



## Income Averaging Tax Incentives for Creativity

### Tax fairness for artists:

- **Institute a system of income averaging over a 5-year period, as a method of providing fair and equitable tax treatment for artists.**
- **Change the *Income Tax Act* to exempt creative and interpretive artists from paying income tax on a percentage of income derived from copyright, neighbouring rights and other income derived from the sale of any creative work.**

*"... the largest subsidy to the cultural life of Canada comes not from governments, corporations or other patrons, but from the artists themselves, through their unpaid or underpaid labour."*  
- Applebaum-Hébert Report, 1982

The arts are an integral part of our social environment that enrich and reward our society. The arts are also a significant sector of the Canadian economy. The film and television industry in Canada was valued at \$5 billion in 2005-2006, employing 125,000 people. Cultural industries overall employ 740,000 people and are a very large sector of the Canadian economy, worth almost \$40 billion in GDP. Source: Statistics Canada, 2002.

Performers and other self-employed creators are highly motivated self-starters that contribute to Canada's national identity by writing, telling and performing stories about Canadians for Canadians. Our cultural industries are dependant on the creativity of self-employed artists and performers.

It is very difficult to make a living as a professional artist in Canada due to the vagaries of the industry and unfair tax rules. The average income of artists in this country is less than \$25,000 a year. Performers and others who are self-employed in the arts and media do not benefit from the same social programs as employees. Artists earn their living through a series of short-term engagements, leading to uncertain and variable income. Self-employed artists endure a tax disadvantage because they end up paying tax at a higher rate in a good year, even though the good year may have been an anomaly, preceded and followed by years of lower income. Tax averaging artists' income would rectify this unfairness.

UNESCO has reported that income averaging for cultural professionals such as performers and artists is practised in Germany, Denmark, the Netherlands, Greece, France, the United Kingdom and Luxemburg. In Australia, the Income Tax Assessment Act allows artists with fluctuating incomes to average their income for tax purposes for a period of up to five years. In 2004, Quebec implemented tax averaging for performers and other artists that will allow them to defer the tax on a portion of their income. Artists in Quebec who acquire an eligible income averaging annuity will be able to spread their income over a maximum of seven years.

### Alliance of Canadian Cinema, Television and Radio Artists

#### ACTRA National Office

625 Church Street · Suite 300 · Toronto ON M4Y 2G1  
Toll free 1-800-387-3516 · Tel (416) 489-1311  
Fax (416) 489-8076 · E-mail [national@actra.ca](mailto:national@actra.ca) · [www.actra.ca](http://www.actra.ca)

Affiliated with the Canadian Labour Congress (CLC)  
and the International Federation of Actors (FIA)

**Branch Offices:** Vancouver · Edmonton · Calgary · Regina · Winnipeg  
Toronto · Ottawa · Montreal · Halifax · St. John's

Until 1982 when tax averaging was abolished in Canada, self-employed workers could spread their taxes over more than one tax year so that they were not penalized by the system while others benefited from lower taxes on regular incomes and had access to other benefits not available to artists and independent contractors such as unemployment insurance.

Experts have recommended reinstating income averaging for artists. As long ago as 1968, the Carter Commission's study of the Canadian tax system endorsed income tax averaging implementation as the only progressive and fair approach to 'lumpy' income.

Many cultural organizations along with ACTRA have argued for income averaging and tax exemptions for copyright or residual-derived income. The Canadian Conference of the Arts and the Writers' Guild of Canada and others have long championed this kind of artistic exemption.

ACTRA is also asking the government to allow an income tax exemption for professional artists, including film and television performers, on a percentage of income derived from copyright, neighbouring rights, and other income derived from the sale of any creative work. There are precedents for this kind of exemption. Ireland has an absolute exemption for income tax for creators and other artists and an exemption is in place in the province of Quebec.

Artists need fair and equitable tax laws that encourage creativity and value cultural productivity. Providing income averaging for artists would be a useful step toward correcting an historic imbalance and would give substance to the government's support of UNESCO's declaration on the status of the artist. It would ensure that our cultural professions become an attractive career option. All Canadians would benefit culturally and economically.

updated Jan. 2008