

Pre-Budget Consultations for Budget 2010

Canada's Writers Promote
A sustainable future for Canadians

Prepared By
The Writers' Union of Canada
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EXECUTIVE SUMMARY

To support the creative work that is the heart of Canada's cultural economy, The Writers' Union of Canada urges the Government of Canada in its next budget to:

- Introduce a Copyright-Income Deduction for creators, modeled on that used in the province of Quebec.
- Exempt from taxation subsistence grants for creators administered by the Canada Council for the Arts.
- Increase the Public Lending Right Commission's budget to bring its hit rate up to a level more aligned with the hit rate established 18 years ago.

INTRODUCTION:

The Writers' Union of Canada appreciates the opportunity to participate in Pre-Budget Consultations. This Union, founded by writers for writers in 1973, has evolved into the national voice for over 1,800 writers of books in all general trade genres with a mandate to promote and defend the interests of its creator membership and all Canadians' freedom to write and publish. The Writers' Union of Canada has an important role to play in shaping the application of your objectives.

Cultural industries contributed \$40 billion to Canada's GDP in 2002 alone. During that same year, Mining and Oil and Gas Extraction contributed only \$35.4 billion. The Agriculture and Forestry industry contributed \$21 billion to Canada's GDP, approximately half that of the cultural sector.¹ This translates into 3.8% of value added contribution to Canada's GDP, in 2002, through cultural industries.

The growing importance of the cultural sector is also evidenced by its contribution to Canadian employment. Cultural industries in Canada were responsible for directly employing 597,000 Canadians in 2002 or 3.8% of Canada's workforce.²

Between the years of 1996 and 2001, employment in the cultural sector grew at an annual rate of 3.4%, faster than the overall Canadian employment growth rate.

These numbers are only indicative of the direct employment generated by cultural industries and do not reflect the indirect jobs that are created because of the positive multiplier effect of the cultural sector.³

¹ Statistics Canada, Gross Domestic Product by industry, Catalogue no. 15-001-XIE, 2005

² Statistics Canada, Employment by industry, Catalogue no. 71F0004XCB, 2006

³ Statistics Canada, Economic Contribution of Culture in Canada Catalogue no. 81-595-MIE-No.023, 2004

In 2001, twenty six percent (26%) of Canada's cultural sector was self-employed compared with 16% across all industries. Self-employed creators are the foundation of Canada's vibrant Cultural Industry, both at home and abroad.

Writers are the creators of the materials that are the foundation of the publishing industry's success; yet these writer entrepreneurs do not have the benefits available to employees of that industry. A financial profile of the average Canadian writer, composer and artist can be summed up quickly: a low-income creator who is self-employed and who, at times, endures a wildly fluctuating income.

Writers like other self-employed entrepreneurs work long hours to succeed at their craft. Often they must take extra jobs to make ends meet. These problems are further compounded by the lengthy process involved in publishing books, a process not measured in weeks or months, but in years. Even if the fruits at the end are bountiful, these follow a long duration of creative output and industry production in which income is low or even nonexistent.

Canada has long maintained that financial security should be in place to permit all Canadians the opportunity to thrive, even in the face of short-term setbacks. Because creators are so often self-employed, they fall through the cracks between the structures government policy has put in place to ensure a quality lifestyle.

Supporting Canada's self-employed creators will bring Canada closer to the Government's expressed goal of having Canada become a meaningful place in the world of the future. Providing Canadian writers with equal opportunities to succeed will enhance Canada's cultural wellspring, its diversity, its cultural thoughtfulness, the proliferation of work by its artists who make a profound contribution to the progress of our civilization, not to mention the GDP.

Some of the proposals that follow are not new but we maintain they address the inequalities writers and other artists face. We respectfully submit that they will help this Government achieve its stated objectives.

COPYRIGHT-INCOME DEDUCTION:

Twice in the last few years, Parliament has considered a Private Members Bill calling for copyright-income deduction for writers and other artists. Although the first Bill was general in tone and lacked specifics, it nonetheless captured the spirit of the inequity writers face and the general principles of what might help correct it. We again recommend that the Department of Finance institute a Copyright-Income Deduction for creators.

This deduction has been used in Quebec for several years, where it not only corrects the tax penalty implicit in the Income Tax Act but also works to encourage, rather than

penalize those who try to make a living from their creations. In Quebec, the provision applies to writers, artists, filmmakers, and composers: any artist who produces copyright material that generates income. This provision would be easy to administer and its effect would be to encourage self-employed creators to concentrate on creating new works instead of taking on non-creative jobs to provide the income necessary to have more time to create.

The Copyright-Income Deduction effectively removes fluctuations from creators' incomes since, although most creators cobble together a living from a variety of sources, it is the royalties earned on copyright material that create the wild income fluctuations.

The Copyright-Income Deduction requires almost no calculation and fits easily within the existing framework of the Income Tax form. There are many precedents already on the form, such as the "Deduction for employment income earned outside Canada," or the "Deduction for employees of certain international organizations like the United Nations." Canada has a long history of giving special consideration to enterprises that further the national interest: for instance, scientific research and experimental development. Likewise, the contribution made by Members of Parliament is appropriately recognized through a tax-exempt allowance. The Copyright-Income Deduction would function in the same way, providing an incentive to those who create.

The cost to the Government would be miniscule and the return to the economy would be dramatic. Setting a reasonable upper limit of income -- and only that income derived from the artistic endeavor-- would ensure that only those writers and artists with low incomes would be able to derive benefit from the deduction. We respectfully suggest that, as creators, we are unlike any other taxpayers. Our creativity provides the raw materials for the entire cultural sector that receives a variety of subsidies and incentives at the production and dissemination levels. We are seeking equitable treatment. As well, no less than 6,000 authors, earning less than \$12,000 per annum, support a book publishing industry of taxpayers whose earnings average less than \$12,000 per annum.

Encouraging the creators who produce the intellectual property that constitutes the building blocks of our various cultural industries is an important way to stimulate the economy of the entire cultural industry. Without them, the number of other taxpayers in the industry (who have significantly larger incomes than creators) will diminish, with a negative impact on Government revenues.

SUBSISTENCE GRANTS:

One of the most confusing inequities has been policy towards subsistence grants for writers and artists. These are grants that provide minimal stipends for artists

to live for several months while they create their cultural product. Hence their name, "subsistence." We contend these grants should be tax-exempt.

Similar grants are provided to Canada's athletes through The Department of Canadian Heritage's *Athlete Assistance Program*, *Sport Support Program* and *Sport Canada*. Canada Revenue Agency has advised that the benefits received from these programs will generally be received by recipients tax free, within the meaning of the *Federal Income Tax Act*. Artists as well as athletes receive financial support through the Department of Canadian Heritage. We request that you explore not only the funding to artists and athlete but study and rectify the tax inequities imposed on artists.

People otherwise employed on a full-time basis are ineligible to apply for these grants. Only self-employed creators may apply. If grants arrive at the beginning of the year, the grant usually has been exhausted at tax time by rent, food and the necessities of life required during the period of the grant. Creators may have to borrow money in order to pay the tax on these grants. In essence, taxing grants such as these undermines the principle of survival that inspired their creation.

Given that the maximum value of these grants is only \$20,000, for several months' work, the overall tax revenue they produce is minimal, but taxation's impact on the struggling artist can be severe. Also, they often arrive at the end of the calendar year. When a writer receives a subsistence grant in the winter, before the beginning of the period it is designed to offset, too often a third or more of the grant is lost to tax immediately.

For years creators have been subsidizing innovation through this unfair tax penalty. It is time now for the Government of Canada to encourage the creators of this country -- not only to ensure an uninterrupted flow of creative content for the burgeoning technology of the new economy, but also to signal to the nation and to the world that Canada values creative work -- by making subsistence grants tax-exempt.

PUBLIC LENDING RIGHT:

Canada has the distinction of being one of only a handful of progressive countries in the world with a Public Lending Right Commission. The call to create the Public Lending Right was spearheaded by The Writers' Union of Canada. Public Lending Right provides for a modest annual payment to Canadian book authors whose works are available in Canadian libraries for lending.

At the time of PLR's creation, the Government agreed to periodically inject increased funding into the program to ensure its success long into the future. Unfortunately government funding into PLR has not met the increased demand for funds as is reported in the recent PLR Annual report. The Union believes it is imperative that the Public Lending Right Commission receive a budgetary increase in the next budget, to bring its hit rate up to a level more aligned with the hit rate established 18 years ago.

CONCLUSION:

Creators are at the heart of a knowledge-based economy. We produce the intellectual property on which the entire cultural sector is built. You will receive representations from the cultural industries, the filmmakers and the publishers, the art galleries and museums. Without the individual artist who dedicates her or his working life to creative expression, developing screenplays and composing opera scores, writing books and filling galleries with paintings and sculptures, all of these industries would collapse.

The Cultural sector is large and growing. Depending on how you calculate whom it embraces, it accounts for between five and eight percent of the Canadian labour force. At the heart of this enormously productive, vital part of our economy is a miniscule core of self employed creators who earn incomes that are between 25 and 50 percent below other jobs within their sector. Being self-employed, these creators function without the social safety net that employees take for granted. Their earnings are low, they pay more than their fair share of tax, and yet they are not eligible for group insurance and pension benefits, and can rarely obtain employment insurance benefits.

In today's business-oriented environment, the role of the entrepreneur is well understood and rewarded. There are grants for research into new technologies. There are tax breaks to encourage the development of new consumer products. In our rush to the bottom line, we must not forget that **our greatest resource is the individual human mind**. If we neglect to nurture our nation's creators, we will be a nation of moneychangers without a temple.

In summary, we urge the Government to remove the tax inequity currently carried by creators with fluctuating incomes, through a targeted copyright-income deduction and by introducing an exemption from taxation, on creators' subsistence grants administered by the Canada Council for the Arts, for creators. We further seek this Government's support in ensuring that the Public Lending Right Commission be adequately funded, in the next budget.

In these ways, your government will be ensuring that writers and other artists have an equal opportunity to succeed and can live in an economic and social environment with the best possible quality of life and standard of living. Most of all, creators will be able to contribute handsomely to a prosperous Canada and play a leadership role in the new economy.

Respectfully submitted on behalf of The Writers' Union of Canada,

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