

of tax is below the maximum. The system should not involve an initial increase in cash payable.

GRANTS

A number of problems have arisen recently over the taxation of grants, especially Canada Council grants, to artists. One difficulty is closely related to the test of reasonable expectation of profit and the reclassification of large numbers of artists as hobbyists. It followed that once Revenue Canada had concluded that artists were not in business but were hobbyists, then any grants they received were not business income. As a result, the grant was added to the artists' income as it should be but the expenses which the grant was intended to cover were not deductible, as they would have been from business income.

The Sub-Committee accepts the Canada Council's statement that they do not support hobbyists but only bona fide professional artists, selected through peer adjudication and usually in competition. Indeed, the Sub-Committee has already urged that the receipt of such grants should be strong evidence of professionalism for tax purposes.

The Sub-Committee is of the opinion that once the overriding issues of reasonable expectation of profit and professionalism are ironed out, equitable treatment of grants should follow. Grants will be treated as business income (or income from professional artistic activities) and expenses will be deductible in the normal fashion. Those grants awarded for educational purposes should continue to be the exception to this treatment.

Further problems have arisen because the Interpretation Bulletin relating to Canada Council grants (IT-257) was written before the Social Sciences and Humanities Research Council of Canada (SSHRC) began operations in April 1978 and assumed responsibility for the programs previously administered by the humanities and social sciences division of the Canada Council. The SSHRC funds university-based academic research.

Because the Interpretation Bulletin has not been revised, a misconception over research grants has arisen from the point of view of the Canada Council. Council grants include ceilings for project costs but these are low and it is normal for artists' costs to exceed the ceiling. If a grant has been characterized as a research grant, these excess expenses will be disallowed.

Consistency and the nature of Canada Council grants would seem to require that these grants should be treated as business income and not as a research grant.

RECOMMENDATIONS

- 27. That grants (other than educational grants) awarded to professional artists be treated as business income from which expenses can be deducted, subject only to the loss limitations in Recommendation 12.**
- 28. That Revenue Canada update IT-257 to reflect the changes in the nature of Canada Council grants following the 1978 formation of the Social Sciences and Humanities Research Council of Canada.**