Canada Revenue Agency | Agence du revenu du Canada

Canadian Film or Video Production Tax Credit

Guide to Form T1131

RC4164(E) Rev. 13

Canada

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

What's new?

This guide and Form T1131, *Canadian Film or Video Production Tax Credit*, have been updated to accommodate most of the Canadian film or video production tax credit (CPTC) claims that are currently filed with the Canada Revenue Agency (CRA).

The guide and Form T1131 include only those rules that were introduced on November 14, 2003.

If you need to file a CPTC claim based on the rules that existed before November 14, 2003, refer to the previous versions of this guide and Form T1131 available on the CRA Web site at: **www.cra.gc.ca/E/pub/tg/rc4164** and **www.cra.gc.ca/E/pbg/tf/t1131**.

Table of contents

Before you start

This guide contains information and instructions on how to complete Form T1131, *Canadian Film or Video Production Tax Credit*. To make sure that your Canadian film or video production tax credit (CPTC) is calculated correctly, it is important that you carefully review the information in this guide.

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

Internet access

Form T1131 and additional information on the CPTC is available on our Web site at **www.cra.gc.ca/filmservices**.

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**.

At your service

Film services units

Our services

The film services units (FSUs) are available to answer your questions relating to the CPTC.

For more information, visit the CRA Web site at **www.cra.gc.ca/tx/nnrsdnts/flm/mm-eng.html**.

Contact us

FSUs are located within the following CRA tax services offices:

- Servicing the province of British Columbia:

  Vancouver Tax Services Office
  Film Services Unit
  Mailing address:
  Section 1227-443-29, CEW-02
  9755 King George Boulevard
  Surrey BC V3T 5E1

  Telephone: **604-666-7911**
  Fax: 604-666-7436

- Servicing the provinces of Alberta, Saskatchewan, and Manitoba:

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

  Telephone: **306-780-8245**
  Fax: 306-780-3312

- Servicing the province of Ontario, the Yukon, Nunavut, and the Northwest Territories:

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

  Telephone: **416-973-3407** or **416-954-0542**
  Fax: 416-954-2013

- Servicing the province of Quebec:

  Montréal Tax Services Office
  Film Services Unit
  305 René-Lévesque Boulevard West, 8th floor
  Montréal QC H2Z 1A6

  Telephone: **514-496-2231**
  Fax: 514-283-1174

- Servicing the provinces of Prince Edward Island, New Brunswick, Nova Scotia, and Newfoundland and Labrador:

  Nova Scotia Tax Services Office
  Film Services Unit
  Mailing address:
  P. O. Box 638
  Halifax NS B3J 2T5

  Telephone: **902-426-5294**
  Fax: 902-426-1431

Other services

Information on these five other related topics is available on the following Web sites/pages:

- income taxes
  www.cra.gc.ca
- non-resident actors
  www.cra.gc.ca/nonresidentactors
- non-resident behind-the-scenes (BTS) personnel
  www.cra.gc.ca/tx/nnrsdnts/flm/bts/menu-eng.html
- the goods and services tax/harmonized sales tax (GST/HST)
  www.cra.gc.ca/gsthst
- customs (Canada Border Services Agency)
  www.cbsa.gc.ca

General information

References

The legislation governing the Canadian film or video production tax credit (CPTC) is in section 125.4 of the *Income Tax Act* and in section 1106 of the *Income Tax Regulations*.

Other tax incentives

Federal

Film or video productions may also be eligible for the film or video production services tax credit (PSTC). However, if you claimed a CPTC for a production, you cannot claim the PSTC for the same production.

Information about the PSTC is available on our Web site at **www.cra.gc.ca/filmservices**.

Provincial or territorial

Provincial or territorial incentives may also be available for your film or video productions. For more information, go to **www.cra.gc.ca/tx/nnrsdnts/flm/lnks-eng.html**.

Rate

The CPTC is a refundable tax credit equal to **25%** of the qualified labour expenditure. The qualified labour expenditure is the lesser of the amount of labour expenditures and **60%** of the net production cost (production cost minus any assistance received, receivable, or entitled to receive).

There is no limit on the amount of CPTC that you can receive for a production.

Certification process

To get a CPTC, you must first apply to the Canadian Audio-Visual Certification Office (CAVCO) of Canadian Heritage for a Canadian Film or Video Production Certificate (Part A) and/or a Certificate of Completion (Part B). Visit CAVCO's Web pages at **www.pch.gc.ca/cavco** to submit your application online and to access other important information pertaining to the Canadian Film or Video Production Tax Credit Program.

CAVCO application deadlines

There is no specific deadline to apply for a Canadian Film or Video Production Certificate (Part A). However, keep in mind that to get a CPTC refund, you must file with the CRA the CAVCO certificate and a completed Form T1131 with the *T2 Corporation Income Tax Return* (T2 return) no later than **three years** after the end of the corporation's tax year.

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

An additional **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 production's principal photography began has not been assessed by the CRA; or
- the qualified corporation files with the CRA a valid Form T2029, *Waiver in respect of the normal reassessment period or extended reassessment period*, within the normal reassessment period for the qualified corporation (three years after the date of the notice of assessment) for the first (and second, if applicable) tax year ending after the production's principal photography began.

To get Form T2029, go to **www.cra.gc.ca/E/pbg/tf/t2029**. The completed Form T2029 should be sent to:

Manager, Film and Media Tax Credits Section
16th Floor, Canada Building
344 Slater Street
Ottawa ON K1A 0L5

> **Note**
> Failure to meet the final application deadline will result in CAVCO revoking a previously issued Part A certificate or refusing a Part A/B application. If a certificate is revoked, it is considered to have never been issued. Consequently, any previously issued CPTC refunds for the production will be recaptured by the CRA.

Filing your claim

To claim a CPTC, include the following with your T2 return for the tax year:

- a copy of the Canadian Film or Video Production Certificate (Part A) and, if applicable, the Certificate of Completion (Part B) issued by CAVCO for each Canadian film or video production; and
- a completed Form T1131, *Canadian Film or Video Production Tax Credit*, for each Canadian film or video production. Form T1131 is available at **www.cra.gc.ca/E/pbg/tf/t1131**.

File the T2 return and attachments with your tax centre. A list of the tax centres is available at **www.cra.gc.ca/cntct/t2ddr-eng.html**.

If you are filing electronically, submit a paper copy of the CAVCO certificates (Part A and/or Part B) to the appropriate FSU. The location of the production corporation's books and records usually determines which FSU will handle the review of your claim.

> **Note**
> If the books and records are maintained outside of Canada your claim will be reviewed by the Vancouver FSU.

You must keep information slips, documentation, and records relating to your income tax return for at least **six years**.

Service standards

The CRA is committed to reviewing T2 returns that include a CPTC claim in accordance with the following service standards:

- When no audit is undertaken, our goal is to review the T2 return within 60 calendar days from the date we receive a complete claim.
- When an audit is undertaken, our goal is to review the T2 return within 120 calendar days from the date we receive a complete claim.

Our target is to meet these standards at least 90% of the time.

Complete claim

A CPTC claim is considered **complete** when all of the following documentation is filed with the CRA:

- a *T2 Corporation Income Tax Return*;
- a completed Form T1131, *Canadian Film or Video Production Tax Credit*, for each eligible production; and
- a copy of the Canadian Film or Video Production Certificate (Part A) or the Certificate of Completion (Part B) issued by CAVCO for each Canadian film or video production.

When multiple federal and/or provincial film or media tax credit claims are filed with the T2 return, **all** tax credit claims must be considered **complete** before the CRA service standards apply.

Example
If you are filing for a CPTC and a provincial film tax credit, such as the Ontario film and television tax credit (OFTTC), both claims will be considered complete when **all** of the following documentation is filed with the CRA:

- a *T2 Corporation Income Tax Return*;
- a completed Form T1131 for each Canadian film or video production;
- a copy of the Canadian Film or Video Production Certificate (Part A) or the Certificate of Completion (Part B) issued by CAVCO for each eligible production;
- a completed T2SCH 556, *Ontario Film and Television Tax Credit*, for each eligible production; and
- a copy of the Certificate of Eligibility issued by the Ontario Media Development Corporation for each eligible production.

Assignment of credit

The CPTC may be assigned to lenders as security for bridge financing of the Canadian film or video production. This is provided for under subsections 220(6) and (7) of the Act.

Assigning the CPTC 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 qualified corporation.

If you want the CRA to send your refund cheque to an address other than your regular mailing address, include a letter with your T2 return requesting this and ensure that you provide the address.

Audit process

If your CPTC claim is selected for an audit, we may request any of the following documentation to support your claim:

- information to support the application filed with CAVCO;
- the books, records, and supporting documents of the qualified corporation;
- financing, broadcast, and distribution agreements between the qualified corporation, or any other related corporations, and Telefilm Canada, financial institutions, and any other agency, organization, or person;
- agreements and contracts between actors, producers, directors, and other persons (for example, employees or third-party service providers) and the qualified corporation;
- the minute book of the qualified corporation and any related corporations; and
- any other documents that may be needed to support your claim.

Scope of the audit

If your CPTC claim is selected for an audit, we may decide to restrict our audit to specific issues or to complete a detailed audit of the CPTC and other film and media tax credits claimed. Our audit may also include verifying income, capital cost allowance, and other items included on the T2 return.

We may also conduct a subsequent audit of the CPTC claim if any of the following situations occurs:

- an expenditure for salary, wages, or other remuneration was included in the production cost but was not paid within 180 days after the end of the corporation's tax year;
- fraud or misrepresentation of the facts is identified;
- CAVCO requests that the CRA audit items that may impact previously issued certificates; or
- unusual circumstances affecting the CPTC arise after the end of the corporation's tax year.

Note
The qualified corporation's T2 return may also be selected for an audit under our regular audit program. If it is, the CPTC will not be re-audited unless one of the situations described above applies.

Objecting to an income tax assessment or reassessment

If you think the CRA has misinterpreted the facts or applied the law incorrectly, you have the right to object to most income tax assessments and reassessments.

For more information, go to **www.cra-arc.gc.ca/gncy/cmplntsdspts/ncmtx-eng.html**.

Canadian Audio-Visual Certification Office

The Minister of Canadian Heritage, through the Canadian Audio-Visual Certification Office (CAVCO), provides certification for an eligible production, confirming that it meets the requirements of the Canadian Film or Video Production Tax Credit Program.

More information is available on CAVCO's Web pages at **www.pch.gc.ca/cavco**.

Section 1106 of the Regulations stipulates that to qualify as a Canadian film or video production, a production must meet the following 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, and 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 from the start of the production to the completion of post-production, without interruption.

A "Canadian" is defined as a Canadian citizen according to the *Citizenship Act*, a permanent resident according to the *Immigration and Refugee 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 lead performer (Note 2)	1 point
■ Second-highest-paid lead performer (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
Either the highest-paid or the second-highest-paid lead performer 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 (done in Canada)	1 point
■ Music composer	1 point
■ Picture editor	1 point
■ Layout and background (done in Canada)	1 point
■ Key animation (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-paid or the second-highest-paid lead voice must be a Canadian.

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 the key creative personnel (in point 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 CPTC if it falls within the following list of excluded genres:

- news, current events, or public affairs programming, or programs that include weather or market reports;
- talk shows;
- productions for a game, questionnaire, or contest (other than productions directed primarily at minors);
- sports events or activities;
- gala presentations or awards shows;
- productions that solicit funds;
- reality television;
- pornography;
- advertising;
- productions produced primarily for industrial, corporate, or institutional purposes; and
- productions, other than documentaries, all or most of which consist of stock footage.

A production will also be excluded if:

- the qualified corporation has not filed an application for a Certificate of Completion (Part B) before the production's application deadline (see "CAVCO application deadlines" on page 6);
- CAVCO has not issued a Certificate of Completion (Part B) 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 within two years following the completion of the production.

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

- is the exclusive worldwide copyright owner of the production, for all commercial exploitation purposes, for at least 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 10) 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 under the Canadian Film or Video Production Tax Credit 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 Canadian Film or Video Production Tax Credit Program, a producer must apply to CAVCO. For a list of participating countries, visit Telefilm Canada's Web site at **www.telefilm.gc.ca**.

How to complete Form T1131

This section contains information to help you complete Form T1131. Read the explanation for each line as you complete the form.

Corporate information

Name of corporation

Enter the name of the qualified corporation.

Business number

Enter the business number of the qualified corporation.

Tax year-end

Enter the tax year-end date of the qualified corporation.

Part 1 – Contact information

Line 151 – Name of person to contact for more information

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 and be an authorized representative.

To get Form T1013, *Authorizing or Cancelling a Representative*, go to **www.cra.gc.ca/E/pbg/tf/t1013**.

Line 153 – Telephone number

Enter the telephone number, including area code, of the contact person.

Part 2 – Identifying the Canadian film or video production

Line 301 – Title of production

Indicate the title of the Canadian film or video production as shown on the certificate issued by CAVCO (Part A or Part B).

Line 302 – Date principal photography began

Enter the date on which the principal photography began.

You can claim a CPTC if principal photography began in the tax year for which you are filing Form T1131 or in a previous tax year. If principal photography began after the tax year for which you are filing Form T1131, you will only be able to claim a CPTC on the production cost and labour expenditure in the following or a subsequent tax year.

Line 303 – CAVCO reference number (for a certificate issued before April 1, 2010)

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

> **Note**
> The CAVCO reference number no longer exists for productions certified after March 31, 2010.

Lines 304, 305, and 306 – CAVCO certificate number

Enter on line 304 the CAVCO certificate number shown on the certificate (Part A or Part B).

For CAVCO certificates pertaining to a series of episodes that were issued before April 1, 2010, enter the range of CAVCO certificate numbers on lines 305 and 306. Otherwise, for CAVCO certificates issued on or after April 1, 2010, enter the CAVCO certificate number on line 304.

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

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

If the production is a Canadian co-production, each qualified corporation must claim its own CPTC based on its share of expenditures.

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

A production is 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 list of official treaty co-productions. If the production is not a treaty co-production, tick the "No" box and proceed to the next question.

If the production is a treaty co-production, the qualified corporation and the foreign corporation will each own a percentage of the copyright of the production. The qualified corporation must calculate its production cost and its labour expenditure based on its interest in the production.

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

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 made 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 Canadian film or video productions;

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

e) a non-resident person who does not carry on a business in Canada through a permanent establishment in Canada, when 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:
   - that is a registered charity to which paragraph 149(1)(f) of the Act applies;
   - that has a fund that is used to finance Canadian film or video productions, all or substantially all (90% or more) of which financing is provided by way of a direct ownership interest in those productions; and
   - that, after 1996, has received donations only from persons described above in (a) to (e).

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

If the production is co-owned by a **prescribed person**, also include in the production cost those production expenditures incurred by the qualified corporation for or on behalf of the prescribed person.

Part 3 – Eligibility

To be eligible to claim the CPTC, the corporation must be a **qualified corporation** and the film or video production must be a Canadian film or video production, as explained below.

Canadian film or video production

A Canadian film or video production 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 the following prescribed requirements:

- 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 and 9 for "Canadian producer," "Canadian production," and "Canadian expenditures" that apply to the type of production in question.

Qualified corporation

A qualified corporation 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 by 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 Act. Such a business is one that produces films or videos that are certified by CAVCO. To qualify for the CPTC, a corporation's activities must consist primarily (more than 50% of its activities) of conducting a business that is a Canadian film or video production business.

To determine whether the activities of a corporation consist primarily of carrying on a business that is a Canadian film or video production business, all the facts surrounding each of the various activities undertaken by the corporation must be examined and compared.

The following is a non-exhaustive list of factors that may be considered:

- the profits realized from each of the corporation's activities;
- the volume and value of the gross sales or transactions from each activity;
- the value of the assets devoted to each activity;
- the capital used in each of the corporation's activities; and
- the time, attention, and efforts the employees, agents, or officers of the corporation spend on each activity.

Consequently, if the business of a corporation primarily includes other activities such as renting equipment or studios or distributing films or videos, it may not be considered a qualified corporation for the purposes of the Canadian Film or Video Production Tax Credit Program. Furthermore, if the corporation produces films or videos that do not qualify as Canadian film or video productions, the corporation may also not be considered a qualified corporation. It is therefore possible that a corporation will be denied the CPTC because of its activities in the year.

- A **permanent establishment** usually refers to a fixed place of business, including an office, a branch, a workshop, or a warehouse, and, when the person does not have a fixed place of business, the principal place at which the person's business is conducted. Refer to section 8201 of the Regulations for more information.

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

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 qualified corporation. Therefore, the corporation is not eligible for the CPTC.

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 comments for 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 comments for Question 4.

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

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

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

If you answer **yes** to this question, you are not eligible to claim the CPTC.

Part 4 – Production commencement time

To be eligible for the CPTC, the labour expenditures for the Canadian film or video production must be incurred from the production commencement time to the end of the post-production stage (see "Part 6 – Qualified labour expenditure" on page 13).

The production commencement time describes the time that is the earlier of:		
Line 651: the date the principal photography of the Canadian film or video production began	or	The **latest** of: ■ **Line 652:** the date the qualified corporation or its parent corporation first incurred labour expenses for the development of the script material for the Canadian film or video production (see note below) ■ **Line 653:** the date the qualified corporation or its parent corporation first acquires a right to the story that is the basis of the final script (such rights might include a published literary work, play, or screenplay) ■ **Line 654:** two years before the date the principal photography of the Canadian film or video production began

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

Part 5 – Production cost limit

Line 421 – Cumulative production cost as at the end of the tax year

Enter the total amount of expenditures that is included in the qualified corporation'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 for any other person or partnership if the expenditures were incurred by the qualified corporation on their behalf. However, do not include expenditures on behalf of a co-producer of the Canadian film or video production if the co-producer is another qualified corporation. Each qualified corporation must claim 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 production costs include:

- development costs, including the cost to purchase the 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 distribution costs; or
- deferred amounts that are contingent liabilities (dependent on a future event). However, if the deferred amount becomes a legitimate liability of the qualified corporation, 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 – Total government or non-government assistance that the corporation has not repaid

Enter the cumulative government and non-government assistance received, receivable, or entitled to receive 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 Canadian film or video production is considered assistance.

Note 1
A forgivable loan generally means that the lender agrees to forgive the loan under specific conditions, such as the production not reaching a certain revenue target.

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

Note 3
An equity participation in a Canadian film or video production by a government, municipality, or other public authority is considered assistance.

Subtotal – Amount C

Enter the difference between line 421 and line 423.

Calculation – Amount D

Enter 60% of amount C.

Line 427 – Qualified labour expenditures for all previous tax years

Enter the qualified labour expenditures of the qualified corporation for all previous tax years. If a production continues through more than one year, deduct the qualified labour expenditures of the previous tax years to ensure that no CPTC is claimed on amounts that have already earned the CPTC.

Note
The amount of the qualified labour expenditure 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 amount D and line 427.

Part 6 – Qualified labour expenditure

Labour expenditure for the tax year

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

- reasonable in the circumstances;
- included in the cost, or in the case of depreciable property the capital cost, of the Canadian film or video production to the qualified corporation or any other person or partnership (except another qualified corporation);
- incurred by the qualified corporation for the production stages of the property, from the production commencement time to the end of the post-production stage;
- directly attributable to the Canadian 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.

See page 14 for more information on Canadian citizenship and residency.

Line 601 – Salary or wages paid that are directly attributable to the production

Enter the salary or wages paid to the employees of the qualified corporation who are Canadian residents or Canadian citizens when they provide services for the production.

The salary or wages of a qualified corporation 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' registered retirement savings plan, 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).

Lines 603 to 607 – Remuneration directly attributable to the production and paid to:

Line 603 – Individuals

Enter the remuneration paid to an individual who is not an employee of the qualified corporation for services personally rendered for the production when the individual was a Canadian resident or a Canadian citizen. If the remuneration paid is for services personally rendered by the individual's employee when the employee was a Canadian resident or a Canadian citizen, enter only the amount of **salary** or **wages** paid to the employee for rendering these services (using the look-through approach described on page 14).

Example
Mr. Lewis is a Canadian citizen and a self-employed camera operator. ABC Ltd., a qualified corporation for purposes of the CPTC, pays Mr. Lewis total remuneration of $20,000 during the year for services that were directly attributable to a production. Since these services were rendered equally by Mr. Lewis and his employee, a camera operator who resides in Canada, the portion of remuneration that is attributable to their services is $10,000 each. The amount of salary or wages paid by Mr. Lewis to his employee for rendering these services totalled $7,000. As a result, ABC Ltd. can only include remuneration totalling $17,000 on line 603.

Line 605 – Other taxable Canadian corporations

Enter the remuneration paid to other taxable Canadian corporations, to the extent that the amount paid is attributable to and does not exceed the salary or wages of the other corporation's employees (who at the time were Canadian residents or Canadian citizens) for personally rendering services for the production (using the look-through approach described on page 14).

Line 606 – Taxable Canadian corporations (solely owned by an individual)

Enter the allowable remuneration paid to other taxable Canadian corporations all the shares of which (except directors' qualifying shares) belong to one individual ("the shareholder").

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 the provision of the shareholder'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 when the shareholder was a Canadian resident or a Canadian citizen. The allowable remuneration may include a profit element, in

which case the look-through approach explained below would not apply. However, if the remuneration includes amounts that are attributable to services personally rendered by an employee of the other taxable Canadian corporation, the allowable remuneration cannot exceed the amount of salary or wages paid to the employee for services provided for the production when the employee was a Canadian resident or a Canadian citizen (using the look-through approach described on page 14).

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 qualified corporation, even if the amounts are part of the production cost. Please note that some Canadian broadcasters are not taxable Canadian corporations.

Line 607 – Partnerships carrying on business in Canada (for their members or employees)

Enter the allowable remuneration paid to a partnership that carries on a business in Canada.

The qualified corporation 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) 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, in which case the look-through approach would not apply.

If the remuneration includes amounts that are attributable to services personally rendered by an employee of the partnership, the allowable remuneration cannot exceed the amount of **salary** or **wages** paid to the employee for services provided for the production when the employee was a Canadian resident or a Canadian citizen (using the look-through approach described below).

Canadian citizenship

In order to support the fact that an individual who worked on your production was a Canadian citizen at the time their services were rendered, a copy of one of the following documents should be requested and retained:

- Birth certificate from a Canadian province or territory,
- Canadian certificate of registration of birth abroad,
- Canadian passport,
- Certificate of Canadian citizenship or certificate of naturalization, or
- Certified statement of live birth from a Canadian province or territory.

Canadian residency for individuals

The CRA website **www.cra-arc.gc.ca/tx/nnrsdnts/cmmn/rsdncy-eng.html** and income tax folio, **S5-F1-C1: Determining an Individual's Residence Status**, contain important information on how residency is determined.

In order to support the fact that an individual who worked on your production was a resident of Canada for tax purposes at the time their services were rendered, a copy of the following should be requested and retained:

- a determination of residency status letter from the CRA confirming residence in Canada for tax purposes, or
- documents to support the fact that the individual has residential ties to Canada.

For example, strong residential ties would include having a home in Canada and having a spouse, common-law partner, or dependents residing in Canada. Documents that can be requested and retained to support these ties include:

- a lease, statement of property taxes, utilities bills (must contain the individuals name and an address in Canada and province, if applicable);
- Canadian visas or other documentation from Citizenship and Immigration Canada for the individual and their spouse, common-law partner, and dependents.

Secondary residential ties are not considered to be as strong and therefore adequate documents should be requested from the individual to substantiate residency in Canada. Generally, a minimum of 3 of the following documents should be requested and retained to support secondary ties:

- a valid Canadian driver's licence;
- a Canadian bank account or credit card statement;
- a health insurance card issued by a Canadian province or territory;
- a Canadian Social Insurance Number (SIN) card or a copy of a letter or Notice of Assessment from the CRA that contains their SIN or Individual Tax Number (ITN);
- proof of ownership of other Canadian property (e.g. land, cottage, and rental property); or
- the vehicle registration permit for a vehicle owned or leased in a Canadian province or territory.

The examples above should not be taken as all inclusive, every individual's residency is a question of fact and all factors must be considered before it can be determined. Always refer to the CRA references above for details on what constitutes residential ties to Canada.

Look-through approach

The look-through approach limits the amount of remuneration that may qualify as a labour expenditure to the amount that would have been incurred by the qualified corporation had it directly employed the individuals. This approach is appropriate when remuneration is paid to a self-employed individual, a taxable Canadian corporation, or a partnership carrying on a business in Canada for the services of its employees. In applying this approach, the qualified corporation must obtain from the service provider the amount of salary or wages paid to its employees. This amount should qualify as a labour expenditure directly attributable to the production.

65% administrative position

When the qualified corporation engages a service provider with whom it deals at arm's length (that is, with whom it is not related), the amount of salary or wages paid by the service provider to its employees may not be available.

This could happen, for example, when the service provider is reluctant to supply detailed labour-related information to the qualified corporation because it believes it is proprietary information that could be used to determine its profit level. To give qualified corporations the opportunity to claim labour expenditures under such circumstances, the CRA will accept, as an administrative practice, 65% of the labour portion of an invoice amount as a reasonable estimate of the salary or wages paid to the employees that is directly attributable to the production. The remaining 35% represents overhead and the service provider's profit.

When 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 there is no breakdown on the invoice, estimate the labour part of the invoice before applying the 65% rate.

The 65% administrative position does not prevent the CRA from auditing a third party to determine the actual amounts paid to employees. Also, if a qualified corporation has claimed an amount greater than 65%, it must provide evidence to support that percentage.

Line 609 – Labour expenditure transferred under a reimbursement agreement by the corporation, a wholly owned subsidiary, to the parent corporation that is a taxable Canadian corporation

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

The reimbursement to the parent will be an eligible labour expenditure of the qualified corporation if it is paid no later than 60 days after the qualified corporation's tax year-end. The reimbursement must relate to an amount paid by the parent for the Canadian film or video production and be considered a labour expenditure of the qualified corporation that meets the criteria discussed above. If the parent and subsidiary have different tax year-ends, the eligibility of the labour expenditure is based on the date it is reimbursed to the parent corporation.

Example
The parent corporation has a December 31, 2010 tax year-end and incurs costs for the Canadian film or video production between January 1, 2010, and December 31, 2010. All labour expenditures are paid within 60 days of the parent's tax year-end. The subsidiary has a July 31, 2011 tax year-end and reimburses the parent within 60 days of its tax year-end.

In this case, the labour expenditures incurred by the parent corporation for its December 31, 2010 tax year-end will be included in the subsidiary's calculation of labour expenditure for its July 31, 2011 tax year-end.

Labour expenditure for the tax year – Amount G

Enter the total of lines 601 to 609. This amount represents the labour expenditure of the qualified corporation for the tax year.

Line 611 – Labour expenditures for all previous tax years

Enter the amount on line 611 that is the total of the labour expenditures for all previous tax years.

Total labour expenditures – Amount I

Enter the total of amounts G and H.

Line 613 – Qualified labour expenditures for all previous tax years

Enter the qualified labour expenditures for all previous tax years that were used to calculate the CPTC for those years.

Line 615 – Labour expenditure transferred under a reimbursement agreement by the parent corporation, that is a taxable Canadian corporation, to the corporation, a wholly owned subsidiary

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

Subtotal – Amount J

Enter the total of lines 613 and 615.

Line 618 – Labour expenditure for the tax year

Enter the difference between amounts I and J.

Qualified labour expenditure – Amount L

Enter the lesser of line 430 (in Part 5) and line 618. This amount is the qualified labour expenditure of the qualified corporation at the end of the tax year for the Canadian film or video production.

Part 7 – Canadian film or video production tax credit

Line 620 – Canadian film or video production tax credit

Enter the amount that is calculated by multiplying the qualified labour expenditure (amount L) by the CPTC rate of 25%. This is the qualified corporation's CPTC for the year.

Enter the amount from line 620 on line 796 of your T2 return. If you are filing more than one CPTC claim for your corporation, enter the cumulative amount.

> **Note**
> The CPTC is fully refundable to the qualified corporation. However, if a qualified corporation has other unpaid liabilities to the Crown, the CPTC will be used to reduce those liabilities and the balance, if any, will be refunded.

The CPTC claimed is considered assistance received in the year for the purposes of determining the income of the qualified corporation. The amount must either be included in income or, if the Canadian film or video production is depreciable property, used to reduce the capital cost of the property for capital cost allowance purposes.

Your opinion counts

If you have any comments or suggestions that could help us improve our publications, we would like to hear from you. Please send your comments to:

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