no later than two years after production is complete.

Except for treaty co-productions, a production will be an "excluded production" if neither the QC nor a prescribed taxable Canadian corporation that is related to the QC:

- is the exclusive worldwide copyright owner in the production, for all commercial exploitation purposes for a minimum of 25 years starting at the completion of the production, except if an interest in the production is held by either a prescribed taxable Canadian corporation or a prescribed person (see "Line 313 – Is the production co-owned by a prescribed person?" on page 13) as a co-producer; and
- controls the initial licensing of commercial exploitation of the production.

Treaty co-productions

Co-productions between Canada and another country are eligible for the FTC program only when they are co-produced under an official agreement. Telefilm Canada is responsible for certifying treaty co-productions. To get a certificate to access the FTC program, a producer must apply to CAVCO. For a list of participating countries, see Telefilm Canada's Web site at **www.telefilm.gc.ca**.

How to complete Form T1131

This section contains detailed explanations of the information that you have to enter on each line of Form T1131. Read the explanation for each line as you complete the form.

Part 1 – Corporate information

Corporate name

Enter the registered corporate name of the QC.

Business Number

Enter the Business Number of the QC.

Line 151 – Contact person's name

Enter the name of the person in charge of financial information for the overall claim (for example, the financial manager, accountant, or tax manager). This person should be in a position to answer our questions about the claim.

Line 153 – Telephone number

Enter the telephone number of the contact person.

Tax year

Write the dates of the start and end of the tax year for which you are filing the claim (year/month/day).

Part 2 – Identifying the film or video production

Line 301 – Production's title

Indicate the title of the CFVP as shown on the certificate issued by CAVCO (Part A or Part B).

Line 302 – Date

Enter the date on which the principal filming or taping (principal photography) began.

You can claim an FTC if principal filming or taping began in the tax year for which you are filing Form T1131 or in a previous tax year. If principal filming or taping began after the tax year for which you are filing Form T1131, you will only be able to claim an FTC on these production costs and labour expenditures for the following or a subsequent tax year.

Line 303 – CAVCO reference number (PCH)

Enter the reference number as shown on the certificate issued by CAVCO (Part A or Part B).

Lines 304, 305, and 306 – CAVCO certificate number (Part A or Part B)

Enter on line 304 the certificate number that begins with the letter A or B shown on the Part A or Part B certificate. For a series of episodes, enter the certificate numbers on lines 305 and 306.

Line 311 – Is the production a Canadian co-production involving only QCs?

A production is a Canadian co-production involving only QCs if more than one QC owns it. If this is not the case, tick the "No" box and go to the next question.

If the production is a Canadian co-production, each QC that owns a percentage of the copyright in the production must calculate its own production cost and labour expenditure (LE) based only on its interest in the production. Include your corporation's cost in Part 5 or, if applicable, in Part 6.

Line 312 – Is the production a treaty co-production?

A production will be a treaty co-production if it is co-produced under an official co-production treaty. See Telefilm Canada's Web site at **www.telefilm.gc.ca** for a listing of official treaty co-productions. If the production is not a treaty co-production, tick the "No" box and go to the next question.

If the production is a treaty co-production, the QC and the foreign corporation will each own a percentage of the copyright in the production. The QC must then calculate its production cost and its LE based only on its interest in the production. Include your corporation's cost in Part 5, or if applicable, in Part 6.

Line 313 – Is the production co-owned by a prescribed person?

If the production is not co-owned by a **prescribed person**, tick the "No" box and go to Part 3.

If the production is co-owned by a prescribed person, the QC and the prescribed person each own part of the copyright in the production. Include your corporation's cost in Part 5, or if applicable, in Part 6. Also include in Part 6 production expenditures that the QC has incurred for the prescribed person or on its behalf and that are included in the prescribed person's production cost.

A **prescribed person**, as defined in subsection 1106(10) of the Regulations, means:

a) a corporation that holds a television, specialty, or pay-television broadcasting licence issued by the Canadian Radio-Television and Telecommunications Commission (CRTC);

b) a corporation that holds a broadcast undertaking licence and that provides production funding because of a "significant benefits" commitment given to the CRTC;

c) a non-profit organization described in paragraph 149(1)(l) of the Act, if that person has a fund used to finance CFVPs;

d) a Canadian government film agency (federal, provincial, or municipal);

e) a non-resident person who does not carry on a business in Canada through a permanent establishment in Canada, where the person's interest in the production is acquired to comply with the certification requirements of a treaty co-production twinning arrangement; and

f) a person:
   - to whom paragraph 149(1)(f) of the Act applies;
   - that has a fund that is used to finance CFVPs, all or most of whose funding is provided by a direct ownership interest in those productions; and
   - that has not received donations after 1996, other than from persons described in paragraphs (a) to (e).

The questions at lines 311, 312, and 313 indicate that, under certain circumstances, more than one party can share in the copyright interest of a production. When this occurs, we have outlined situations where each party must determine its share of the production cost and LE based on the amounts they contributed to the production.

If the percentage of costs incurred by a co-producer is more than the percentage of copyright ownership in the property, we will consider the percentage of costs to establish each co-producer's part of the FTC.

Part 3 – Eligibility

To be eligible to claim the FTC, the corporation must be a **qualified corporation** (QC) and the film or video production must be a **Canadian film or video production** (CFVP), as explained below.

Canadian film or video production (CFVP)

A CFVP is a film or video production of a prescribed taxable Canadian corporation, other than an excluded production (see "Excluded productions" on page 9), that is:

- a treaty co-production; or
- a film or video production that meets certain prescribed requirements.

The requirements for non-treaty productions are:

- the producer must be a citizen or permanent resident of Canada at all times during the production; and
- the production must meet the requirements specified on pages 8–9 for "Canadian producer," "Canadian production," and "Canadian expenditures" that apply to the type of production in question.

Qualified corporation (QC)

A QC is a corporation that is, throughout the tax year, a **prescribed taxable Canadian corporation** whose activities consist primarily of conducting a **Canadian film or video production business** through a **permanent establishment** in Canada.

- A **prescribed taxable Canadian corporation** is a taxable Canadian corporation that is controlled by Canadians, as determined under sections 26 to 28 of the *Investment Canada Act*. A corporation does not qualify if it is:
  - controlled directly or indirectly in any way by one or more persons, all or part of whose taxable income is exempt from tax under Part I; or
  - a prescribed labour-sponsored venture capital corporation.
- A **Canadian film or video production business** is not defined in the *Income Tax Act*. Such a business is one that produces films or videos that are certified by CAVCO. To qualify for the FTC, a corporation's activities must consist primarily (more than 50% of its activities) of conducting a business that is a CFVP business.

  We will look at, among other things, all sources of revenue that a corporation generates to determine whether its activities are primarily the carrying on of a CFVP business. A corporation may not be considered a QC if it generates significant revenue from activities such as:
  - renting equipment or studios;
  - distributing films or videos; or
  - producing films or videos that do not qualify as CFVPs.

- A **permanent establishment** usually refers to a fixed place of business including an office, a warehouse, and, if a person does not have a fixed place of business, the principal place at which the person's business is conducted. See section 8201 of the Regulations.

Answer the following five questions to determine if a corporation and a production meet the requirements to claim the FTC.

Question 1 – Were the activities of the corporation primarily the carrying on of a Canadian film or video production business through a permanent establishment in Canada?

If you answer *no* to this question, the corporation is not a QC. Therefore, the corporation is not eligible for the FTC.

Question 2 – Was all or part of the corporation's taxable income exempt from Part I tax at any time in the year?

See the comments at Question 4.

Question 3 – Was the corporation at any time in the year controlled directly or indirectly in any manner whatever by one or more persons, all or part of whose taxable income was exempt from Part I tax?

See the comments at Question 4.

Question 4 – Was the corporation at any time in the year a prescribed labour-sponsored venture capital corporation?

If you answer *yes* to Question 2, 3, or 4, then the corporation is not a QC because it does not meet the definition of a **prescribed taxable Canadian corporation**. Therefore, the corporation is not eligible for the FTC.

Question 5 – Is the production, or an interest in a person or partnership that has, directly or indirectly, an interest in the production, a tax shelter investment for purposes of section 143.2?

This question under the new rules applies if:

- your tax year ended after November 14, 2003; or
- you filed an income tax return for your corporation before November 14, 2003, in which you claimed an FTC for labour expenditures incurred after 1997.

Otherwise, under the old rules, Question 5 should be read as follows:

> Can an investor, or a partnership in which an investor has a direct or indirect interest, deduct an amount for the production in calculating its income for any tax year?

If you answer *yes* to either of these two questions, you are **not** eligible to claim the FTC.

> If you are eligible, review the information on Part 4 below before completing the rest of the form.

Part 4 – Important information on recent changes

On July 18, 2005, the Department of Finance released a revised draft of proposed changes to the FTC rules. The following information will help you determine if these changes apply to you.

Which rules (new or old) apply?

To answer this question, you must first establish your production commencement time.

Lines 651 to 654 – Production commencement time (PCT)

Enter the following dates on the applicable lines.

<table>
<tr><td colspan="3">The PCT describes the time that is the earlier of:</td></tr>
<tr><td>Line 651: the date the principal photography of the CFVP began</td><td>or</td><td>the latest of:
■ Line 652: the date the QC or its parent corporation first incurred labour expenses for the development of the script material for the CFVP (see note below)
■ Line 653: the date the QC or its parent corporation acquired a property on which the CFVP is based that is a published literary work, a screenplay, a play, a personal history, or all or part of the script material of the CFVP
■ Line 654: two years before the date the principal photography of the CFVP began</td></tr>
</table>

Note
Script material is defined as written material describing the story on which the CFVP is based. The material includes a draft script, original story, screen story, narration, television production concept, outline, scene-by-scene schematic, synopsis, or treatment.

Using the PCT to determine which rules apply

<table>
<tr><th>PCT date</th><th>Apply</th><th>By</th></tr>
<tr><td>On or after
Nov. 14, 2003</td><td>New rules</td><td>Completing Part 6A and Part 6B of Form T1131.</td></tr>
<tr><td>Before Nov. 14, 2003, and ELE (Note 1) made after Dec. 31, 2003</td><td>New rules</td><td>Completing Part 6A and Part 6B of Form T1131.</td></tr>
<tr><td rowspan="2">Before
Nov. 14, 2003, and ELE (Note 1) made
■ after the last tax year that ended before Nov. 14, 2003
or
■ in the tax year that included Nov. 14, 2003</td><td>New rules <u>if election filed</u> (Note 2)</td><td>Checking (✓) the box at line 650 (Note 2) and completing Part 6A and Part 6B of Form T1131.</td></tr>
<tr><td>Old rules otherwise</td><td>Checking (✓) the first box in Part 4, and completing Part 5A and Part 5B of Form T1131.</td></tr>
<tr><td>Before Nov. 14, 2003, and ELE (Note 1)
made in a tax year that ended before Nov. 14, 2003</td><td>Old rules</td><td>Completing Part 5A and Part 5B of Form T1131.</td></tr>
</table>

Note 1
The earliest labour expenditure (ELE) is the first salary or wages incurred, or other remuneration paid, since the final script stage that is directly attributable to the CFVP. The final script stage is the stage of production that begins when the final script is completed.

Note 2
The election must be filed on or before the filing due date of the QC's income tax return for the tax year that includes the day the proposed changes become law.

Line 650 – Election

To elect to use the new rules, you must check the box at line 650. The election must be filed in writing (box checked) and on time (Note 2 above). If you forget to check the box at line 650, or your Form T1131 is filed after the election deadline, we will process your claim under the old rules.

Part 5A – Determining the production cost limit using the rules in effect before November 14, 2003

Line 401 – Production cost at the end of the tax year

Enter the total amount of expenditures that is included in the QC's cost of production at the end of the tax year. Do not include the part of costs related to the copyright interest held by another person (for example, a co-producer or a prescribed person).

Calculate the production cost using generally accepted accounting principles and include amounts such as the cost of materials, labour expenditures, and overhead expenses.

Examples of production costs include:

- development costs, including the purchase of rights to a novel, script, or idea;
- the salary or wages and remuneration of writers, executive and associate producers, directors, performers, musicians, technicians, and production personnel;
- the employer's contributions to various social benefit plans;
- the rental or other cost of a studio and of photographic, lighting, sound recording, and other equipment;
- amounts incurred to dub a film or video in either official language;
- amounts incurred to subtitle a film or video for persons with a hearing impairment;
- advertising costs related to the production and that are incurred during the production (including press expenses, still photography, videotapes, public relations, and other similar expenses); and
- post-production expenses, such as editorial labour, rental of editorial equipment, laboratory costs, sound effects, sound mixing, titles, and translation.

The production cost **does not include**:

- any expense relating to marketing, promoting, and distributing the production (prints and ads). These types of expenses are considered a cost of distribution; or
- deferred amounts that are contingent liabilities (dependent on a future event). However, if the deferred amount becomes a legitimate liability of the QC, it would be included in the production cost at that time. A legitimate liability is a contractual arrangement that is enforceable by the creditor.

Line 403 – Government and non-government assistance that the corporation has not repaid

Enter the cumulative government and non-government assistance received or receivable at the time of filing for your production. Only include the amounts that have not been repaid under a legal obligation at the time of filing.

Assistance received for the production can be from Canadian or foreign sources, including any amount received as a refund, reimbursement, contribution, or allowance, whether as a grant, subsidy, forgivable loan, deduction from tax, or any other form of inducement. For example, any provincial tax credit allowed in connection with the CFVP is considered assistance.

Note 1
A forgivable loan generally means that the lender will accept to forgive the loan based on specific conditions, such as the production not earning a certain revenue target.

Note 2
The FTC is not considered government assistance for the purposes of determining the FTC itself.

Line 407 – Qualified labour expenditure for all previous tax years

Enter the qualified labour expenditure (QLE) of the QC for all previous tax years. If a production continues through more than one year, deduct the QLE for previous tax years to ensure no FTC is claimed on amounts that have already earned an FTC.

Note
The amount of the QLE must be determined for each production, except in the case of episodes of the same series, which can be reported on the same form.

Line 410 – Production cost limit

Enter the difference between the amount on line C and the amount on line 407.

Part 5B – Determining the qualified labour expenditure and the tax credit using the rules in effect before November 14, 2003

Labour expenditure in the tax year (lines 501 to 509)

The labour expenditure (LE) you enter on lines 501 to 509 must be:

- reasonable in the circumstances;
- included in the cost of the property to the QC or, in the case of depreciable property, in its capital cost;
- incurred by the QC for the production stages of the property, from the final script stage to the end of the post-production stage;
- directly attributable to the film or video production (there must be a clear link to specific work on the production); and
- paid in the tax year or no later than 60 days after the end of the tax year.

Look-through approach

When payments are made to a self-employed individual, a taxable Canadian corporation, or a partnership carrying on a business in Canada for the services of their employees, the **look-through approach** may be used to determine the reasonableness of the LE. This approach limits the amount of remuneration that may qualify as an LE to the amount that would have been incurred by the QC had it directly employed the individuals.

In applying this approach:

- the QC must obtain from the service provider the amount of salary or wages paid to the employee. This amount should qualify as an LE directly attributable to the production; or
- if the QC cannot get the amount of salary or wages paid to the employee from a service provider, we will accept 65% of the labour part of an invoice amount as a reasonable estimate of the LE directly attributable to the production. The remaining 35% represents overhead and the profit of the service provider.

  In cases where non-labour amounts (such as rental fees, goods provided by the service provider, and travel and living expenses) are included in a payment to a service provider, but no breakdown is provided on the invoice, it will be necessary to estimate the labour part of the invoice before applying the 65% rate.

The 65% administrative position does not prevent us from auditing a third party to determine amounts paid to employees. If a QC has claimed an amount greater than 65%, it must provide enough evidence to support that percentage.

60-day rule

You can include in the LE of a QC the salary, wages, or other remuneration for services provided in the tax year but paid for in the first 60 days of the following tax year. However, you will not be able to claim an FTC again for these amounts in the following year.

Line 501 – Salary or wages

Enter the salary or wages paid to the employees of the QC. Salary or wages paid to employees who are neither Canadian residents nor Canadian citizens are also eligible.

The salary or wages of a QC include amounts paid to employees such as vacation pay, statutory holiday pay, sick leave pay, and taxable benefits (for example, a corporation's contribution to the employees' RRSP, group insurance plan, or meals).

Salary or wages **do not include**:

- stock options or amounts determined with reference to profits or revenues;
- the employer's part of payments to the Canada Pension Plan, the Quebec Pension Plan, or the Employment Insurance Commission; and
- the employer's part of payments to workers' compensation boards or the *Commission de la santé et de la sécurité du travail du Québec*, or any approved employee pension plan, dental care plan, or medical care or optical care plan for the employee (unless it is a taxable benefit to the employee).

Line 503 – Other remuneration paid to individuals

Enter the part of the non-salaried remuneration to be included as an LE that is paid to an individual (resident or not, and Canadian or not) who is not an employee of the QC for services provided for the production.

In addition, the QC may include as remuneration amounts that the individual pays **as salary or wages** to an employee for services the employee provided for the production (using the look-through approach).

Example
Mr. Turner is a self-employed camera operator. He supplies services to a production company, ABC Ltd., which is a QC for purposes of the FTC. Mr. Turner also supplies to ABC Ltd. the services of his employee who is also a camera operator. The QC also rents two cameras from Mr. Turner that it uses to make the production.

As a result, the part of the remuneration (including the related profit element) paid by ABC Ltd. that is attributable to services provided by Mr. Turner for the production will be included in the remuneration entered on line 503. ABC Ltd. may also include on line 503 remuneration paid for Mr. Turner's employee, but only up to a maximum of the salary or wages paid to the employee.

ABC Ltd. cannot include as remuneration any profit margin on the salary or wages of the employee, or the cost incurred to rent the two cameras. The cost associated with the rental of the cameras, and the profit element for the employee's services, will be included in the cost of production or, in the case of depreciable property, the capital cost to the QC of the production at the end of the year.

Line 505 – Other remuneration paid to other taxable Canadian corporations

Enter the part of the non-salaried remuneration paid to other taxable Canadian corporations. **No** profit element can be included in the remuneration amount.

When calculating this remuneration, you may include any amounts that the other taxable Canadian corporation pays **as salary or wages** to an employee for services provided for the production.

Line 506 – Other remuneration paid to other taxable Canadian corporations (solely owned by an individual)

Enter the part of the non-salaried remuneration paid to other taxable Canadian corporations all the shares of which (except directors' qualifying shares) belong to one individual.

In calculating the allowable remuneration, you have to first determine whether the activities of the other taxable Canadian corporation consist **principally** (more than 50% of its activities) of providing the individual's services. To determine this, you will have to ask the service provider about the corporation's activities.

- If the "more-than-50% activities" condition does **not** apply, the rules described at line 505 apply.
- If the "more-than-50% activities" condition applies, the allowable remuneration is the amount paid to the other taxable Canadian corporation for services provided by the shareholder for the production. The allowable remuneration may include a profit element, and the look-through approach previously explained would not apply.

  However, if the remuneration includes amounts for employees of the other taxable Canadian corporation, the allowable remuneration for the employees is limited to the amount the other taxable Canadian corporation pays as salary or wages for services the employees provided for the production.

For lines 505 and 506, remuneration paid to **non-taxable** Canadian corporations and foreign corporations should not be included in the remuneration paid by the QC, even if the amounts are part of the production cost. Please note that some Canadian broadcasters are not taxable Canadian corporations.

Line 507 – Other remuneration paid to partnerships carrying on business in Canada

Enter the part of the non-salaried remuneration paid to a partnership that carries on a business in Canada.

The QC may include remuneration paid to the partnership for services provided for the production by an individual who is a member of the partnership (a partner). The allowable remuneration paid for services provided by the partner may include a profit element, and the look-through approach previously explained would not apply.

In addition, the QC may include remuneration the partnership pays to an employee **as salary or wages** for services provided for the production (using the look-through approach).

Line 509 – Labour expenditure reimbursed by a wholly owned corporation to its parent corporation

Enter the amount of reimbursement that a wholly owned subsidiary (the QC) made to its parent, a taxable Canadian corporation, under a written reimbursement agreement.

The reimbursement to the parent will be an eligible LE of the QC if it is made no later than 60 days after the QC's tax year-end. The reimbursement must relate to an amount paid by the parent for the CFVP and be considered as an LE of the QC that meets the criteria discussed above. If the parent and subsidiary have different tax year-ends, the eligibility of the LE is based on the date of reimbursement to the parent corporation.

Example
The parent corporation has a December 31, 2004, tax year-end and incurs costs for the CFVP between January 1, 2004, and December 31, 2004. All costs are paid within 60 days of the parent's tax year-end. The subsidiary has a July 31, 2005, tax year-end and reimburses the parent within 60 days of its tax year-end.

In this case, the LE incurred by the parent corporation for its December 31, 2004, tax year-end will be included in the subsidiary's calculation of LE for its July 31, 2005, tax year-end.

Line D – Labour expenditure for the tax year

Enter the total of lines 501 to 509. This amount represents the LE of the QC for the tax year.

Lines 511, 513, and E – Labour expenditure for previous tax years

Enter the amount on line 511 that is the LE for all previous tax years. From this amount, deduct the QLE for all previous tax years (line 513) that was used to calculate the FTC for those years. The difference (amount on line E) represents the LE of previous years for which no FTC has been allowed.

Line F – Total labour expenditure

Enter the total of lines D and E. This amount represents the LE for the tax year and the LE for previous years for which no FTC has been allowed.

Line 515 – Labour expenditure reimbursed to the QC by its wholly owned subsidiary

Enter the amount of reimbursement that a parent corporation (the QC) received from its wholly owned subsidiary under a written reimbursement agreement.

Line 518 – Labour expenditure available for the tax year

Enter the difference between the amount on line F and the amount on line 515.

Line G – Qualified labour expenditure

Enter the lesser of line 410 and line 518. This is the QLE of the QC at the end of the tax year for the CFVP.

Line 520 – Canadian film or video production tax credit

Enter the amount that is calculated by multiplying the QLE on line G by the FTC rate of 25% (line H). This is the QC's FTC for the year.

Enter the amount from line 520 on line 796 of your *T2 Corporation Income Tax Return*. If you are filing more than one FTC claim for your corporation, enter the cumulative amount.

> **Note**
> The FTC is fully refundable to the QC. However, if a corporation has other unpaid liabilities to the Crown, the FTC will be used to reduce those liabilities and the balance, if any, will be refunded.
>
> The FTC claimed is considered assistance received in the year for the purposes of determining the income of the QC. The amount either must be included in income or, if the CFVP is depreciable property, must reduce the capital cost of the property for capital cost allowance purposes.

Part 6A – Determining the production cost limit using the rules in effect on or after November 14, 2003

Line 421 – Production cost at the end of the tax year

Enter the total amount of expenditures that is included in the QC's cost of production at the end of the tax year. This amount may also include expenditures that are part of the cost of the production to any other person or partnership if the expenditures were incurred by the QC on their behalf. However, do not include expenditures included on behalf of a co-producer of the CFVP who is another QC. Each QC must file an FTC claim for its own expenditures.

Calculate the production cost using generally accepted accounting principles and include amounts such as the cost of materials, labour expenditures, and overhead expenses.

Examples of costs include:

- development costs, including the purchase of rights to a novel, script, or idea;
- the salary or wages and remuneration of writers, executive and associate producers, directors, performers, musicians, technicians, and production personnel;
- the employer's contributions to various social benefit plans;
- the rental or other cost of a studio and of photographic, lighting, sound recording, and other equipment;
- amounts incurred to dub a film or video in either official language;
- amounts incurred to subtitle a film or video for persons with a hearing impairment;
- advertising costs related to the production that are incurred during the production (including press expenses, still photography, videotapes, public relations, and other similar expenses); and
- post-production expenses, such as editorial labour, rental of editorial equipment, laboratory costs, sound effects, sound mixing, titles, and translation.

The production cost **does not include**:

- any expense relating to marketing, promoting, and distributing a production (prints and ads). These types of expenses are considered a cost of distribution; or
- deferred amounts that are contingent liabilities (dependent on a future event). However, if the deferred amount becomes a legitimate liability of the QC, it would be included in the production cost at that time. A legitimate liability is a contractual arrangement that is enforceable by the creditor.

Line 423 – Government and non-government assistance that the corporation has not repaid

Enter the cumulative government and non-government assistance received or receivable at the time of filing for your production. Only include the amounts that have not been repaid under a legal obligation at the time of filing.

The definition of "assistance" was amended so that the equity participation in a CFVP by a government, municipality, or other public authority is treated the same way as government assistance.

Assistance received for the production can be from Canadian or foreign sources, including any amount received as a refund, reimbursement, contribution, or allowance, whether as a grant, subsidy, forgivable loan, deduction from tax, or any other form of inducement. For example, any provincial tax credit allowed in connection with the CFVP is considered assistance.

Note 1
A forgivable loan generally means that the lender will accept to forgive the loan based on specific conditions, such as the production not earning a certain revenue target.

Note 2
The FTC is not considered government assistance for the purposes of determining the FTC itself.

Line 427 – Qualified labour expenditure for all previous tax years

Enter the qualified labour expenditure (QLE) of the QC for all previous tax years. If a production continues through more than one year, deduct the QLE of previous tax years to ensure that no FTC is claimed on amounts that have already earned the FTC.

Note
The amount of the QLE must be determined for each production, except in the case of episodes of the same series, which can be reported on the same form.

Line 430 – Production cost limit

Enter the difference between the amount on line C and the amount on line 427.

Part 6B – Determining the qualified labour expenditure and the tax credit using the rules in effect on or after November 14, 2003

Labour expenditure in the tax year (lines 601 to 609)

The labour expenditure (LE) you enter on lines 601 to 609 must be:

- reasonable in the circumstances;
- included in the cost of the production to the QC or any other person or partnership (except another QC) or, in the case of depreciable property, in the capital cost of the production to the QC or any other person or partnership (except another QC);
- incurred by the QC for the production stages of the property, from the production commencement time to the end of the post-production stage;
- directly attributable to the film or video production (there must be a clear link to specific work on the production); and
- paid in the tax year or no later than 60 days after the end of the tax year.

Look-through approach

When payments are made to a self-employed individual, a taxable Canadian corporation, or a partnership carrying on a business in Canada for the services of its employee, the **look-through approach** may be used to determine the reasonableness of the LE. This approach limits the amount of remuneration that may qualify as an LE to the amount that would have been incurred by the QC if it had directly employed the individuals.

In applying this approach:

- the QC must obtain from the service provider the amount of salary or wages paid to the employee. This amount should qualify as a LE directly attributable to the production; or
- if the QC cannot get the amount of salary or wages paid to the employee from a service provider, we will accept 65% of the labour part of an invoice amount as a reasonable estimate of the LE directly attributable to the production. The remaining 35% represents overhead and the profit of the service provider.

  In cases where non-labour amounts (such as rental fees, goods provided by the service provider, and travel and living expenses) are included in a payment to a service provider, but no breakdown is provided on the invoice, it will be necessary to estimate the labour part of the invoice before applying the 65% rate.

The 65% administrative position does not prevent us from auditing a third party to determine amounts paid to employees. If a QC has claimed an amount greater than 65%, it must provide enough evidence to support that percentage.

60-day rule

You can include in the LE of a QC the salary, wages, or other remuneration for services provided in the tax year but paid for in the first 60 days of the following tax year. However, you will not be able to claim an FTC again for these amounts in the following year.

Line 601 – Salary or wages

Enter the salary or wages paid to the employees of the QC who are Canadian residents or Canadian citizens at the time they provide services for the production.

The salary or wages of a QC include amounts paid to employees such as vacation pay, statutory holiday pay, sick leave pay, and taxable benefits (for example, a corporation's contribution to the employees' RRSP, group insurance plan, or meals).

Salary or wages **do not include**:

- stock options or amounts determined with reference to profits or revenues;
- the employer's part of payments to the Canada Pension Plan, the Quebec Pension Plan, or the Employment Insurance Commission; or
- the employer's part of payments to workers' compensation boards or the *Commission de la santé et de la sécurité du travail du Québec*, or any approved employee pension plan, dental care plan, or medical care or optical care plan for the employee (unless it is a taxable benefit to the employee).

Line 603 – Other remuneration paid to individuals

Enter the part of the non-salaried remuneration to be included as an LE that is paid to an individual who is not an employee of the QC for services provided for the production at a time when the individual was a Canadian resident or a Canadian citizen.

In addition, the QC may include as remuneration amounts that the individual pays **as salary or wages** to an employee for services for the production at a time when the employee was a Canadian resident or a Canadian citizen (using the look-through approach).

Example
Mr. Lewis is a Canadian self-employed camera operator. He supplies services to a production company, ABC Ltd., which is a QC for purposes of the FTC. Mr. Lewis also supplies to ABC Ltd. the services of his employee who is also a Canadian citizen and a camera operator. The QC also rents two cameras from Mr. Lewis that it uses to make the production.

As a result, the part of the remuneration (including the related profit element) paid by ABC Ltd. that is attributable to services provided by Mr. Lewis for the production will be included in the remuneration entered on line 603. ABC Ltd. may also include on line 603 remuneration paid for Mr. Lewis's employee, but only up to a maximum of the salary or wages paid to the employee.

ABC Ltd. cannot include as remuneration any profit margin on the salary or wages of the employee, or the cost incurred to rent the two cameras. The cost associated with the rental of the cameras, and the profit element for the employee's services, will be included in the cost of production or, in the case of depreciable property, the capital cost of the production at the end of the year.

Line 605 – Other remuneration paid to other taxable Canadian corporations

Enter the part of the non-salaried remuneration paid to other taxable Canadian corporations for services provided for the production by a person at a time when the person was a Canadian resident or a Canadian citizen. **No** profit element can be included in the remuneration amount.

When calculating this remuneration, you may include any amounts that the other taxable Canadian corporation pays to an employee **as salary or wages** for services provided for the production at a time when the employee was a Canadian resident or a Canadian citizen.

Line 606 – Other remuneration paid to other taxable Canadian corporations (solely owned by an individual)

Enter the part of the non-salaried remuneration paid to other taxable Canadian corporations all the shares of which (except directors' qualifying shares) belong to one individual.

In calculating the allowable remuneration, you have to first determine whether the activities of the other taxable Canadian corporation consist **primarily** (more than 50% of its activities) of providing the individual's services. To determine this, you will have to ask the service provider about the corporation's activities.

- If the "more-than-50% activities" condition does **not** apply, the rules described at line 605 apply.
- If the "more-than-50% activities" condition applies, the allowable remuneration is the amount paid to the other taxable Canadian corporation for services provided by the shareholder for the production at a time when the shareholder was a Canadian resident or a Canadian citizen. The allowable remuneration may include a profit element, and the look-through approach previously explained would not apply.

  However, if the remuneration includes amounts for employees of the other taxable Canadian corporation, the allowable remuneration for the employee is limited to the amount the other taxable Canadian corporation pays as salary or wages for services the employees provided for the production at a time when they were Canadian residents or Canadian citizens.

For lines 605 and 606, remuneration paid to **non-taxable** Canadian corporations and foreign corporations should not be included in the remuneration paid by the QC, even if the amounts are part of the production cost. Please note that some Canadian broadcasters are not taxable Canadian corporations.

Line 607 – Other remuneration paid to partnerships carrying on business in Canada

Enter the part of the non-salaried remuneration paid to a partnership that carries on a business in Canada.

The QC may include remuneration paid to the partnership for services provided for the production by an individual who is a member of the partnership (a partner) at a time when the partner was a Canadian resident or a Canadian citizen. The allowable remuneration paid for services provided by the partner may include a profit element, and the look-through approach previously explained would not apply.

In addition, the QC may include remuneration that the partnership pays as **salary** or **wages** to an employee for services provided for the production at a time when the employee was a Canadian resident or a Canadian citizen (using the look-through approach).

Line 609 – Labour expenditure reimbursed by a wholly owned corporation to its parent corporation

Enter the amount of reimbursement that a wholly owned subsidiary (the QC) made to its parent, a taxable Canadian corporation, under a written reimbursement agreement.

The reimbursement to the parent will be an eligible LE of the QC if it is made no later than 60 days after the QC's tax year-end. The reimbursement must relate to an amount paid by the parent for the CFVP and be considered as an LE of the QC that meets the criteria discussed above. If the parent and subsidiary have different tax year-ends, the eligibility of the LE is based on the date of reimbursement to the parent corporation.

Example
The parent corporation has a December 31, 2004, tax year-end and incurs costs for the CFVP between January 1, 2004, and December 31, 2004. All costs are paid within 60 days of the parent's tax year-end. The subsidiary has a July 31, 2005, tax year-end and reimburses the parent within 60 days of its tax year-end.

In this case, the LE incurred by the parent corporation for its December 31, 2004, tax year-end will be included in the subsidiary's calculation of LE for its July 31, 2005, tax year-end.

Line D – Labour expenditure for the tax year

Enter the total of lines 601 to 609. This amount represents the LE of the QC for the tax year.

Lines 611, 613, and E – Labour expenditure for previous tax years

Enter the amount on line 611 that is the LE for all previous tax years. From this amount, deduct the QLE for all previous tax years (line 613) that was used to calculate the FTC for those years. The difference (amount on line E) represents the LE of previous years for which no FTC has been allowed.

Line F – Total labour expenditure

Enter the total of lines D and E. This amount represents the LE for the current tax year and the LE for previous years on which no FTC has been allowed.

Line 615 – Labour expenditure reimbursed to the QC by its wholly owned subsidiary

Enter the amount of reimbursement that a parent corporation (the QC) received from its wholly owned subsidiary under a written reimbursement agreement.

Line 618 – Labour expenditure available for the tax year

Enter the difference between the amount on line F and the amount on line 615.

Line G – Qualified labour expenditure

Enter the lesser of line 430 and line 618. This is the QLE of the QC at the end of the tax year for the CFVP.

Line 620 – Canadian film or video production tax credit

Enter the amount that is calculated by multiplying the QLE on line G by the FTC rate of 25% (line H). This is the QC's FTC for the year.

Enter the amount from line 620 on line 796 of your *T2 Corporation Income Tax Return*. If you are filing more than one FTC claim for your corporation, enter the cumulative amount.

> **Note**
> The FTC is fully refundable to the QC. However, if a corporation has other unpaid liabilities to the Crown, the FTC will be used to reduce those liabilities and the balance, if any, will be refunded.
>
> The FTC claimed is considered assistance received in the year for the purposes of determining the income of the QC. The amount either must be included in income or, if the CFVP is depreciable property, must reduce the capital cost of the property for capital cost allowance purposes.

Part 7 – Certification

Lines 251 and 255 – Name and date

Only the person who is an authorized signing officer of the corporation can certify the information on Form T1131. Please indicate the position occupied by that person and the date that the form was completed.

Your opinion counts!

We review this guide every year. If you have comments or suggestions to help us improve it, we would like to hear from you.

Please send your comments to:

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