Canada Revenue Agency   Agence du revenu du Canada

Claiming a Film or Video Production Services Tax Credit

Guide to Form T1177

RC4385(E) Rev. 05

Canada

Before you start

Is this guide for you?

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

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

Forms and publications

This guide refers to Form T1177, *Claiming a Film or Video Production Services Tax Credit*, which is only available in electronic format on our Web site at **www.cra.gc.ca/E/pbg/tf/t1177.**

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

What's new?

In this publication, we use the name "Canada Revenue Agency" to represent the Canada Customs and Revenue Agency. This reflects recent changes to federal departments and agencies.

On February 18, 2003, the Honourable John Manley, Minister of Finance, proposed in the federal budget to increase the film or video production services tax credit rate from 11% to 16% of qualified Canadian labour expenditures. The revised rate of 16% applies to qualified expenditures incurred after the budget date.

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 guidelines.

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 6.

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.

We want to decrease the demand for paper, so, except for visually impaired persons; this publication is only available in electronic format. We encourage you to view this guide on our Web site at **www.cra-arc.gc.ca/E/pub/tg/rc4385** and to print only the parts you need.

Visually impaired persons can get our publications in braille, large print, and etext (computer diskette), or on audiocassette by visiting our Web site at **www.cra.gc.ca/alternate** or by calling **1-800-267-1267** weekdays from 8:15 a.m. to 5:00 p.m. (Eastern time).

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

Table of Contents

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.

The FSUs administer or provide access to all Canada Revenue Agency (CRA) programs dealing with film production in Canada and foreign location filming in Canada. Their responsibilities include dealing with tax matters related to non-resident actors and behind-the-scenes personnel, as well as the federal tax credit programs for Canadian and non-resident film productions.

Contact us

- For services performed in British Columbia, Alberta, Saskatchewan, and Manitoba:

  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 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 954-0534 (waivers/actors)

  Fax: (416) 954-852 (waivers/actors)

- For services performed in Quebec, Prince Edward Island, New Brunswick, Nova Scotia, and Newfoundland and Labrador:

  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

Internet access

For more information, visit our Web site at **www.cra.gc.ca/fis**. You may want to bookmark this address for easier access to our site in the future.

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 our Web site at **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
  www.cra-arc.gc.ca/tax/business/topics/gsthst
- customs (Canada Border Services Agency)
  www.cbsa.gc.ca

General information

Initialisms

In this guide, we use the initialisms listed below.

AP	accredited production
CAVCO	Canadian Audio-Visual Certification Office
CLE	Canadian labour expenditure
CRA	Canada Revenue Agency
EPC	eligible production corporation
FSU	Film services unit
FTC	Canadian film or video production tax credit
PSTC	film or video production services tax credit
QCLE	qualified Canadian labour expenditure

References

The legislation governing the film or video production services tax credit (PSTC) is given in section 125.5 of the *Income Tax Act* and in section 9300 of the *Income Tax Regulations*. The PSTC rules came into effect on June 18, 1998. The PSTC replaced the former system of production services tax shelters.

For your reference, the following provisions may apply to your claim for a PSTC.

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(a), 152(1)(b), 157(1)(b), 157(3)(e), and 163(2)(f)

Income Tax Regulations

Sections 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: Cl. 10(r, s, and w)

Other tax incentives

Federal

Canadian-based film and television producers may also be eligible for the Canadian-content-based Canadian film or video production tax credit (FTC). For more information on the FTC, see our publication called *Claiming a Canadian Film or Video Production* (RC4164), available at **www.cra.gc.ca/E/pub/tg/rc4164**.

An eligible production corporation (EPC) may claim a PSTC under section 125.5 of the *Income Tax Act* for a production. If so, the EPC cannot claim the FTC under section 125.4 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. You will find the telephone numbers listed in the "Government" section of your telephone directory (or on our Web site at **www.cra.gc.ca/taxcredit/pstc/provfilm-e.html.**

Rates

The rate of the PSTC depends on whether you are subject to the old rules in effect before February 19, 2003, or eligible to use the new rules in effect after February 18, 2003.

Before February 19, 2003 (old rules)

This refundable tax credit is provided to an EPC at the rate of 11% of its qualified Canadian labour expenditures (QCLE) for a production, net of any assistance received.

After February 18, 2003 (new rules)

This refundable tax credit is provided to an EPC at the rate of 16% of its QCLE for a production, net of any assistance received.

Limit

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

Comparison with the FTC

The FTC rate is set at 25% of qualified labour expenditures, which cannot be more than 60% of the cost of the film. This yields a benefit to claimants of 15% (that is, 25% of 60%) of the total cost of production (net of assistance).

The PSTC rate is set at 16% of the QCLE (net of assistance).

Example

- Production costs (net of assistance) $1,400,000
- Labour expenditures or Canadian labour expenditures (included in the production costs) $700,000

FTC	PSTC
25% of the qualified labour expenditure [lower of 60% of the cost of the production (60% of $1,400,000 = $840,000) and the amount of labour expenditure ($700,000)]	16% of the qualified Canadian labour expenditure (net of assistance).
25% × $700,000 = **$175,000**	16% × $700,000 = **$112,000**

Administration

Canadian Heritage's Canadian Audio-Visual Certification Office (CAVCO) and the CRA jointly administer the PSTC program.

CAVCO is responsible for:

- confirming that a production is an accredited production (AP)
- confirming the copyright owner of the AP
- issuing accredited film or video production certificates (Accreditation Certificate) so that Canadian producers can claim the PSTC

The Accreditation Certificate may be issued either before or during production, to allow for the financing of the film or the claiming of the tax credit.

> **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 PSTC being disallowed to the EPC and any previously paid PSTC being recaptured.

The CRA is responsible for:

- helping applicants
- interpreting and applying section 125.5 and all other provisions of the *Income Tax Act* and *Income Tax Regulations* that may affect a PSTC
- reviewing PSTC claims
- assessing T2 corporation income tax returns
- issuing timely refund cheques

Application process

To apply for the PSTC, you must:

- apply to CAVCO for an Accreditation Certificate. Application forms are available at **www.pch.gc.ca/cavco;**
- complete Form T1177*, Claiming a Film or Video Production Service Tax Credit*, available at **www.cra.gc.ca/E/pbg/tf/T1177**;
- attach the following documents to the **front** of your *T2 Corporation Income Tax Return* for the year:
  - the CAVCO Accreditation Certificate (or a copy); and
  - a completed Form T1177; and
- send your return and attachments to your tax centre. On receipt, the tax centre will send your claim to your tax services office. The tax services office 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 Accreditation Certificate, information slips, documentation, and records for your income tax return for at least **six years**.

Processing time

At the CRA, we are committed to:

- Promptly reviewing claims for PSTCs
- keeping confidential the information businesses provide
- providing courteous service

If we do not audit your PSTC claim, we can usually issue a cheque within 60 days of receiving a complete claim. When we audit the PSTC 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 Form T1177 and the CAVCO Accreditation Certificate are attached to your corporation's income tax return, your claim is considered **complete** and the tax centre will forward it at once to the contact person at your FSU.

If Form T1177 or the CAVCO Accreditation Certificate is missing, your claim will be considered **incomplete** and processing will be delayed. We will ask for the missing material and you will have 30 days to send it to the FSU. If the FSU does not receive the requested information within 30 days, we may process the return without the PSTC.

Assignment of credit

The PSTC may be assigned to lenders as security for bridge financing of the EPC. This is provided for under subsections 220(6) and (7) of the *Income Tax Act*.

The assignment of the PSTC does not affect legal rights of set-off in our favour. In other words, we have no obligation to 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 continue to issue the refund cheque in the name of the EPC.

You may want us to send your refund cheque to an address other than your regular mailing address. If so, send with your T2 return a letter that gives the address to which you want the cheque to be sent.

Audit process

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

- the corporation's books and records;
- agreements between the EPC or any other related corporations and Telefilm Canada, Société de développement des entreprises culturelles, financial institutions, and any other agency about financing and distribution of the production;
- agreements between actors, producers, directors, and other persons and the EPC;
- the minute book of the EPC 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 EPC's claim(s) for the PSTC for a given year. However, other items that could have an impact on the tax credit claimed by the corporation may also be audited. At the end of the audit, we will send you a letter to let you know that the audit is complete.

We may conduct a second audit of a PSTC 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;
- the certificate issued by CAVCO is revoked; or
- unusual circumstances affecting the PSTC arise after the end of the corporation's tax year.

We may also select the EPC's T2 return for audit under our regular audit program. In that case, the PSTC will not be re-audited unless one of the above-mentioned situations applies.

Objecting to an unfavourable outcome

You can generally have us reconsider a tax assessment by filing an objection, if:

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

In such a situation, the Appeals Branch 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, certifies that a production is an AP. For a production to qualify for the PSTC, the owner of the copyright (or an official designee, if the copyright owner is not an EPC) must apply for the Accreditation Certificate. These documents and accompanying guidelines are available from CAVCO's Web site at **www.pch.gc.ca/cavco.**

Section 9300 of the *Income Tax Regulations* stipulates that to qualify as an AP, the production must meet certain prescribed requirements as follows:

Cost minimums

To qualify as an AP, the film or video production or a film or video production that is part of a television series must meet the following minimum cost requirements:

Film or video production	**Television series**
including feature films	more than one episode or a pilot for such a series
■ Total cost must be more than $1,000,000 for the 24-month period after the start of the main photography	■ Total cost for each episode must be more than $100,000 for an episode shorter than 30 minutes ■ $200,000 for any other episode

Note
Each episode in a television series is considered an individual production that must satisfy the minimum cost and eligible genre requirements.

Excluded productions

A production will not be eligible for the PSTC if it falls within the list of excluded genres as follows:

- news, current events, or public affairs programming, or programme that includes weather or market reports
- talk show
- production in respect of a game, questionnaire, or contest
- 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

An EPC can claim the PSTC for an AP if:

- the EPC owns the copyright in the AP throughout the entire period of its production in Canada;

or

- if the owner of the copyright is not an EPC, the EPC has contracted directly with the owner of the copyright to provide production services for the production.

For the PSTC, the owner or an owner of the copyright is the person or entity who has the rights to produce the AP (based on the acquisition of the underlying rights) and exploit that production for which the rights were acquired.

How to complete Form T1177

The following sections contain detailed explanations of the information that you have to provide on each line of Form T1177. We recommend that you read the explanation for each line as you complete the form.

Part 1 – Corporate information

Corporate name

Enter the registered corporate name of the EPC.

Business Number

Enter the Business Number of the EPC.

Line 151 – Contact person's name

Enter the name of the person in charge of financial information for the overall claim (for example, 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 beginning 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

Enter the title of the AP as shown on the Accreditation Certificate issued by CAVCO.

Line 302 – Date

Enter the date on which the main filming or taping began.

Line 303 – CAVCO reference number (TC)

Enter the CAVCO reference number as shown on the Accreditation Certificate issued by CAVCO.

Lines 304, 305, and 306 – CAVCO certificate number (AC)

Enter the certificate number beginning with the letters AC. This number is the same as the one shown on the Accreditation Certificate. For a series of episodes, enter the certificate numbers on lines 305 and 306.

Part 3 – Eligibility

To claim the PSTC, the corporation must be an **eligible production corporation** (EPC) and the film or video production must be an **accredited production** (AP), as explained below.

Accredited production

An AP is a film or video production or television series, other than an excluded production (see "Excluded productions" on page 9), that is:

- a film or video production that meets prescribed requirements (see "Cost minimums" on page 9); or
- a television series that meets prescribed requirements (see section see "Cost minimums" on page 9).

Eligible production corporation

An EPC is a corporation whose activities throughout the year consist primarily of conducting a **film or video production business** or a **film or video production services business** through a **permanent establishment** in Canada.

- The *Income Tax Act* does not define a film or video production business. Such a business is one that produces films or videos. Neither does the Act define a film or video production services business. That type of business is one that subcontracts with a film or video production business to produce films or videos.

  To qualify for the PSTC, a corporation's activities must consist primarily—more than 50% of the time—of conducting a business that is a film or video production business, or a film or video production services business.

  We will look at, among other things, all sources of revenue the corporation generates to determine whether its activities are primarily the carrying on of a business that is a film or video production business or a film or video production services business. For example, a corporation may not be considered an EPC if it gets significant revenue from activities such as:

  – renting equipment;

  – operating a studio;

  – distributing films or videos; or

  – producing films or videos that do not qualify as APs.

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

In addition, an EPC at any time in the year, cannot be:

- a person (such as a non-profit or charitable corporation) who is exempt from tax under Part I of the Act;
- a corporation that is controlled directly or indirectly in any way by one or more persons who are exempt from tax under Part I of the Act; or
- a prescribed labour-sponsored venture capital corporation for the purposes of section 127.4 of the Act.

To determine if a corporation meets the eligibility requirements, you have to answer the following four questions:

Question 1 – Were the corporation's activities 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 an EPC and is not eligible for the PSTC.

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

See the statement at Question 4.

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

See the statement at Question 4.

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

If you answer *yes* to Questions 2, 3, or 4, the corporation is not an EPC and is not eligible for the PSTC.

Part 4 – Determining the qualified Canadian labour expenditure and tax credit using the rules in effect before February 19, 2003

and

Part 5 – Determining the qualified Canadian labour expenditure and tax credit using the rules in effect after February 18, 2003

The instructions for these two parts are the same, except for the dates. Rather than repeat the instructions each time, we have added the relevant dates and corresponding line numbers in brackets where appropriate. The following table shows you which instructions to follow:

Part 4	Part 5
For Canadian labour expenditures incurred **before February 19, 2003**	For Canadian labour expenditures incurred **after February 18, 2003**
Complete lines 501 to 520.	Complete lines 601 to 620.

Labour expenditure in the tax year (lines 501 to 509 and 601 to 609)

The CLE you enter on lines 501 to 509 (601 to 609) must be:

- reasonable in the circumstances;
- included in the cost of the property for the corporation or, in the case of depreciable property, in its capital cost;
- incurred 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 year, or no later than 60 days after the end of the 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 employee, the **look-through approach** may be used to determine the reasonableness of the CLE. This approach limits the amount of remuneration that may qualify as a CLE to the amount that would have been incurred by the EPC had it directly employed the individuals.

In applying this approach:

- The EPC must obtain from the service provider the amount of salary or remuneration paid to the employee. This amount should qualify as a CLE directly attributable to the production.

or

- If the EPC cannot get the amount of salary or remuneration 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 CLE 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 an EPC has claimed an amount greater than 65%, it must provide enough evidence to support that percentage.

60-day rule

The CLE of an EPC for the current year does not include salary, wages, or other remuneration for services provided in the preceding tax year but paid for in the first 60 days of the current year. This ensures that the amounts paid in the first 60 days of the current year, which were allowable in the preceding year, are not claimed again in the current year.

Line 501 (Line 601) – Salary or wages

Enter the salary or wages paid to the employees of the EPC who are Canadian residents for the production in Canada.

Salary or wages paid to non-resident employees are **not** eligible. Also, salaries or wages paid to Canadian residents who perform services outside of Canada are **not** eligible.

The salary or wages of an EPC include amounts paid to employees such as vacation pay, statutory holiday pay, sick leave pay, and taxable benefits (e.g., corporation's contribution to the employees' registered retirement savings plan, group insurance plan, and meals).

Salary or wages do not include:

- stock options or amounts determined in relation to profits or revenues;
- employer's part of the payments to the Canada Pension Plan, the Quebec Pension Plan, or the Employment Insurance Commission; or
- employer's part of the payments to worker's 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 (Line 603) – Other remuneration paid to individuals resident in Canada

Enter the part of the non-salaried remuneration to be included as CLE that is paid to Canadian residents who are not employees of the EPC, for services provided for the production in Canada.

Remuneration paid to non-resident individuals is **not** eligible. Also, remuneration paid for services provided outside of Canada is **not** eligible.

The EPC can include as remuneration amounts that the individual pays to a Canadian resident employee, for services the employee provided for the production, to the extent that the amount is paid as salary or wages to the employee (look-through approach).

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

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 603. ABC Ltd. may also include on line 603, remuneration paid to 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 to rent the two cameras.

The cost associated with the rental of the cameras, and the profit element, will be included in the cost of production or, for depreciable property, the capital cost to the EPC of the production at the end of the year.

Line 505 (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 rendered in Canada.

If the remuneration includes amounts for employees of the taxable Canadian corporation, the allowable remuneration is limited to the amount paid to Canadian resident employees as salary or wages for services provided in Canada for the production.

Line 506 (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 solely owned by an individual resident in Canada (except directors' qualifying shares).

In calculating the allowable remuneration, you have to first determine whether the activities of the taxable Canadian corporation are **mainly** (more than 50% of the time) the providing of 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% condition applies, the allowable remuneration of the shareholder is the amount paid to the taxable Canadian corporation for services provided by the shareholder resident in Canada. The allowable remuneration may include a profit element, but the look-through approach previously explained would not apply.

  However, if the remuneration includes amounts for employees of the taxable Canadian corporation, the allowable remuneration is limited to the amount paid to Canadian resident employees as salary or wages for services provided in Canada for the production.
- If the more-than-50% condition does **not apply**, the rules identified at line 505 apply.

For lines 505 and 506, do not include remuneration paid to **non-taxable** Canadian corporations and foreign corporations in the remuneration of the EPC—even if the amounts are part of the production cost. Please note that some Canadian broadcasters are not taxable Canadian corporations.

Line 507 (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 EPC can include as remuneration payments made to an individual resident in Canada who is a member of the partnership (a partner), for services provided in Canada for the production.

If the remuneration includes amounts for employees of the partnership, the allowable remuneration is limited to the amount paid to Canadian resident employees as salary or wages for services provided in Canada for the production.

Line 509 (Line 609) – Reimbursement by a wholly owned corporation to its parent corporation

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

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

Example
The parent corporation has a December 31, 2004, year-end and incurs costs for the EPC between January 1, 2004, and December 31, 2004. All costs are paid no later than 60 days

after the parent's year-end. The subsidiary has a July 31, 2005, year-end and reimburses the parent no later than 60 days after its year-end.

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

Line A – Canadian labour expenditure for the tax year

Enter the total of lines 501 to 509 (lines 601 to 609). This amount represents the CLE of the EPC for the current tax year.

Line 511 (Line 611) – Canadian labour expenditures for all previous taxation years

Enter the CLE for all previous tax years incurred before February 19, 2003, on line 511 or incurred after February 18, 2003, on line 611.

Line B – Total Canadian labour expenditures

Enter the total of line A and line 511 (line 611). This amount represents the CLE for the current and previous years.

Line 512 (Line 612) – 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 since the start of the main photography. 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 EPC is considered assistance.

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

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

Line 513 (Line 613) – Qualified Canadian labour expenditures for all previous tax years

Enter the QCLE of the EPC for all previous tax years. If an AP continues through more than one tax year, the deduction of the QCLE will ensure that no PSTC is allowed on amounts that have already earned a PSTC.

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

Line 515 (Line 615) – Canadian labour expenditure that a parent corporation transferred under a reimbursement agreement to a wholly-owned subsidiary corporation

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

Line C – Add lines 512 to 515

Enter the total of lines 512 to 515 (line 612 to 615).

Line 518 (Line 618) – Qualified Canadian labour expenditure

Enter the difference between the amount on line C and the amount on line B. This is the EPC's QCLE at the end of the AP's tax year.

Line 520 (Line 620) – Film or video production services tax credit

Enter the result of multiplying the QCLE on line 518 (line 618) by the PSTC rate of 11% (16%) on line H. This is the EPC's PSTC for the year.

Enter the amount from line 520 (line 620) on line 797 of your *T2 Corporate Tax Return*. If you are filing more than one of these forms, enter the cumulative amounts.

Note
The PSTC is fully refundable to the EPC. However, if a corporation has other unpaid liabilities to the Crown, the PSTC will be used to reduce those liabilities. We will refund any balance.

The PSTC claimed is considered assistance received in the year for the purposes of determining the income of the EPC. Either the amount must be included in income or, if the AP is depreciable property, the amount must reduce the capital cost of the property for capital cost allowance purposes.

Certification and date

Line 550 and 555

You need only one person who is an authorized signing officer of the corporation to certify the information on Form T1177. Please indicate the date that the form has been completed.

Your opinion counts!

We review our income tax guides and pamphlets each year. If you have comments or suggestions to help us improve our publications, we would like to hear from you.

Please send your comments and suggestions to:

Client Services Directorate
Canada Revenue Agency
Lancaster Road
Ottawa ON K1A 0L5