

# Government Grants and Their Tax Treatments:

## A Guide to Preparing Your Taxes After Receiving a Grant

BY TOVA EPP

How Taxes Work: A Primer .....	2
Grants and Their Drawbacks .....	3
Grants in a Global Context.....	4
Calendar Year or Creative Cycle? .....	4
T4As and What to do With Them .....	5
Deferrals .....	6
Conclusion.....	8
Appendix A: CCA Tax Information .....	9
Appendix B: CRA Information Re: CCA Grants .....	11
Appendix C: Form T2125 .....	15
Appendix D: Suggested Further Reading .....	17
Credits.....	18



Receiving a grant is usually considered a great event; an occasion to break out the champagne and reward yourself, a moment to reflect that a group of your peers deemed you worthy and part of the community. Grants keep art afloat in Canada, and *should* be a cause for celebration. Until it's time to do your taxes, and then the world seems to fall apart and you curse the day you received that \$7,000 from the Canada Council for the Arts.

There are many theories on how to deal with your grant when it comes to tax time, not all of which are helpful. The most important thing to remember is that grants awarded to **individual artists** are taxable income to the recipient. A T4A is issued to the recipient and reported to the Canada Revenue agency (CRA), who will expect that income to be reported.

# How Taxes Work: A Primer

At the end of the day, taxes are fairly straightforward. You pay taxes on your gross income, less any deductions (RRSPs, childcare, medical expenses, business expenses; the list is long and varied). This is your *net* income and is what is considered taxable.

An artist who files their taxes as a sole proprietor would use the [T2125, Statement of Business Income \(Appendix C\)](#) to report any sales of art, box office income, grant income and other revenue streams as well as to list all expenses related to your art practice. Artists are often loathe to consider themselves ‘businesses’, but it really is in their best interest to develop good business practices to aid their art practice. Your *gross* income from your art practice *less* the expenses is your *net* income. The net income is what is added to any other income (day jobs etc) to be taxed.

Basically your business looks like this:

## REVENUE

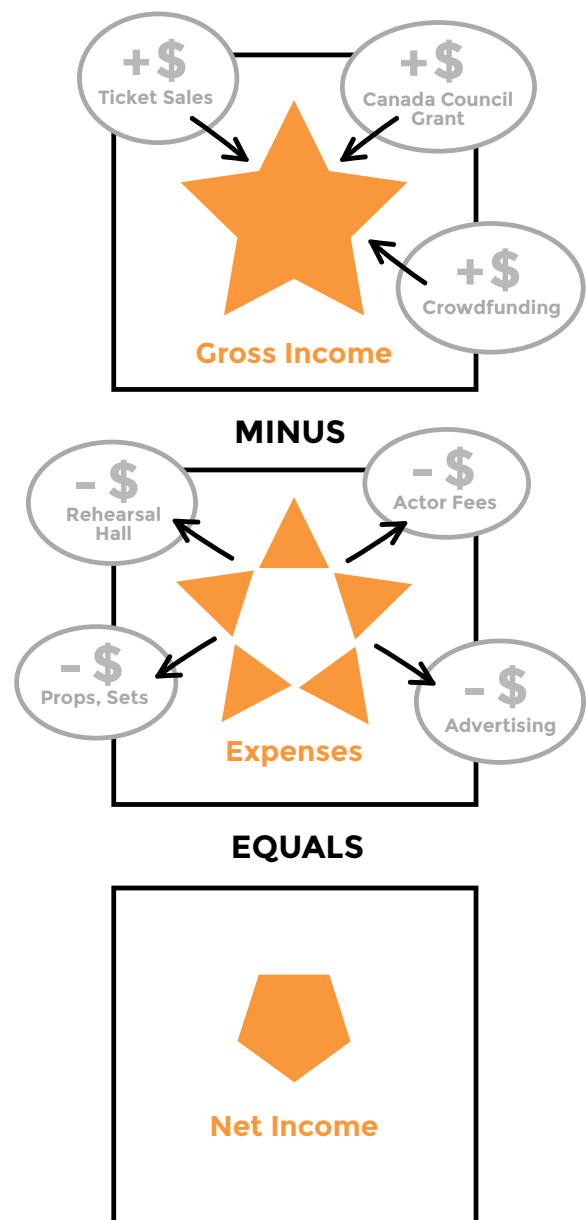
Ticket Sales:	\$2,000
Canada Council Grant:	\$7,000
Crowd Funding:	\$1,000
<b>Gross Income:</b>	<b>\$10,000</b>

## EXPENSES

Rehearsal Hall:	\$500
Actor Fees:	\$4,000
Props, Sets:	\$2,000
Advertising:	\$1,000
<b>Total Expenses:</b>	<b>\$7,500</b>

<b>NET INCOME:</b>	<b>\$2,500</b>
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Your net income is the taxable income.



# Grants And Their Drawbacks

There are two major hazards when reporting income from grants to the CRA. The first is that the income on the T4A related to your grant falls into a misleading income box called “other income”. The second is that the grant money can be received outside of the time line of your grant activity and thus skew your income versus expenses for the tax year.

All granting bodies are required to report your grant in **box 105 of the T4A**–“Scholarships, bursaries, fellowships, artist project grants and prizes”.

The image shows a T4A form from the Canada Revenue Agency. A callout box highlights box 105, which is labeled 'Other information (see page 2)'. The callout box shows the following values: Box - Case: 105, Amount - Montant: 4000 00. The main form includes fields for Payer's name, Payer's account number, Social insurance number, Recipient's account number, Recipient's name and address, and various income categories like Pension or superannuation, Lump-sum payments, Self-employment, Annuities, Fees, and Other information.

When you report your income using this box the income turns up on your taxes at **line 130** – “Other income”.

Support payments received	Total	156	Taxable amount	128 +	
RRSP income (from all T4RSP slips)				129 +	
Other income	Specify:			130 +	4000 00
Self-employment income					
Business income	Gross	162		Net	135 +

While this income reporting works fine when reporting actual scholarship income, it’s not a great fit for reporting artist grant income. Artist grants are related to an artists’ body of work, and the expenses tied to the work should be reported on the **T2125 - Statement of Business Income**. When income from the grant is not tied to related expenses because they are reported in different areas of the tax return, it can create an imbalance on your taxes. They will appear to show your artistic business losing money, with high expense and little to no income, and a large lump of other “income” which appears to be unrelated to the “failing” artistic business.

The image shows a T2125 form from the Canada Revenue Agency. It is titled 'Statement of Business or Professional Activities'. The form includes sections for:
 

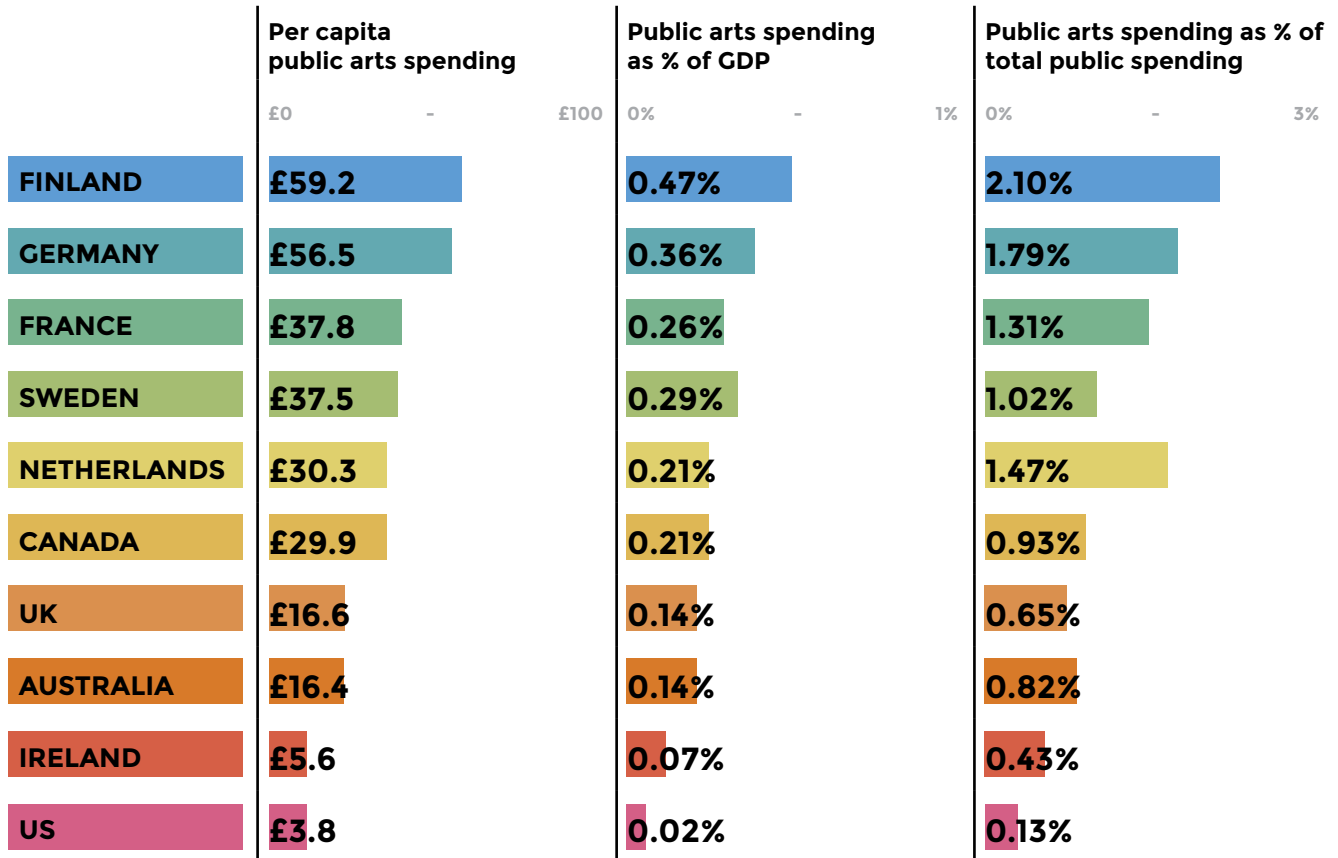
- Part 1 - Identification: Your name, Your social insurance number (SIN), Business name, Business number, Business address, City, Prov./Terr., Postal code, Fiscal period, Date (YYYYMMDD), Date (YYYYMMDD), Was 2017 your last year of business? (Yes/No), Main product or service, Industry code, Tax shelter identification number, Partnership business number, Your percentage of the partnership.
- Part 2 - Internet business activities: If your webpages or websites generate business or professional income, fill in this part of the form. How many Internet webpages and websites does your business earn income from? Enter '0' if none. Provide up to five main webpage or website addresses, also known as uniform resource locator (URL): http://



# Grants In A Global Context

While Canadian artists are fortunate to have a strong granting system in place, in a global context our per capita arts funding is quite average.

**Table 1: Direct Public Expenditures on Arts and Museums, Selected Countries**



Source: Arts Council of England, Policy Research and Planning Department, Research Report Number 13, *International Data on Public Spending on the Arts in Eleven Countries*, March 1998 / *Comparisons of Arts Funding in Selected Countries: Preliminary Findings*, Canada Council for the Arts 2005

Still, grants sustain thousands of artists annually. Theatre and dance companies rely on project grants when they are starting out and operating grants once they've become more established. Once established and running a non-profit or charity, there are fewer income tax complications related to grants. Acknowledging your grants when filing your taxes is therefore most complicated for independent artists and ad hoc collectives.

## Calendar Year or Creative Cycle?

Grant deadlines and fund dispersals don't follow calendar years or even the life of a proposed project. You get the money when you get the money and you may have to spend money before receiving the grant, or tuck away money received early until it is needed for the project. But the all-important T4A dictates when the CRA is expecting you to declare the income for taxes. That



time period is often not congruent with your creative cycle. As a sole proprietor your tax year is almost always the calendar year (January to December), regardless of the creative cycle. Please note that while you have until June 15 to file your tax return, if you owe money it is still due by April 30.

Your project, your granting bodies, and the CRA may be running on very different timelines. If you apply for a grant for a 2 year project starting in April 2018 and receive the money in December 2017, that income would seem to be taxable in the 2017 tax year if you fail to understand Generally Accepted Accounting Principles (GAAP – the “Accounting Rules”). If you file your taxes without applying GAAP it means you’ll show the grant on your taxes at line 130 (Other Income), per CRA guidelines, or line 164 (Business income) and pay a bunch of tax on the grant in 2017, as you don’t have the expenses to deduct. You are likely get a large chunk of it back when you claim the large expenses in the following two years. This may pose a significant problem for your personal cash flow.

In order to avoid this issue, when reporting income (from grants or otherwise) it is best practice to use the accrual method of accounting. This means that you match your income to the expenses related to that income. Accountants who don’t regularly work with artists may automatically claim the grant income in 2017, and then have you keep track of the expenses going forward. You would then file an amendment to your 2017 taxes in 2018 or 2019, once all expenses have been captured and get a refund on 2017 taxes you’ve already paid.

This method seems inherently backwards, and yet is how some CRA representatives have determined grant income for sole proprietors and ad hoc collectives should be reported. For a charity/non profit/corporation/ad hoc you are able to utilize the GAAP method more easily as you will not receive a T4A for grant income. Since businesses work under the same rules as sole proprietors, it follows that sole proprietors can follow the same rules as bigger businesses who utilize GAAP.

There are those working with the CRA to push for deferrals to be commonly accepted, whereby the income is not earned until the project is being worked on. (Deferred revenue is another word for un-earned revenue, and if the income isn’t earned yet it should wait till it is to be taxed). If you run into a situation where the CRA questions your grant deferral it is helpful to consult with an accountant who understands GAAP and has read [CRA’s Bulletin IT-257R](#).

## T4As and What to do With Them

The Canada Council included information on how to deal with part 1 of this issue (Box 105/Line 130, “other income”) in a letter to all T4A recipients for the 2016 tax year (see Appendix A). Within that letter was a recommendation to read CRA bulletin IT-257R cited below (see Appendix B for full text)



## Income from Business

When a taxpayer receives the assistance in the course of operating a business or practicing a profession, the amount is included in the calculation of income or loss under section 9. Examples of such assistance are Grants in Aid of Publication and Translation to the publishing industry, and **project grants (other than education grants) to self-employed artists**. In addition, payments made for the purchase of works of art from a self-employed artist under the Art Bank program of the Council are not grants but are considered to be ordinary business income to the artist; accordingly, such payments are included in the income or loss under section 9. The current versions of [IT- 504, Visual Artists and Writers](#), and [IT-525, Performing Artists](#), discuss factors that identify a self-employed artist earning business income.

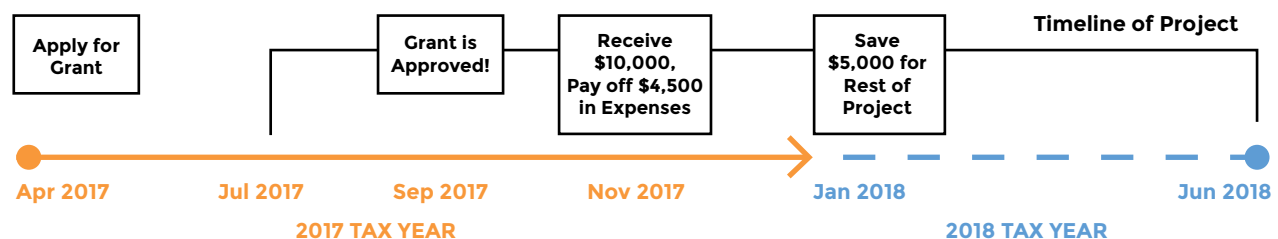
This bulletin allows the artist to claim the income within the Statement of Business or Professional Activities (T2125, as referred to previously), rather than as “other income” at line 130. This at least allows the income which would otherwise float unattached to your expenses in “other income” to now be attached to your art expenses and give a true and honest representation of your art practice’s health.

## Deferrals

The second issue, the one of deferral, is a tricky one to deal with. Most good arts accountants will still try to do a deferral of income to the year in which it should be earned, applying the GAAP principles. This can be accomplished by using line 9 on the T2125 ‘WIP’, or work in progress, and reclaiming the income the following year at line 14 “Work in Progress, Start of the Year”.

*For Example:*

Jenny receives a Canada Council grant of \$10,000. She applies for the grant in April 2017, receives the acknowledgement letter in September 2017 and the funds in late November of the same year. As part of the application she itemized a time line showing the work beginning in July 2017 and ending in June 2018.



Upon receiving the funds in late November she is quickly able to pay for the first half of the project, which she has been carrying on her credit card since July. But she still has a lot of expenses to come in the spring of 2018. So she carefully tucks away half of the grant money – \$5,000.

Jenny meets with her accountant in March of 2018 and hands the accountant her T4A from Canada Council, which shows \$10,000 in box 105. She explains to her accountant that she still has half of the money tucked away, as the creation period for the artist project grant is not yet complete.

### SCENARIO 1

- The accountant enters the T4A income on Jenny’s tax return at line 130 where the T4A suggests it be put.
- The accountant enters Jenny’s expenses (\$4,500) for the grant on the T2125.
- There is no other artistic income for the year

Line 130, Other Income	T2125 Business Income	T2125 Business Expenses	Gross Taxable Income
10,000 00	0 00	-4,500 00	10,000 00

Result:

- Jenny’s business takes a big loss, and shows a negative year end of -\$4,500
- This can suggest to the CRA that Jenny is not a ‘real artist’
- The grant is fully taxable at \$10,000 as “other income” not related to the business losses.

### SCENARIO 2

The accountant applies GAAP to this tax return and does the following:

- Income from the grant is entered so that it is claimed at line 164 of Jenny’s tax return – Gross Business Income
- \$5,000 is then tucked away, or deferred, on line 9 (Work in Progress) of the T2125, reducing Jenny’s income by \$5,000
- The grant expenses are entered at various expense lines (supplies, rent etc) on the T2125
- Jenny’s expenses totaled \$4,500
- Jenny is taxed on the net income - \$10,000 less \$5,000 deferred and \$4,500 in expenses
- Jenny’s taxable income is \$500

Line 130, Other Income	T2125 Business Income	T2125 Business Expenses	Taxable Income
0 00	10,000 00	-4,500 00	500 00
	<b>T2125 Line 9 (Work in Progress)</b> -5,000 00		

Scenario 1 makes Jenny look like she’s a lousy business person.  
 Scenario 2 paints a realistic picture of what Jenny’s art practice looks like.



If Jenny's accountant had used scenario 2 to prepare Jenny's taxes in 2017, then to complete the process further steps are taken on the 2018 tax return:

- The accountant 'claims' the deferred income from 2017 on the 2018 tax return. At line 14 ("Work In Progress, Start of the Year") on the T2125 the accountant enters \$5,000 of income, which is the remaining portion of the grant.
- The remaining grant expenses are entered as needed (supplies, travel, rent etc) on the T2125. These total \$4,000
- Jenny is taxed on the net profit - \$5,000 less \$4,000 - \$1,000 taxable income.

However the CRA has cracked down on this practice, sending out review letters to numerous artists in the last few years asking for proof of grant income and disallowing deferrals.

When grant deferrals (grants not yet earned, ie: not yet spent) started to be questioned more aggressively by the CRA about three years ago, the accountants at [Artbooks](#), a tax office for sole proprietors and artists, did an informal survey of other artists' tax preparers and found that we were all applying the same rules: with grants that needed to be deferred we all continue to do the deferral, as it's an accurate reflection of the client's business. If the CRA questions the deferral we claim GAAP principles and note that all appropriate income was claimed at line 164.

Canada Council, as part of their new Portal roll out, is allowing artists to schedule their payments according to the time line of their project. The other granting bodies have not yet set this up but hopefully will follow Canada Council's example soon. This will hopefully be a huge help in filing taxes when you've received a grant, as you no longer will be required to defer as long as you plan your grant monies carefully. And that's the key: use a proper project/business budget and cash flow and understand when the money is needed in the bank, and then request payments during your peak expense period.

## Conclusion

Grants keep our country's artists afloat. They are a wonderful gift to the arts community and it's important that they show up on your tax returns as a reflection of your success as an artist running a real business.

Remember, while artists make art for a variety of reasons, both personal and financial, if the arts community wants to be treated with respect by the government, artists need to follow good business practices. Artists need to fight for the CRA to acknowledge that grants are a key part of a successful art practice (business), that they prove you are artists (judged by your peers to be seen as such) and that grants are business income and need to be treated as such.

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Citations:  
Comparisons of Arts Funding in Selected Countries: Preliminary Findings  
Canada Council for the Arts 2005





# Appendix A

## Important Income Tax Information from the Canada Council for the Arts



### INCOME TAXES AND YOUR GRANT

The reception of a grant from the Canada Council for the Arts has different tax implications for everyone. At Council, we cannot provide advice on the income tax implications of your grant. Council recommends that you consult with a fiscal advisor to determine how the grant you receive will impact your personal and/or business income taxes. It is important to note that the payment terms of a grant may have an impact on the calculation of the taxes payable.

### PAYEE NAME VERSUS RESPONSIBLE PARTY

When you receive a grant, you have to fill out the Grant Acknowledgment Form (GAF) that allows the grant recipient (an individual or an organization) to select a payee for the grant as well as select to which bank account the grant payment must be issued. Although you may request to have the grant deposited in a bank account other than that of the grant recipient, the T4A at the end of the year will be made out in the name of the grant recipient for payments issued during the calendar year. The grant recipient – not the payee name on the cheque – is the party responsible for any tax filings based on funds received.

### EXPECTED EXPENSES VERSUS GRANT PAYMENT

You may request that Council issue multiple payments for your grant instead of receiving one big lump sum. It is important to understand why. A T4A is prepared yearly for payments issued during the prior calendar year. Eligible grant expenses may be applied against the grant revenue received (see links below for more information). To reduce the fiscal impact of the grant received, it would be good practice to try to match revenues to the budgeted expenses so that the revenues in one year correspond to the expenses in that same year. Therefore, once the expected timing of expenses is determined, request the grant payments be paid in more than one installment, on different calendar years.

### T4A - BOX 105: SCHOLARSHIPS, BURSARIES, FELLOWSHIPS, ARTISTS' PROJECT GRANTS, AND PRIZES

As requested by Canada Revenue Agency (CRA), we enter all grants in box 105 of the T4A slips. Box 105 is described as follows on the T4A: "Scholarships, bursaries, fellowships, artists' project grants, and prizes".

It should be recorded on line 130 of the Tax returns (less allowable expenses if it is for a project grant).

### LINKS

IT-257R: Canada Council Grants: <http://www.cra-arc.gc.ca/E/pub/tp/it257r/it257r-e.html>

This archived bulletin deals with the tax treatment of grants and other payments from the Canada Council. It indicates how and when such amounts are included in income as business or employment income or as taxable grants, fellowships or prizes. It also explains the deductibility of expenses related to grants for the production of artistic works and discusses non-taxable prescribed prizes.



S1-F2-C3: Scholarships, Research Grants and Other Education Assistance: <http://www.cra-arc.gc.ca/tx/tchncl/ncmtx/fls/s1/f2/s1-f2-c3-eng.html>

This Chapter discusses the taxation of scholarships, fellowships, bursaries, prizes, research grants, certain government financial assistance for education and training, forgivable loans and repayable awards. It examines the differences between the types of payments and benefits described above and explains how such amounts should be treated for income tax purposes. It provides the reader with an extensive review of the applicable legislation and is intended for readers who have a general understanding of the Act.

Example for artists' project grants : <http://www.cra-arc.gc.ca/tx/ndvdl/tpcs/ncm-tx/rtrn/cmpltng/rprtng-ncm/lns101-170/130/schlrshp-eng.html>

The link above refers the reader to S1-F2-C3 (see point 2 above) and also gives 2 examples. The second example relates to artists' project grants. It states:

I have a couple of T4A slips totaling \$5,000 for some artists' project grants I received. Do I have to claim the whole amount as income this year?

**No.** If the total of all the amounts you received in 2017 (box 105 of your T4A slips) is \$5,000, you can claim a \$500 exemption or you can claim expenses incurred to produce a literary, dramatic, musical, or artistic work against this income. Report on line 130 the amount that is more than \$500 or your expenses, whichever you prefer.

This means the client would put on line 130, \$5,000 of grant received LESS eligible expenses. If client had \$4,995 of expenses, the amount on line 130 would be \$5.



# Appendix B

## Canada Revenue Agency Information Re: Canada Council Grants

CONFIRMED AS IN FORCE PER CRA

NO: IT-257R

DATE: March 31, 1995

SUBJECT: INCOME TAX ACT

Canada Council Grants

**REFERENCE:** Paragraph 56(1)(n) (also subsections 5(1) and 9(1), paragraphs 8(1)(p) and (q) and 56(1)(o) of the Income Tax Act and section 7700 of the Income Tax Regulations

### Application

This bulletin cancels and replaces Interpretation Bulletin IT-257, dated October 20, 1975 and the Special Release dated March 21, 1986.

### Summary

This bulletin deals with the tax treatment of grants and other payments from the Canada Council. The bulletin indicates how and when such amounts are included in income as business or employment income or as taxable grants, fellowships or prizes. The bulletin explains the deductibility of expenses related to grants for the production of artistic works. It also discusses non-taxable prescribed prizes.

### Discussion and Interpretation

1. The Canada Council and its subsidiary agencies (“the Council”) offer various types of assistance, primarily grants, prizes and other assistance for the promotion of the arts, as well as some fellowships in the humanities and social sciences. This bulletin sets out general principles to be applied when considering the taxability of these amounts.
2. Depending on the nature of the assistance, the status of the recipient, and the arrangements or circumstances under which the assistance is provided, the amount received may be included in the recipient’s income as:
  - (a) income from business (see 3 below);
  - (b) income from an office or employment (see 4 below);
  - (c) a scholarship, fellowship, bursary, prize or research grants (see 7 and 8 below), including a grant for the production of an artistic work (see 5 and 6 below).

### Income from Business

3. When a taxpayer receives the assistance in the course of operating a business or practising a profession, the amount is included in the calculation of income or loss under section 9. Examples of such assistance are Grants in Aid of Publication and Translation to the publishing industry, and project grants (other than education grants) to self-employed artists. In addition, payments made for the purchase of works of art from a self-employed artist under the Art Bank program of the Council are not grants but are considered to be ordinary business income to the artist; accordingly, such payments are included in the income or loss under section 9. The current versions of IT-504, Visual Artists and Writers, and IT-525, Performing Artists, discuss factors that identify a self-employed artist earning business income.

When a grant for the production of a literary, dramatic, musical or artistic work does not constitute business income, it may qualify for the special treatment outlined in paragraphs 5 and 6 below.



## Income from Employment

4. When a taxpayer receives an amount by virtue of or in connection with an office or employment, it is considered employment income under subsection 5(1). It is immaterial that the funds from which the remuneration is paid were obtained under Council assistance or from some other source. For example, a university professor may have been employed on the strength of a Council grant awarded to the university specifically for the purpose of engaging his or her services. In that situation, the professor's remuneration would be subject to tax as employment income under subsection 5(1). In another case when, for instance, an artist is selected by the Council for training or development through an arrangement under which the artist is placed under an employer for a small salary or no salary while the Council subsidizes the artist's employment income, the assistance from the Council to the artist, whether paid directly or through the employer, is considered to be received by virtue of the employment, and is therefore taxable in the artist's hands as income from employment. (Please refer to the current version of IT-525, for guidance in determining whether or not an artist is an employee or self-employed.) Paragraph 8(1)(p), applicable to the 1988 and subsequent taxation years, and paragraph 8(1)(q), applicable to amounts paid after 1990, allow a limited deduction of expenses paid for the purpose of earning employment income from certain musical and other artistic activities.

## Art Production Grants

5. When an artist receives a project grant (referred to in this bulletin as an "art production grant") that is neither business nor employment income, the grant is included in the artist's income under paragraph 56(1)(n), but special rules apply. Specifically, an exception to the flat \$500 exemption mentioned in 8 below applies if an artist receives an amount that is included in income under paragraph 56(1)(n) and that amount is to be used by the artist in the production of a literary, dramatic, musical or artistic work. In such cases, when calculating income from an art production grant under paragraph 56(1)(n), the taxpayer may deduct whichever of the following amounts is greater:

- (a) \$500 and
- (b) the total amount of reasonable expenses incurred to fulfil the conditions of receiving the art production grant, but not exceeding the total amount of the grant included in income for the year under paragraph 56(1)(n). The amount in (b) above does not include:
  - (c) personal or living expenses of the taxpayer (other than expenses for travel, meals and lodging incurred in the course of fulfilling the conditions of the grant and while absent from the taxpayer's usual place of residence for the period to which the grant relates). The taxpayer may not claim the travelling expenses of his or her spouse and children or other third parties,
  - (d) expenses for which the taxpayer has been reimbursed, and
  - (e) expenses that are otherwise deductible in computing the taxpayer's income.

In this context, the term "expenses" includes not only current expenses, but also expenses of a capital nature.

6. Subparagraph 56(1)(n)(iii) provides that eligible expenses must be incurred in the same year in which the art production grant is received in order to be deductible from the grant. In some cases, expenses related to the production of the artistic work may be incurred in the year immediately before or immediately after the year in which the grant is received. While those expenses are not deductible in the year in which they are incurred, they will be allowed as deductions in the year in which the grant is received. However, expenses incurred in the year immediately before the grant is received are only deductible from the grant if they are incurred after the artist has received notification that the grant will be paid. Expenses incurred more than one year before, or more than one year after, the year in which the grant is received are not deductible from that grant. For example, if notification of a grant is received in September of one year, but the grant is not received until February of the following year, production expenses incurred during the last three months of the first year will be allowed as deductions from the grant in the second year when it is received and included in income.



## **Scholarships, Fellowships, and Research Grants**

7. Various grants, fellowships, awards and scholarships are provided by the Council. In each case, the facts must be examined in order to determine whether the assistance is included in income as a scholarship, fellowship, bursary or taxable prize under paragraph 56(1)(n) as described in 8 below, or whether it is a research grant included in income under paragraph 56(1)(o), after deducting allowable expenses. However, as discussed in 9 below, an award from the Council is not included in income if it qualifies as a “prescribed prize.” The current version of IT-75, Scholarships, Fellowships, Bursaries, Prizes and Research Grants, discusses the differences between these types of amounts, as well as the manner in which they are taxed under various circumstances.

8. Subject to the qualifications explained below, paragraph 56(1)(n) includes in income all but the first \$500 of amounts received in the year as or on account of a scholarship, fellowship or bursary. Paragraph 56(1)(n) similarly includes in income all but the first \$500 of a prize for achievement in a field of endeavour ordinarily carried on by the taxpayer (other than a prescribed prize - see 9 below). Paragraph 56(1)(n) and the \$500 exemption above do not apply to amounts received in the course of business or to amounts received in respect of, in the course of, or by virtue of an office or employment. As explained in 5 above, different treatment may apply to grants for the production of literary, dramatic, musical or artistic works.

### **Prescribed Prizes**

9. A prize meeting all of the criteria of a prescribed prize is not included in computing the income of the recipient, even if the prize relates to accomplishments in the recipient’s ordinary field of endeavour. Section 7700 of the Regulations defines a prescribed prize as “any prize that is recognized by the general public and that is awarded for meritorious achievement in the arts, the sciences or service to the public but does not include any amount that can reasonably be regarded as having been received as compensation for services rendered or to be rendered.” Certain prizes awarded by the Council qualify as prescribed prizes, for example, the Governor General’s Literary Awards. However, other Council awards and prizes, such as the Joseph S. Stauffer Prize are only given to individuals who have successfully qualified to receive a Council grant. In such circumstances, these awards or prizes simply replace the grant that was otherwise payable and the recipients are still required to carry out their projects in accordance with the terms set out in their grant application. Such awards or prizes do not qualify as prescribed prizes.

10. Unless an award is a prescribed prize as described in section 7700 of the Regulations, the Council must file information returns under section 200 of the Regulations in respect of its grants and awards.

If you have any comments concerning the matters discussed in this bulletin, please send them to:

Director, Technical Publications Division  
Policy and Legislation Branch  
Revenue Canada  
875 Heron Road  
Ottawa ON K1A 0L8

## **Explanation of Changes for Interpretation Bulletin IT-257R Canada Council Grants**

### **Introduction**

The purpose of the Explanation of Changes is to give the reasons for the revisions to an interpretation bulletin. It outlines revisions that we have made as a result of changes to the law, as well as changes reflecting new or revised departmental interpretations.

## Overview

IT-257R updates existing IT-257 and its March 21, 1986 Special Release, which deal with the tax treatment of grants and other assistance from the Canada Council. The current revision was undertaken to incorporate changes in law to paragraph 56(1)(n) and the addition of paragraph 8(1)(q) contained in S.C. 1994, C.7 Schedule 11 (1991 c.49-formerly Bill C-18); the addition of paragraph 8(1)(p), contained in S.C.1988, c.55 (formerly Bill C-139), as well as the introduction of tax-exempt “prescribed prizes”, applicable to 1988 and following years, by section 7700 of the Regulations. General revisions have also been made to improve the readability of the bulletin and to reflect recent departmental interpretations.

## Legislative and Other Changes

New No 1 replaces the introductory comments in former No 1 and reflects the Canada Council’s mandate to provide grants to the arts and its lesser involvement with providing research fellowships in the humanities and social sciences.

New No 2 is a simplified version of former No 2. The details formerly found in this paragraph have been consolidated in later Nos.

New No 3 replaces the comments on business income found in former Nos 2(a) and 3. We have clarified that the assistance payments to a business or practicing professional form part of the computation of business income or loss under section 9.

Former No 4 has been deleted as the situation outlined there no longer occurs under any existing or contemplated Canada Council program.

New No 4 deals with the inclusion of assistance in income from employment and is substantially unchanged from former No 5. Reference has been added to the deductions under paragraphs 8(1)(p) and (q) for expenses laid out for the purpose of earning income from musical and certain other artistic activities.

New Nos 5 and 6 reflect the amendment to paragraph 56(1)(n). It allows expenses to be claimed against grant income received by artists in the form of what are here termed “art production grants.” Applying a similar position from IT-75R3, new No 5 advises that travelling expenses of the artist’s family or third parties are not allowable.

New No 6 discusses the deduction of expenses incurred in the immediately preceding or the immediately following taxation year. This position is consistent with comments in IT-75R3.

New No 7 on scholarships, fellowships, and research grants, is largely unchanged from former No 6.

New No 8 expands on and updates the comments on prizes found in former No 2(c).

New No 9 deals with tax-exempt prescribed prizes under section 7700 of the Regulations. Paragraph 56(1)(n) was amended in 1987 to refer to “prescribed prizes.” It also provides an example of a prescribed prize.

New No 10 reflects the requirements for the Canada Council to file information returns pursuant to section 200 of the Regulations for most grants and awards.

# Appendix C

## T2125 Statement of Business Income (Pages 2 & 3)

Protected B when completed

### Part 3A – Business income

Fill in this part **only** if you have business income. If you have professional income, leave this part blank and fill in Part 3B. If you have both business and professional income, you have to fill out a separate Form T2125 for each.

### Part 3B – Professional income

Fill in this part **only** if you have professional income. If you have business income, leave this part blank and fill in Part 3A. If you have both business and professional income, you have to fill out a separate Form T2125 for each.

**Note:** New proposed rules allow you to include your work in progress (WIP) progressively if you elected to use billed basis accounting for the last tax year that started before March 22, 2017. Generally, for the first tax year that starts after March 21, 2017, you must include 50% of the lesser of the cost and the fair market value of WIP. For more information, see chapter 2 of guide T4002.

Part 3A – Business income	
Gross sales, commissions, or fees (include GST/HST collected or collectible) . . . . .	1
GST/HST, provincial sales tax, returns, allowances, discounts, and GST/HST adjustments (included in amount 1) . . . . .	2
<b>Subtotal:</b> Amount 1 minus amount 2	3
<b>If you are using the quick method for GST/HST – Government assistance calculated as follows:</b>	
GST/HST collected or collectible on sales, commissions and fees eligible for the quick method . . . . .	4
GST/HST remitted, calculated on (sales, commissions, and fees eligible for the quick method <b>plus</b>	
GST/HST collected or collectible) <b>multiplied</b> by the applicable quick method remittance rate . . . . .	5
<b>Subtotal:</b> Amount 4 minus amount 5	6
<b>Adjusted gross sales:</b> Amount 3 <b>plus</b> amount 6 (enter on line 8000 of Part 3C) . . . . .	7

Part 3B – Professional income	
Gross professional fees including work-in-progress (WIP) (include GST/HST collected or collectible) . . . . .	8
GST/HST, provincial sales tax, returns, allowances, discounts, and GST/HST adjustments (included in amount 8) and any WIP at the end of the year you elected to exclude . . . . .	9
<b>Subtotal:</b> Amount 8 minus amount 9	10
<b>If you are using the quick method for GST/HST – Government assistance calculated as follows:</b>	
GST/HST collected or collectible on professional fees eligible for the quick method . . . . .	11
GST/HST remitted, calculated on (professional fees eligible for the quick method <b>plus</b> GST/HST collected or collectible) <b>multiplied</b> by the applicable quick method remittance rate . . . . .	12
<b>Subtotal:</b> Amount 11 minus amount 12	13
Work-in-progress (WIP), start of the year, per election to exclude WIP (see Guide T4002, Chapter 2) . . . . .	14
<b>Adjusted professional fees:</b> Amount 10 <b>plus</b> amount 13 <b>plus</b> amount 14 (enter on line 8000 of Part 3C) . . . . .	15

Part 3C – Gross business or professional income	
Adjusted gross sales (amount 7 of Part 3A) or adjusted professional fees (amount 15 of Part 3B) . . . . .	8000
Reserves deducted last year . . . . .	8290
Other income . . . . .	8230
<b>Subtotal:</b> Line 8290 <b>plus</b> line 8230	16
<b>Gross business or professional income:</b> Line 8000 <b>plus</b> amount 16	8299
Report the gross business or professional income from line 8299 on the applicable line of your income tax and benefit return as indicated below:	
<ul style="list-style-type: none"> <li>• business income on line 162</li> <li>• professional income on line 164</li> <li>• commission income on line 166</li> </ul>	

For Parts 3D, 4, and 5, if GST/HST has been remitted or an input tax credit has been claimed, do not include GST/HST when you calculate the cost of goods sold, expenses, or net income (loss).

Part 3D – Cost of goods sold and gross profit	
If you have business income, fill in this part. Enter only the business part of the costs.	
Gross business income (line 8299 of Part 3C) . . . . .	17
Opening inventory (include raw materials, goods in process, and finished goods) . . . . .	8300
Purchases during the year (net of returns, allowances, and discounts) . . . . .	8320
Direct wage costs . . . . .	8340
Subcontracts . . . . .	8360
Other costs . . . . .	8450
<b>Subtotal:</b> Add the amounts above	18
<b>Minus:</b> Closing inventory (include raw materials, goods in process, and finished goods) . . . . .	8500
<b>Cost of goods sold:</b> Amount 18 <b>minus</b> line 8500	8518
<b>Gross profit (or loss):</b> Amount 17 <b>minus</b> amount 19	8519



**Part 4 – Net income (loss) before adjustments**

<b>Gross business or professional income</b> (line 8299 of Part 3C) or <b>Gross profit</b> (line 8519 of Part 3D) .....		_____	a
<b>Expenses</b> (enter only the business part)			
Advertising .....	8521	_____	_____
Meals and entertainment .....	8523	_____	_____
Bad debts .....	8590	_____	_____
Insurance .....	8690	_____	_____
Interest and bank charges .....	8710	_____	_____
Business taxes, licences, and memberships .....	8760	_____	_____
Office expenses .....	8810	_____	_____
Office stationery and supplies .....	8811	_____	_____
Professional fees (includes legal and accounting fees) .....	8860	_____	_____
Management and administration fees .....	8871	_____	_____
Rent .....	8910	_____	_____
Repairs and maintenance .....	8960	_____	_____
Salaries, wages, and benefits (including employer's contributions) .....	9060	_____	_____
Property taxes .....	9180	_____	_____
Travel expenses .....	9200	_____	_____
Utilities .....	9220	_____	_____
Fuel costs (except for motor vehicles) .....	9224	_____	_____
Delivery, freight, and express .....	9275	_____	_____
Motor vehicle expenses (not including CCA) (amount 15 of Chart A) .....	9281	_____	_____
Capital cost allowance (CCA). Enter amount i of Area A <b>minus</b> any personal part and any CCA for business-use-of-home expenses .....	9936	_____	_____
Other expenses (specify): _____	9270	_____	_____
<b>Total expenses:</b> Total of the above amounts	9368	_____	_____
			▶ _____
<b>Net income (loss) before adjustments:</b> Amount a <b>minus</b> amount b .....			9369

**Part 5 – Your net income (loss)**

Your share of line 9369 or the amount from your T5013 slip, <i>Statement of Partnership Income</i> .....	9974	_____	c
<b>Plus:</b> GST/HST rebate for partners that was received in the year .....		_____	
<b>Total:</b> Amount c <b>plus</b> line 9974		_____	▶ _____
<b>Minus:</b> Other amounts deductible from your share of the net partnership income (loss) (amount 6 of Part 6) .....			9943
<b>Net income (loss) after adjustments:</b> Amount d <b>minus</b> line 9943 .....			_____
<b>Minus:</b> Business-use-of-home expenses (amount 16 of Part 7) .....			9945
<b>Your net income (loss):</b> Amount e <b>minus</b> line 9945 .....			9946
Report the net income amount from line 9946 on the applicable line of your income tax and benefit return as indicated below:			
<ul style="list-style-type: none"> <li>• business income on line 135</li> <li>• professional income on line 137</li> <li>• commission income on line 139</li> </ul>			



# Appendix D

## Suggested Further Reading

### [Income Tax Folio S1-F2-C3, Scholarships, Research Grants and Other Education Assistance](#)

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The Canadian Arts Coalition has created a Committee on Taxation and the Artist in partnership with many NASO organizations including CARFAC, IMAA, and the Canadian Dance Assembly. April Britski of CARFAC National has been leading this committee, with support from Co-Chair Kate Cornell. The Committee is focused on the fair treatment of professional artists regarding taxation. The Committee is in regular communication with the Canada Council for the Arts and with senior officials at the Canada Revenue Agency. This significant file is moving quickly and the government is listening.

If you are an artist who has been reassessed and/or audited by the Canada Revenue Agency, please share your story with the Canadian Arts Coalition or your discipline-specific national arts service organization.

Contact: [artscoalition@gmail.com](mailto:artscoalition@gmail.com)

Written by Tova Epp for Generator

Published October 2018

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About [Generator](#)

## GENERATOR

Generator is a mentoring, teaching, and innovation incubator that expands the skills, tools, and competencies of independent artists, producers and leaders. From intensive programs to workshops, Generator is transforming the role of the artist producer one artist at a time.

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About Tova

Tova Epp has been a tax preparer with Artbooks for 10 years, specializing in arts based practices. As well, she has been a freelance bookkeeper in the Canadian arts sector for 15 years. She holds a BFA with distinction from Concordia University. When not preparing books and tax she is an actor based in Toronto.

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**We want to thank** the individuals and organizations who contributed time and energy into the creation of this paper: Kristina Lemieux, Rachel Penny, Committee on Taxation and the Artist at the Canadian Arts Coalition, Amanda Mills, and Artbooks.

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Graphic Design by [Kinnon Elliott](#)