Tax Credits for Supporting Growth in Canada's Music Industry

Issue

The Canadian music industry requires a national tax structure for supporting economic growth and job creation.

Background

According to the report *The Next Big Bang: A New Direction for Music in Canada* released in 2013 by the association Music Canada, the commercial music industry experienced sharp declines in revenue due to online piracy combined with a "widespread erosion of respect for the value of music and the investment required to develop artists' careers." However, signs of a reversal were evident in 2012 when global recorded music revenues escalated for the first time in more than a decade. This new direction should provide a significant incentive for all levels of government in Canada to fully capitalize on emerging economic opportunities across the domestic music industry.

Canada was one of the first countries to utilize refundable tax credits as an instrument of support for the creative industries. In 1996, the federal government introduced tax credits for film and TV production as a replacement for tax shelters which had been implemented to encourage private investment on major projects.

The Music Canada report notes that tax credits have played a critical role in the growth of the film and television industry, most notably a 43 percent increase in the value of production from 1996 to 2000. Furthermore, the implementation of tax credits has allowed the industry to survive both the recent appreciation of the Canadian dollar and 2008 recession.

The economic rationale for tax credits revolves around the inherent uncertainty of demand for new products – in other words, the audience or consumer demand for creative content is unknown until the content has been developed. Music companies must make investments without any certainty they will lead to economic return.

Tax credits allow creative businesses to mitigate the on-going challenges of scale, vertical integration and technology risk. In the music industry, artist & repertoire (A&R) activities are the equivalent of research and development across other industrial sectors who receive government support through programs such as the Scientific Research and Experimental Development (SR&ED) Tax Credit.

The risks associated with A&R and marketing investments are higher than past years, and through a tax credit the federal government can mitigate this risk and provide an environment of increased certainty and an opportunity to recover investments. Provincial initiatives in this direction include the Quebec sound recording tax credit that reimburses 35 percent of eligible labour expenditures up to a maximum of 17.5 percent of total productions costs, while the Ontario Sound Recording Tax Credit (OSRTC) reimburses Canadian-controlled sound recording by an emerging Canadian artist when that recording is made in Ontario. The OSRTC also reimburses 100 percent of the marketing expenditures incurred in Ontario and 50 percent outside the province.

An analysis of the OSRTC by consulting firm Nordicty indicated the measure paid for itself and provided a net fiscal benefit for the provincial treasury, specifically noting that every dollar the Ontario government invested in the sound recording industry through the credit returns $1.32 in tax revenue. Furthermore, tracing the impact of the measure through the entire music value chain estimates that $1.5 million in financial support from the OSRTC generates approximately $30 million in global revenues.

The OSRTC provides an annual $22 million increase in the provincial GDP, $16.5 million in additional wages, and the creation of 500 jobs. Music is an integral component of both Canada's creative industry and emerging digital media cluster and continued growth will provide economic and cultural benefits across the entire nation.

The Music Canada report also notes that government revenues created as a result of music tax credits far outweigh program costs. Also, continuous innovation is required for the music industry to remain economically viable, which can be achieved through targeted policies and programs. The global music industry invests about 16 percent of total expenditures on A &R, which represents a significant level of risk.

Recommendation

That the federal government implement a music tax credit that mirrors existing film and television tax credits, which would mitigate risks in A&R and marketing investments and provide a stable economic environment for industry growth and job creation.