

Canadian Audio-Visual Certification Office (CAVCO)

Activity Report 1998-1999

February 2000

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Introduction

In 1974, the Canadian Audio-Visual Certification Office (CAVCO) was created to administer the Capital Cost Allowance Program (CCA) as a means to increase private sector investment in the Canadian film industry. The CCA program was replaced in 1995 by the Canadian Film or Video Production Tax Credit Program (CPTC) which encourages a more stable financing environment and longer-term corporate development for production companies. CAVCO currently co-administers two programs with the Canada Customs and Revenue Agency (CCRA): the Canadian Film or Video Production Tax Credit Program and the Film or Video Production Services Tax Credit Program (PSTC). CAVCO also administers UNESCO's Beirut Agreement and the phasing out of the remaining CCA files that are still active.

Description of Programs

Canadian Film or Video Production Tax Credit Program (CPTC)

Under the CPTC program, CAVCO performs two distinct functions: 1) certification of Canadian content, and 2) estimation of the qualified labour expenditure. In order for a production to qualify as Canadian content for tax credit purposes through CAVCO, the production must meet specific criteria for key creative personnel and project costs – see Box 1. The CPTC is a refundable tax credit which is available at a rate of 25% of eligible salaries and wages incurred after 1994. Eligible salaries and wages qualifying for the credit may not exceed 48 % of the cost of the production, net of assistance, as certified by the Minister of Canadian Heritage. Therefore, the tax credit could provide assistance of up to 12 % of the cost of production, net of assistance.

This Program is designed to support Canadian content film or video productions. Stakeholders include Canadian film and television producers across Canada who undertake film and television projects and include producers whose productions come under the terms of international co-production treaties between Canada and over 40 countries. To date the budgets of these productions have ranged from \$10,000 to \$40M.

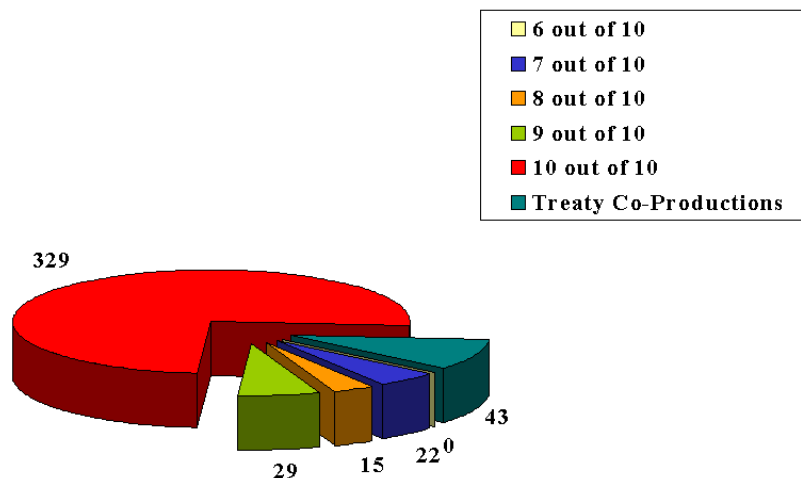
CAVCO provides two certificates under the Program: the Canadian Film or Video Production Tax Credit Certificate (Part A) and Certificate of Completion (Part B). Certification serves several purposes: giving access to a tax credit; providing Canadian-content recognition for access to other public and private funds, such as the Canadian Television Fund and Telefilm Canada; and establishing eligibility for industry awards such as Geminis, Gemeaux and Genies. This certification is also recognized by the CRTC for broadcast purposes.

Box 1

Canadian Content Point System			
Live Action		Animation	
<p>Director 2 points Screenwriter 2 points Lead Performer 1 point Second Lead Performer 1 point Art Director 1 point Director of Photography 1 point Music Composer 1 point Picture Editor 1 point</p>	<p>Director 1 point Scriptwriter and Storyboard Supervisor 1 point First or Second Voice 1 point Design Supervisor 1 point Music Composer 1 point Picture Editor 1 point Layout and Background 1 point Key Animation 1 point Assistant Animation/In-Betweening 1 point Camera Operator and Operation 1 point</p>		
<p>Notwithstanding the above, at least one of the Director or Screenwriter, and either the lead performer or second lead performer must be Canadian. As well, points for screenwriters may be obtained only if all screenwriters are Canadian, or if both the principal screenwriter and the author of the work on which the production is based are Canadian and the work is published in Canada.</p> <p>At least 75 per cent of all production costs must be paid to Canadians except the following: 1) remuneration paid to the producer 2) remuneration paid to key creative personnel listed above 3) legal 4) accounting 5) insurance and 6) financing costs. Also, at least 75 per cent of post-production processing and final preparation (Lab) costs must be paid for services provided in Canada.</p>		<p>Notwithstanding the above, at least one of the Director or Scriptwriter/Storyboard Supervisor, and at least one of the First or Second Voice Performers must be Canadian. The key animation must be done in Canada.</p> <p>At least 75 per cent of all production costs must be paid to Canadians except the following: 1) remuneration paid to the producer 2) remuneration paid to key creative personnel listed above 3) legal 4) accounting 5) insurance and 6) financing costs. Also, at least 75 per cent of post-production processing and final preparation (Lab) costs must be paid for services provided in Canada.</p>	

Canadian Content points for certified productions under the CPTC (1998-1999)*

based on commencement of shooting



*As of October 1, 1999

Number of Productions and Total Aggregate Budgets per category and market (1998-1999) under the CPTC*

Category	Market					Budget
	Theatrical	Television	Home Video	Non-Theatrical	Total	
Feature Film	41	22	0	1	64	212,595,892
Mini-Series	0	10	0	0	10	33,129,067
Movie-of-the-Week	1	22	0	0	23	58,990,199
Pilot	0	3	0	0	3	4,819,096
Series	0	235	0	1	236	743,966,327
Short Film	0	99	0	3	102	37,287,052
Total	42	391	0	5	438	1,090,787,633

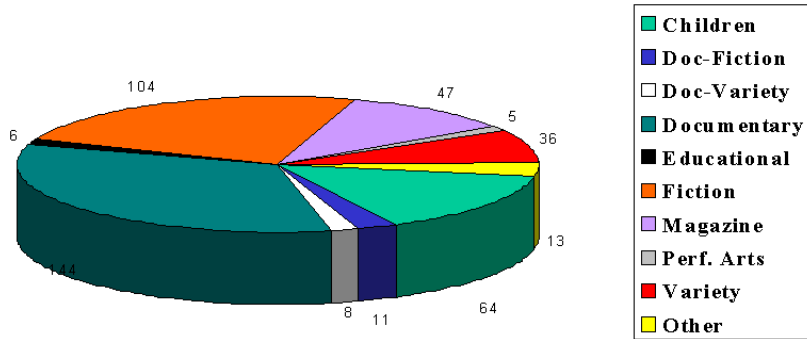
*As of October 1, 1999

**Number of Productions and Total Aggregate Budgets
per genre and market (1998-1999) under the CPTC***

Genre	Market					Budget
	Theatrical	Television	Home Video	Non-Theatrical	Total	
Children	3	61	0	1	64	219,990,996
Documentary Fiction	2	9	0	0	11	85,406,293
Documentary Variety	0	8	0	0	8	3,443,353
Documentary	0	142	0	2	144	88,155,466
Educational/Instructional	0	6	0	0	6	2,910,977
Fiction	37	66	1	1	104	589,620,250
Magazine	0	47	0	0	47	39,424,033
Performing Arts	0	4	0	1	5	3,707,029
Variety	0	35	0	1	36	37,699,600
Other	0	13	0	0	13	20,429,636
Total	42	391	1	6	438	1,090,787,633

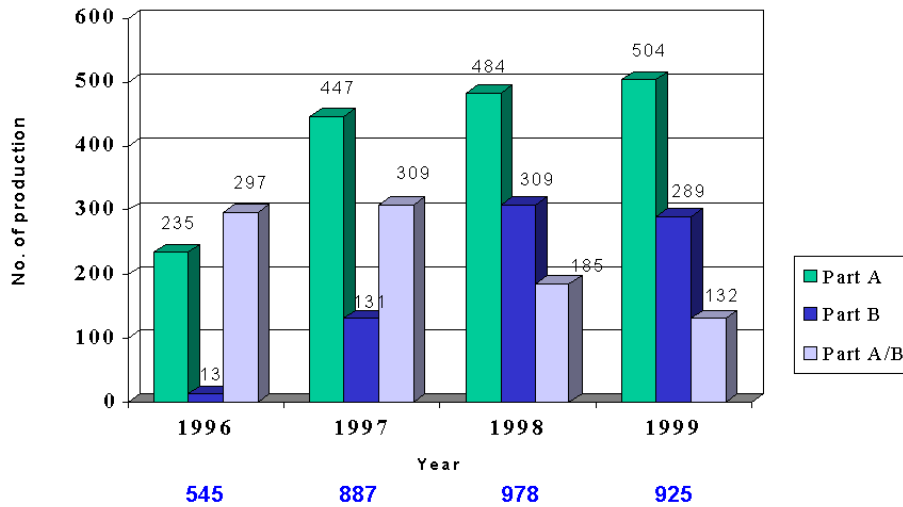
*As of October 1, 1999

Number of Productions granted per genre under the CPTC (1998-1999)*



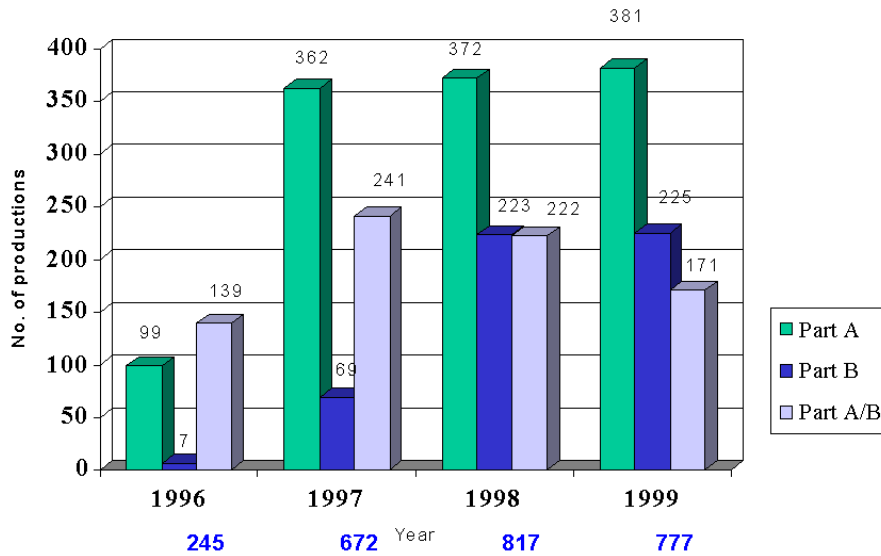
*As of October 1, 1999

Applications received (1996-1999) under the CPTC*



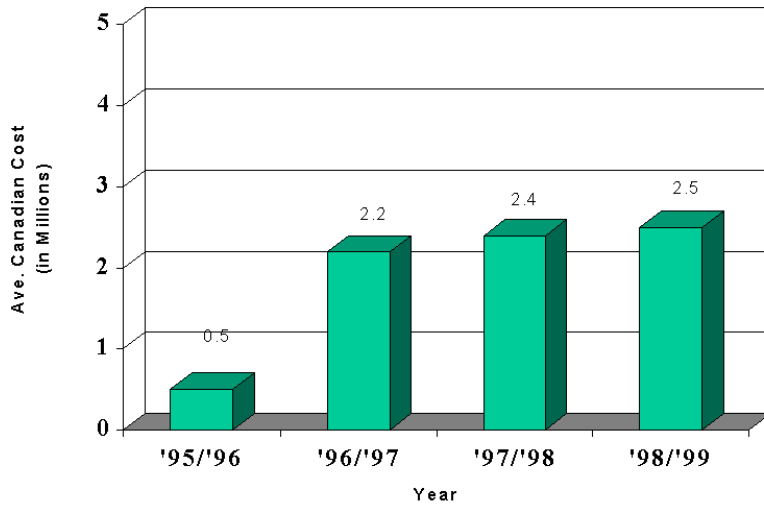
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Applications granted (1996-1999) under CPTC*



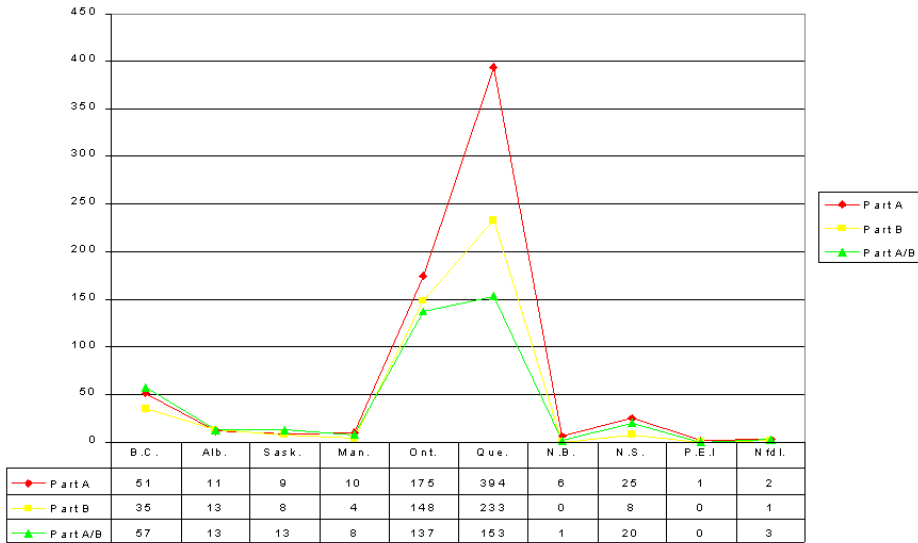
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Average Canadian Certified Production Cost per fiscal year (1996-1999) under the CPTC*



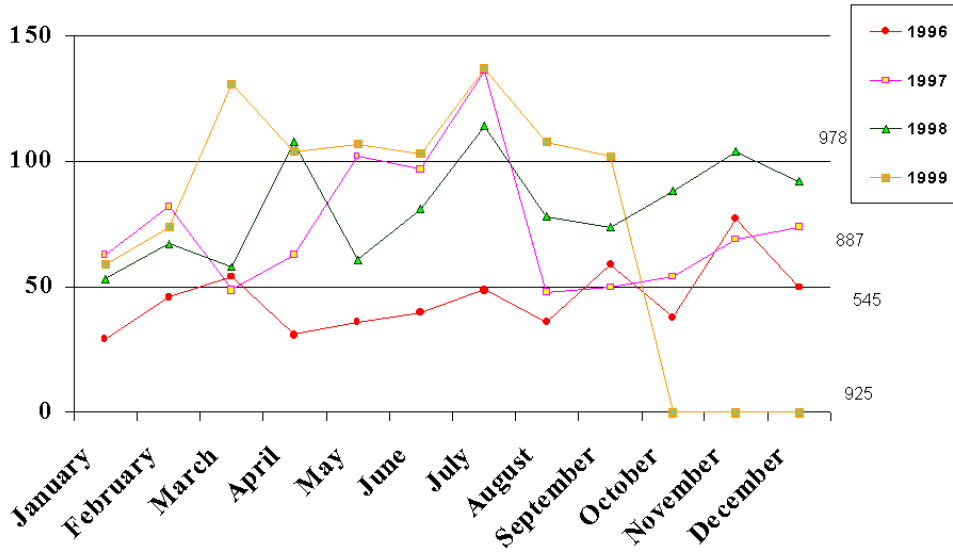
*As of October 1, 1999

Applications certified per province (1996-1999) under CPTC*



*As of October 1, 1999

Applications received (1996-1999) under CPTC* (Breakdown by month)



*As of October 1, 1999

Film or Video Production Services Tax Credit Program (PSTC)

On July 30, 1997, the Federal Government announced a new program in support of film and video production in Canada. The PSTC is a mechanism designed to encourage the employment of Canadians, by a taxable Canadian or a foreign-owned corporation with a permanent establishment in Canada, the activities of which are primarily film or video production or production services. CAVCO's role under the PSTC is to determine the eligibility of the production and to issue an Accredited Film or Video Production Certificate on behalf of the Minister of Canadian Heritage. The PSTC is equal to 11% of salary and wages paid to Canadian residents or taxable Canadian corporations (for amounts paid to employees who are Canadian residents) for services provided to the production in Canada. This refundable tax credit has no cap on the amount of labour which can be claimed.

This Program is designed to encourage the production of film and video productions in Canada without regard to Canadian content and ownership. Its goal is economic, that is, to attract foreign productions to Canada and to employ Canadian residents. Stakeholders include U.S. studios with episodic television budgets over \$100,000 or \$1,000,000 for feature films.

Number of Productions and Total Amount Spent in Canada per category and market (1998-1999) under the PSTC*

Category	Market					Budget
	Theatrical	Television	Home Video	Non-Theatrical	Total	
Feature Film	32	3	0	0	35	255,918,043
Mini-Series	0	1	0	0	1	5,407,819
Movie-of-the-Week	4	28	0	0	32	111,646,806
Pilot	0	0	0	0	0	-
Series	1	5	0	0	6	70,320,918
Short Film	0	2	0	1	3	25,982,595
Total	37	39	0	1	77	469,276,181

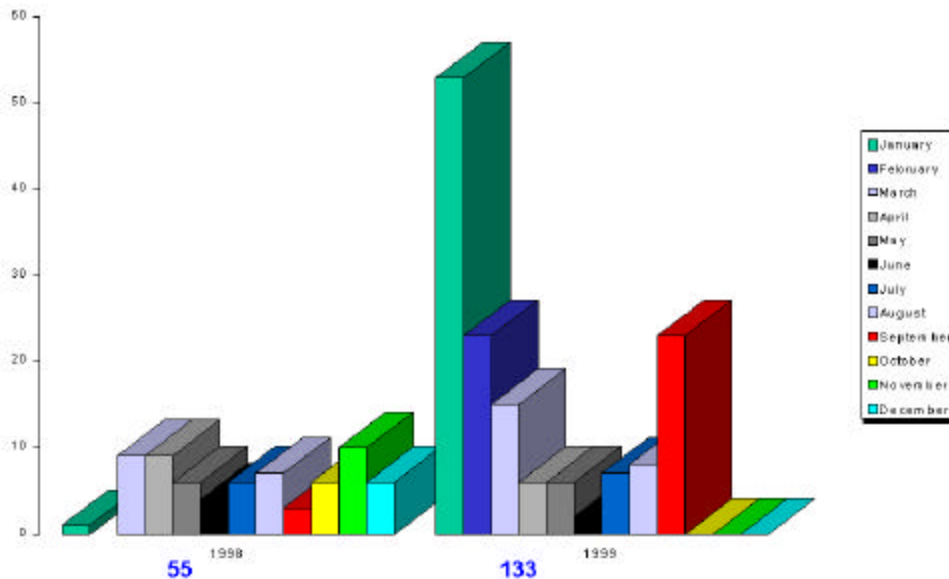
*As of October 1, 1999

**Number of Productions and Total Amount Spent in Canada
per genre and market (1998-1999) under the PSTC***

Genre	Market					Budget
	Theatrical	Television	Home Video	Non-Theatrical	Total	
Children	1	1	0	1	3	29,174,014
Documentary Fiction	0	0	0	0	0	-
Documentary Variety	0	0	0	0	0	-
Documentary	0	1	0	0	1	814,398
Educational/Instructional	0	0	0	0	0	-
Fiction	36	35	0	1	72	426,670,963
Magazine	0	0	0	0	0	-
Other	0	1	0	0	0	11,668,385
Performing Arts	0	0	0	0	0	-
Variety	0	1	0	0	1	948,421
Total	37	39	0	2	77	469,276,181

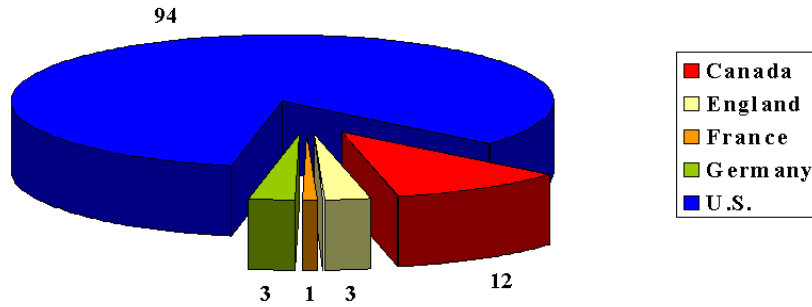
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**PSTC Applications Received (1998-1999)*
(Breakdown by month)**



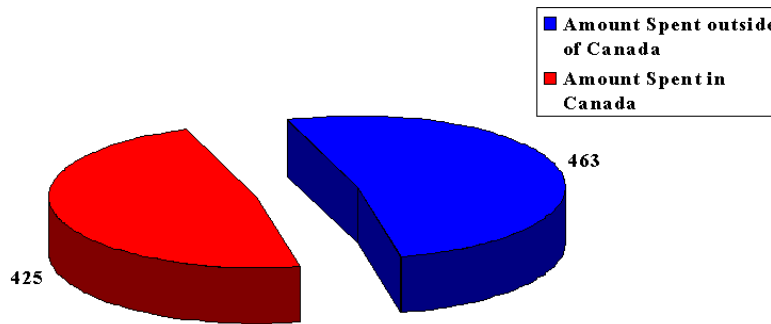
*As of October 1, 1999

Total PSTC Applications Granted (1998-1999)*
per country of origin of copyright owner



*As of October 1, 1999

**Amount spent outside of Canada vs. Amount spent in Canada
(in millions) for
PSTC Applications Granted (1998-1999)***



Total Production Cost
\$888 Million

*As of October 1, 1999

Capital Cost Allowance Program (CCA)

This Program provided a deduction from income tax (i.e. tax shelter) for private investors in Canadian productions. It has since been replaced by the Canadian Film or Video Production Tax Credit Program. Under the CCA Program, over 3,000 productions were certified over 23 years with aggregate production budgets totaling \$7 Billion. There are 11 files still active.

Number of Productions Certified and Total Budgets per Year for the Capital Cost Allowance Program (CCA)*

<u>Year</u>	<u>No. of Applications</u>	<u>Total Budget</u>	<u>Average Budget</u>
1974	3	1,581,245	527,082
1975	19	6,683,409	351,758
1976	64	25,954,858	405,545
1977	104	49,179,072	472,876
1978	113	63,573,039	562,593
1979	200	206,942,324	1,034,712
1980	189	200,866,638	1,062,786
1981	162	128,509,370	793,268
1982	122	82,347,524	674,980
1983	111	60,090,615	541,357
1984	124	82,515,939	665,451
1985	146	152,724,180	1,046,056
1986	174	222,194,023	1,276,977
1987	159	293,491,358	1,845,858
1988	151	496,185,825	3,285,999
1989	220	482,986,875	2,195,395
1990	201	515,946,448	2,566,898
1991	155	603,974,493	3,896,610
1992	152	563,941,292	3,710,140
1993	193	709,473,372	3,676,028
1994	239	973,079,560	4,071,463
1995	216	864,308,411	4,001,428
1996	38	208,560,085	5,488,423
Total	3255	6,995,109,955	2,149,035

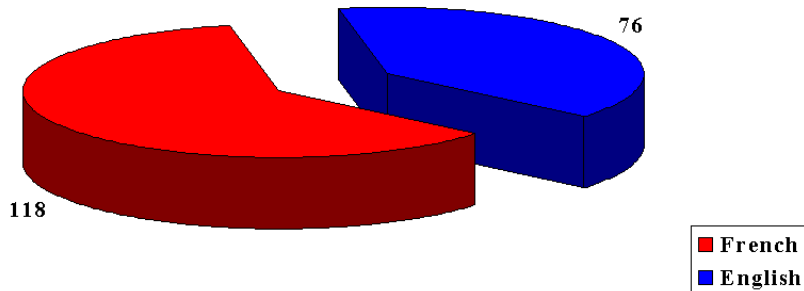
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Official Treaty Co-Productions

Telefilm Canada (Telefilm) administers treaties which govern international treaty co-productions on behalf of the Canadian government. At the present time there are over 40 signatory countries.

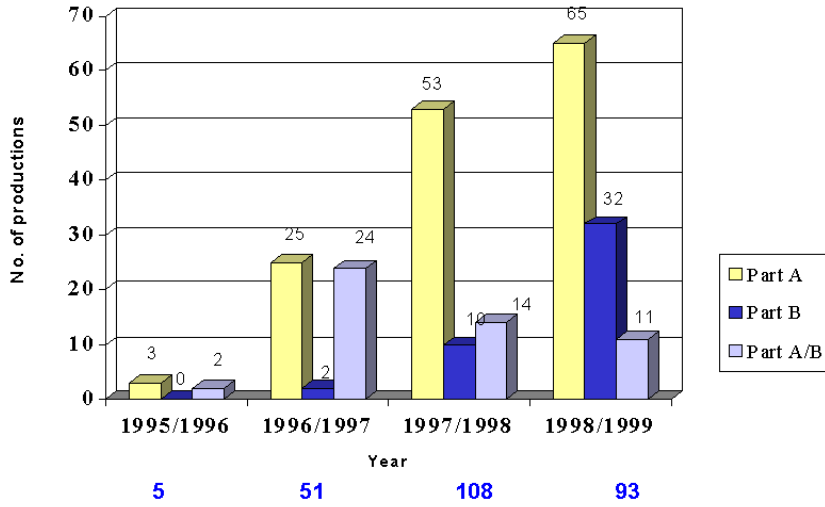
Treaty co-productions, once certified, gain national status both as Canadian content productions in Canada and as content productions in the country of the foreign partner. In addition, the Canadian production company may be eligible for assistance from various public funding programs. Before applying for the CPTC program, the Canadian producer must apply to Telefilm for an "Advance Ruling". Telefilm reviews the file to determine whether the proposed project appears to meet the terms of the respective treaty. Once the Advance Ruling has been granted, the producer can then apply to CAVCO for a Part A certificate. CAVCO then reviews the financing to calculate the estimated qualified labour expenditure. In order to obtain a Part B certificate, applicants must file Telefilm Canada's "Final Approval" with CAVCO which conducts a final review of the application.

Total Official Treaty Co-production applications granted per language (1995-1999)*



*As of October 1, 1999

**Official Treaty Co-production applications received
(1995-1999) under the CPTC***



*As of October 1, 1999

Beirut Agreement (UNESCO)

This is an agreement under the auspices of the United Nations Educational, Scientific and Cultural Organization (UNESCO) to facilitate the international circulation of visual and auditory materials. Administration of the Agreement was transferred from the National Film Board of Canada to CAVCO in 1986. Audio-visual materials destined for export are certified by CAVCO as being of an educational, scientific or cultural character, in accordance with established criteria. Although this program is rarely used, 2,723 different products have been certified over the years.

No. and Type of Materials Certified Under the Beirut Agreement (UNESCO)*

Type of Material	Number
Films	1945
Recordings	264
Maps, Posters, Wall Charts	39
Filmstrips	232
Slides	233
Media Kits	1
Models	9
Total	2723

*As of October 1, 1999

CAVCO Client Satisfaction Survey

In April 1998, Coopers & Lybrand conducted a systematic survey of client satisfaction for CAVCO. Based on the results, an action plan was created to enhance CAVCO's service delivery. Many components of the plan have been implemented and others are still under development. Listed below are some of the first steps taken in an effort to improve CAVCO service delivery.

- < A Harmonization Committee was formed to discuss ways to harmonize documentation requirements between CAVCO, the provincial tax credit offices and the public and private funding agencies.
- < A toll-free service line and weekly rotation schedule was put in place to answer general information calls.
- < The turn-around time for the review of files was monitored by a new internal tracking system.
- < Francophone tax credit officers were hired to provide better service to clients in Quebec.
- < Application kits were made available in regional offices.
- < CAVCO Express information bulletins were released in order to disseminate information about the programs to the industry.