Certified Canadian Films

To assist the financing and development of the Canadian film industry, the tax law provides a special write-off for investment in certain Canadian motion picture films or video tapes certified by the Secretary of State. The budget proposes a number of changes to this incentive designed both to improve the quality of Canadian film production and to eliminate abuses.

Under the present capital cost allowance system, the incentive is technically available for a taxation year only if the film or tape is brought into existence by the end of the year. This has tended to rush the completion of the photography, at a sacrifice of quality in many cases. To allow for a more orderly pace of production, a change will be made to permit the deduction to be taken under certain circumstances even though principal photography was not commenced until after the end of the year. This special rule, applicable to the 1978 and subsequent taxation years, will allow the incentive claim provided principal photography of the film is completed within 60 days after the end of the year.

Changes are also necessary to curtail the use of this incentive provision as a device for the undue deferral or avoidance of tax. The principal area of abuse involves a special guarantee arrangement the purpose of which is to increase the amount that an investor may deduct beyond his investment in the film. To curtail abuse, the amount deductible by an investor will be limited to the amount he has at risk. Effective for the 1978 and subsequent taxation years, the amount deductible will be reduced by any revenues or repayments that have been guaranteed.

The Registered Retirement Savings Plan

The Income Tax Act now requires a taxpayer, prior to reaching age 71, to use the funds accumulated in a Registered Retirement Savings Plan (RRSP) to purchase a life annuity from an insurance company. The annuity benefits are then taxable as they are received. The only alternative now available is to withdraw the full amount of the RRSP and become liable to pay income tax on it in the same year.

There have been many complaints that this compels holders to buy a life annuity and denies the holders any control over the investment of funds from RRSPs.

The budget of March 31, 1977 referred to this situation and reported that the government was examining the matter. As a result of that examination, it has been decided to add two alternatives for providing retirement income from RRSP funds:

1. A fixed-term annuity may be purchased to provide benefits to age 90.
2. The savings may be transferred into a new kind of investment vehicle — a Registered Retirement Income Fund (RRIF).