

There are several models for loss deduction that the Sub-Committee considered. The first is full deductibility of all business losses from total income as currently permitted. The second is a restricted loss provision modelled on the provision for taxpayers with farming losses whose chief source of income is not farming (section 31). This limits the amount that may be claimed as a loss. The third is a restricted loss provision based not on amounts, but on the kind of expenses that may comprise losses.

After careful consideration, the Sub-Committee rejected the farming loss model as unnecessarily complicated and difficult to apply to artists. Because so many artists also work in art-related fields, there is a closer integration between their artistic and employment activities than exists for individuals who take up farming as a sideline. Hobby farmers are both more numerous and more easily identified than individuals who pursue art as a sideline.

The Sub-Committee notes that there are two kinds of expenses artists and writers incur. First, there are those that are integral to artists' work and its marketing and that are expended directly for that purpose: the artist's paints, brushes and canvas; the sculptor's materials and heavy equipment; the writer's typewriter; promotion expenses for all groups. These expenses should be deductible in full even where they produce losses.

Secondly, there are personal expenditures that taxpayers will likely incur in any event, but which, because of a degree of business use, will be normally deductible. These expenses are more indirectly related to the artistic activities and include mortgage interest (or rental) payments applicable to a home studio or office, and capital cost allowance on a car. They occupy that grey area of deductions between personal and business use.

For example, direct expenses that would not have been incurred except for artistic activities include gas for the car used to travel for promotion purposes. On the other hand, expenses that would have been incurred in any event include the purchase price of the car. From an accounting point of view, these latter expenses would be deducted last, to see if losses result.

The Sub-Committee does not propose to deny deductibility to those kinds of expenses, merely to preclude their deduction where losses would result. As revenue increases for the artist, more of these costs would be absorbed. The Sub-Committee finds a model for this kind of loss restriction in the fact that capital cost allowance cannot be used to create a loss in rental apartment buildings.

RECOMMENDATIONS

- 10. That the professionalism test de-emphasize the timing of profits and include the existence of revenue as only one of a number of other criteria;**
- 11. That all losses resulting from direct artistic or writing expenses be fully deductible;**
- 12. That indirect expenses normally carried by a taxpayer in any event be deductible only to the point where they reduce revenue to nil.**