

# “LOOPHOLES FOR FARMERS”™

## 2015 – 2016

“A tax planning checklist  
for farmers”



ROSSWORN HENDERSON LLP  
*Chartered Professional Accountants*  
*Tax Consultants*



*“Tax Planning Professionals”*

ch@rhllp.ca

ds@rhllp.ca

nm@rhllp.ca

Toll free 1-888-818-FARM

www.farntax.ca

“Loopholes For Farmers” is a tool that can be used to reduce the overall taxes that you pay. This is not an exhaustive list of tax planning ideas, but is simply a summary of the more significant savings and planning opportunities available today in British Columbia. Professional advice should be sought to ensure that a particular idea is applicable to your personal situation.

**Please review the checklist, and if any of the items seem to relate to your situation, please do not hesitate to call.**

© Copyright 2016 Rossworn Henderson LLP  
All rights reserved.

\$12.95 + GST (complimentary for clients)

**HOW TO USE THIS CHECKLIST:**

This “Loopholes for Farmers” guide has been divided into the following sections:

	<u>Page</u>
• <b>General information</b>	2
• <b>Deductible expenditures</b>	5
• <b>Using your vehicle for farming</b>	8
• <b>Capital expenditures</b>	9
• <b>Farming in a corporation</b>	10
• <b>Selling a farm &amp; transfers to children</b>	12
• <b>Government programs</b>	18

There are very specific tax laws that relate **only** to farmers. **It is very important that you are aware of how to use these rules to your advantage.** If a tax rule is missed or misused, this error could easily cost you hundreds of thousands of dollars. This is especially true when you are selling your farm or transferring it to children.

1. Read each section that applies to you. Check the  box of each “loophole” that could be used in your circumstance.
2. **BE SURE TO TAKE NOTE OF THE NEW TAX RULES FOR THIS YEAR, WHICH HAVE BEEN HIGHLIGHTED IN BOLD.**
3. Bring this booklet with you when we are tax planning for you or preparing your income tax return and we will help you get the maximum benefit from those planning points. If you miss available deductions or planning points, it may cost you thousands of dollars.
4. These “loopholes” represent various methods to use existing tax laws to your greatest advantage. **As a taxpayer, you should always look at the tax rules from different angles and structure your tax planning in a way that will result in a benefit for you and your family.**
5. For further information regarding your tax issues, please contact our offices at:

Armstrong:	250-546-8665	Enderby:	250-838-7337
Lumby:	250-547-2118	Salmon Arm:	250-832-5129
Sorrento:	250-675-3440	Out of town (toll free):	1-888-818-FARM

Email:	Chris Henderson	ch@rhllp.ca
	Dustin Stadnyk	ds@rhllp.ca
	Nathalie Merrill	nm@rhllp.ca



**Rossworn Henderson LLP**  
Chartered Professional Accountants  
Farm Tax Consultants



**GENERAL INFORMATION**

**Farmers are classed into three categories:**

**Full-time farmers**

- ❑ Full-time farmers are not subject to a limit on the amount of losses that are deductible. ➤ You should try and establish your farm operation as full-time.

**Part-time farmers**

- ❑ Part-time farmers are restricted to the amount of loss that can be claimed. The maximum that may be claimed in one year is \$17,500. ➤ If possible, set your farm operation up as a partnership as each partner will be eligible for a maximum loss of \$17,500.

**Hobby farmers**

- ❑ Hobby farmers cannot deduct any farming expenses as CRA views them as being entirely for personal benefit. ➤ Never advise CRA that you consider your farm a hobby. Ensure you have documentation supporting a reasonable expectation of profit.
- ❑ If you or your spouse are self-employed, **you have a June 15 deadline for your personal income tax returns, however, any taxes owing are still due on April 30 and CRA will charge interest for unpaid taxes as of April 30.** ➤ You may want to consider making a lump-sum instalment before April 30 to cover the estimated taxes owing if you cannot file your return by that date.
- ❑ Business losses created on or after 2006 can be carried forward for 20 years. Losses occurring prior to 2006 are limited to a 10-year carry forward. ➤ If your business has losses that are about to expire, it may be possible to renew these, so that they are available for another 20 years.



**Rossworn Henderson LLP**  
Chartered Professional Accountants  
Farm Tax Consultants



**Tax Law**

**Planning Point**

- Partnerships that have more than \$5 million in assets OR revenues plus expenses greater than \$2 million are required to file a T5013 Partnership Return.
  - Partnerships with less than 6 partners are not required to file a T5013 Partnership Return. If no T5013 is filed, CRA could take the position that the Partnership Return is never statute-barred.
  - A farmer can use deductions such as CCA for Guaranteed Income Supplement (“GIS”) purposes.**
  - If you had a profit from your farm last year and had to pay taxes at the end of the year, CRA will likely require that you make instalment payments for this year.
  - On April 1, 2013 BC returned to charging GST at a rate of 5% (previously HST at 12%).
  - Taxpayers with gross revenue of less than \$30,000 are not required to register for GST.
- The T5013 must be filed by March 31<sup>st</sup> each year. Please note, the assets are calculated as the cost of all assets both tangible and intangible excluding any depreciation. If you think that this may apply to you please contact our office.
  - You may want to consider filing a T5013 Partnership Return even if not required to do so to ensure that your Partnership Return is statute-barred.
  - You should deduct CCA for GIS purposes but not for income tax purposes. This way you do not waste personal exemptions.
  - Individual farmers are allowed to make one annual instalment due on December 31. Farm Corporations are required to make monthly instalments.
  - Be sure your record keeping system captures all the GST paid on expenses. There are some sales items that GST must be charged on by farmers. For example, farmers must charge GST on the sale of equipment, land and hay for horse consumption.
  - Consider registering voluntarily, as you will not charge GST on most farming income, but then you can recover the GST paid on your purchases.



**Rossworn Henderson LLP**  
Chartered Professional Accountants  
Farm Tax Consultants



**Tax Law**

**Planning Point**

- |   |   |
|---|---|
| <ul style="list-style-type: none"> <li>❑ Easement sales qualify for the capital gains deduction (“CGD”). ALR swaps and the first year changes on surface leases may also qualify for the CGD.</li> <li>❑ Properties with farm status have lower rates of municipal taxes and property insurance. The BC Assessment Authority determines your status.</li> <li>❑ There is a farm class for retired farmers under BC Assessment</li> <li>❑ Farmers can earn Carbon Credit by adopting practices that reduce emissions, such as no-tilling and direct seeding.</li> <li>❑ Partnerships provide a lot of flexibility with respect to future tax planning and the ability to access the Capital Gains Exemption. However, there are very complex tax rules that can apply. Joint ventures offer high income farms the possibility of increasing the amount of income that is taxed at low rates.</li> <li>❑ Siblings may break the ownership line for the capital gains exemption.</li> <li>❑ There are income tax issues if life insurance policies are not properly structured.</li> <li>❑ You can earn up to \$3,500 of employment income before it affects your Guaranteed Income Supplement.</li> </ul> | <ul style="list-style-type: none"> <li>➤ If possible, consider using the “ACB” adjustment instead of using the capital gains deduction.</li> <li>➤ Try to have your property assessed as farm. Farm property taxes are considerably lower than residential. There are “developing farm” classifications for starting farms.</li> <li>➤ Provided you meet all of the criteria, your property may still qualify as farm property without having the prescribed amount of sales.</li> <li>➤ Carbon Credits can be bought and sold on an open market, which will be taxed as income to the farm.</li> <li>➤ In situations where you are adding a new partner, removing an old partner, moving a partnership into a company, or dealing with a partner, you should always consult with a knowledgeable advisor.</li> <li>➤ Take this into consideration when structuring farm ownership and succession.</li> <li>➤ Ensure the payor and the holder of the life insurance is the same or there are taxable benefit issues.</li> <li>➤ Consider issuing yourself and your spouse a T4 \$3,500 each.</li> </ul> |
|---|---|

Tax Law

Planning Point

**DEDUCTIBLE EXPENDITURES**

- ❑ Farmers may report income on either a cash or accrual basis.      ➤ Consider using the cash basis for your farm operation, as it is generally easier to manipulate the income reported in any given period.
  
- ❑ Any expenses relating to the farm are deductible, including:
  - livestock purchases
  - containers and twine
  - fertilizer and pesticides
  - seeds and feed
  - property, equipment, and crop insurance
  - custom contractor fees
  - machinery rentals
  - utilities
  - office and supplies
  - professional fees
  - rent and property taxes
  - wages
  - motor vehicle expenses
  - veterinary and breeding fees
  - machinery, fence and building repairs
  - fuel
  - licenses
  - small tools
  
- ❑ The portion of expenses that relate to personal use (i.e. slaughtering a cow for the freezer or using hay for your hobby horses) is **not** deductible by the farm.      ➤ Generally, it is easier to increase your reported farming income to include what that farm would have received had these items been sold to someone else.
  
- ❑ 50% of meals and entertainment expenses are deductible.      ➤ Keep good records to support your claim, including who you attended with and for what purpose.



**Rossworn Henderson LLP**  
Chartered Professional Accountants  
Farm Tax Consultants



**Tax Law**

- ❑ A portion of home office expenses such as rent, mortgage interest, property taxes, utilities, telephone, minor repairs and home insurance are deductible. In-home office expenses cannot be used to increase a loss but can be carried forward indefinitely and used in a year when the farm has a positive income.
- ❑ A farm can pay individuals as subcontractors, saving you the cost of Canada Pension Plan (“CPP”) and Employment Insurance (“EI”) remittances.
- ❑ **The federal personal exemption for 2016 is \$11,474, under which no income tax is paid on earnings.**
- ❑ Expenses incurred for clearing, leveling, and draining land are 100% deductible.
- ❑ CRA gives tax credits for legitimate research under the Scientific Research and Experimental Development Program. It is designed to help small businesses do research to improve their products. Farmers who qualify for the program can get a 100% tax deduction for the money spent on research and refundable credits.

**Planning Point**

- If possible, increase farm revenue or decrease other expenses ensure your home office expenses get claimed.
- There are specific criteria to consider if a worker is a subcontractor or an employee. Ultimately, the risk of any additional tax liability resulting from an incorrect assessment falls on you, so be sure before you start.
- **Pay reasonable wages to family members (especially children) to take advantage of these tax-free limits. The children can then contribute to an RRSP or RESP with the funds. Ensure your children file a tax return to maximize their RRSP room for future use and to claim the Working Income Tax Benefit tax credit.**
- Try and have farm expenses characterized as land leveling and land clearing. You do not have to deduct all the costs for clearing land in the year they were paid. You should carry forward any or a part of the costs to a year you are taxable.
- Test plots and machinery experiments could qualify for this tax break. Check if contributions used for Research and Development are also eligible for the refundable tax credits. Any expenditure that result in a “technological advance” qualify. See if you can get yours to qualify, it’s worth it!!



**Rossworn Henderson LLP**  
Chartered Professional Accountants  
Farm Tax Consultants



**Tax Law**

**Planning Point**

- ❑ If you use your life insurance policy as collateral for a loan related to your farm, you may be able to deduct a portion of the premiums paid.
  - ❑ Interest on money borrowed to earn farming income is deductible. The purpose of a loan is what determines whether a loan is deductible.
  - ❑ CRA has stated that payments of mixed debt must be split pro-rata based on the personal and business percentages.
  - ❑ Leasing equipment is an alternative to purchasing, and the lease payments are 100% deductible.
  - ❑ \$3,500 per year can be paid into a retiring allowance for employees, including spouses and children if you retire for years that they worked in your business operation before 1996.
  - ❑ Cash basis farmers that report a net loss are required to decrease their loss based on the amount of purchased inventory (livestock, fertilizer, chemicals, feed, seed and fuel) that is on hand at the end of the year. This Mandatory Inventory Adjustment (“MIA”) will be deductible in the next year.
  - ❑ Leased cattle are not subject to the MIA.
- When arranging financing, ask the bank for a letter saying that you need life insurance to ensure the payments are deductible.
  - Always structure loans to be for a business purpose, which makes them deductible. If required, personal assets can still secure the loan.
  - You might consider splitting your financing in to separate loans (business vs. personal) and pay down the personal loan first.
  - Ensure it says “lease” if you want lease treatment. It can be structured just like a loan with a \$1 buyout and still qualify. If you buy out the lease then sell the equipment for a profit it may be classified as business income and there will be no capital gains.  
**Watch out for the lease rates are. They are often much higher than financing costs.**
  - Transfer this retiring allowance into an RRSP to avoid immediate income taxes on it. CRA has said that wages don’t even have to be paid to the spouse. The spouse and children only have to have worked on the farm.
  - You are only required to include 70% of the cost of Specified Animals (horses or animals registered under the *Animal Pedigree Act*). All horses are considered to be “specified animals”.
  - You should consider this as an option if you wish to create a farm loss.



**Rossworn Henderson LLP**  
Chartered Professional Accountants  
Farm Tax Consultants





**Tax Law**

- Cash basis farmers have the option of reporting additional income up to the fair market value of the inventory on hand at the end of the year. This is called an Optional Inventory Adjustment (“OIA”) and is deductible in the next year.

**Planning Point**

- In many cases, it is beneficial to have a moderate amount of profit generated by the farm. For example:
  - to utilize non-refundable tax credits, which would otherwise expire
  - to have earned income for calculation of your RRSP contribution limit
  - to designate the farm as Qualified Farm Property, which is eligible for the \$1,000,000 capital gains exemption
  - to average taxes over multiple low profit years at low marginal rates as compared with no tax in certain years and very high rate tax in years when the farm does well.

**USING A VEHICLE FOR FARMING**

- Expenses relating to a vehicle used for farm purposes are deductible based on the percentage of kilometers driven for business purposes, which must be supported by a travel log. **CRA auditors have stated that if a log is not available, they consider the vehicle to be 100% for personal use, and no deductions are available.**
- If an employee uses a farm vehicle for personal use, the employer is required to calculate an “operating benefit” and a “standby charge” based on the number of personal kilometers and include these amounts on the employee’s T4. For 2016, the “operating benefit” rate is \$0.26/km. The “standby charge” is 2/3 of the annual lease cost or 24% of the original cost.
- Allowable expenses include fuel, repairs, insurance, loan interest, lease payments, and depreciation. Receipts must be kept to support these amounts. **If you are audited and do not have a log, you may be able to prepare a log after the fact based on timesheets, appointment books, or other means, and appeal the reassessment.**
- The “standby charge” is reduced if personal use is less than 50% and less than 20,000km/year in total. Because the standby charge is so onerous, a vehicle should generally only be owned by a business if it is used more than 90% for business use and personal use will be less than 1,000km/month.



**Tax Law**

- ❑ A vehicle defined as a “passenger vehicle” by CRA has special rules that reduce the allowable deductions for depreciation, lease costs, recapture and interest. The maximum cost for depreciation is \$30,000 (which includes GST and PST), the maximum lease cost is \$800/month, and the maximum interest is \$300/month. If not determined to be a “passenger vehicle”, the full expenses are deductible.
  
- ❑ Employers are permitted to deduct a traveling allowance paid to employees for vehicle use, which is non-taxable to the employees. For 2016, the rate in B.C. is \$0.54/km for the first 5,000 kilometers and \$0.48/km thereafter.

**Planning Point**

- A vehicle is not an “automobile” if:
  - It seats 3 people and is used more than 50% for business use, or
  - It seats more than 3 people and is used more than 90% for business. This vehicle must be a van, pick-up or similar vehicle used to transport goods, equipment, or passengers to earn income.These tests only apply in the year of acquisition. Acquire new vehicles just prior to the end of the year and ensure it meets the test for this short period.
  
- If actual vehicle expenses (insurance, repairs, fuel, loan interest, etc.) exceed this rate, actual costs can be claimed. However, receipts and a mileage log must be maintained to support the claim.

**CAPITAL EXPENDITURES**

- ❑ CRA allows farms to deduct an amount for the depreciation of equipment used in the farm, referred to as the “Capital Cost Allowance” (“CCA”). The amounts for different types of equipment are set by CRA, although only ½ of the annual amount is permitted in the year of acquisition.
  
  - ❑ Tools with a cost less than \$500 are considered Class 12 additions for tax purposes, and are fully deductible in the year of purchase.
  
  - ❑ Certain manufacturing assets and technological equipment can be put into a separate class when acquired so that when disposed of, a tax savings can be realized if the selling price is lower than the tax value.
- To maximize your CCA deduction, consider making capital purchases close to the end of the year. In this way, you have ½ of the annual CCA even if only owned for a short period. Also, consider waiting until the beginning of a new year to dispose of equipment as there is no CCA claim permitted in the year of sale.
  
  - It is important to ensure these are appropriately recorded, as the alternative is Class 8, which is a deduction at 20% per year.
  
  - Dairy farms may be considered to be “manufacturers”. Consider putting these assets into these special classes.



**Rossworn Henderson LLP**  
Chartered Professional Accountants  
Farm Tax Consultants



Tax Law	Planning Point
<p>☐ Budget 2015 provides a CCA rate of 50% on a declining-balance basis for machinery &amp; equipment acquired after 2015 and before 2026 primarily for use in Canada for the manufacturing and processing of goods for sale or lease.</p>	<p>➤ Ensure manufacturing and processing machinery and equipment included in the appropriate CCA class to take advantage of this increased deduction. There are enhanced CCA claims for clean energy generator and electrical generator from waste heat.</p>
<p>☐ Trucks purchased that are used to haul freight with GVW of larger than 11,788 kg are included in Class 16.</p>	<p>➤ The rate of depreciation for Class 16 is 40%. Be sure your truck is recorded in Class 16 and not Class 10, which is only depreciated at 30%.</p>
<p>☐ Construction costs for a paved road are a capital asset added to Class 17. The costs for unpaved roads are deductible expenses.</p>	<p>➤ Leave the roads built on the farm unpaved, as the cost of building them is fully deductible.</p>
<p>☐ If an asset has had too much CCA claimed on it over the years, the tax value will be lower than the fair market value. When sold, such an asset will result in an income inclusion called “recapture”.</p>	<p>➤ Transfer Classes 2-12 to Class 1 in order to defer the recapture of capital cost allowance when you sell assets. The purchaser, including children, can put the purchase into normal classes.</p>

**FARMING IN A CORPORATION**

<p>☐ The main reasons to incorporate a farm are as follows:</p> <ul style="list-style-type: none"> <li>• Lower tax rates</li> <li>• Separate legal entity</li> <li>• Ability to plan and control personal income</li> <li>• Income splitting</li> <li>• Simplicity</li> <li>• Succession planning</li> </ul>	<p>➤ Each of these reasons must be examined in relation to your current situation and your expectations for the future. There are additional costs to having an incorporated farm, so it is important to ensure the benefits will outweigh this cost.</p>
<p>☐ The corporate tax rate is <u>13%</u> on the first \$500,000 of active income as compared with 48% when taxed personally.</p>	<p>➤ If you can leave excess cash in a company there will be significantly more after-tax dollars to invest or make the farm grow faster and pay down debt.</p>



**Tax Law**

**Planning Point**

- ❑ “Eligible” dividends are taxed at a significantly lower tax rate than regular dividends.
  - ❑ A tax court decision has determined that dividends can be paid to one class of share and not another.
  - ❑ A dividend that has been declared, but not yet paid is reported on a separate tax return when you pass away and results in the ability to get nearly tax-free money to your estate.
  - ❑ When incorporating, cash basis accounts receivable can’t be rolled tax-free.
  - ❑ A corporation does not qualify for the principal residence or the Provincial Homeowner Grant.
- If your company has active income in excess of the \$500,000 small business limit, you should review whether paying “eligible dividends” is more tax advantageous than management bonuses.
  - When setting up your company, be sure and give both spouses different classes of shares as it provides more options for remuneration. Joint ownership of shares with a spouse should be considered to avoid possible probate if one of the spouses dies. This may reduce the ability to “dividend sprinkle”.
  - If you are of ill health or elderly, consider declaring a dividend in your company, but not paying it to minimize some estate taxes.
  - Consider purchasing cattle inventory in the proprietorship/partnership to reduce the impact of these accounts receivable. The inventory can be rolled to the company and the income for the sale of the inventory will be used to offset the deduction from the accounts receivable.
  - You should attempt, by trust declaration, to transfer the house and 1 acre into your own name. Then, by registering a 1/1000 interest ownership of the property or a life-estate jointly into you and your spouse’s names you can claim the principal residence exemption and also claim the B.C. Home Owners Grant.



**Rossworn Henderson LLP**  
*Chartered Professional Accountants*  
*Farm Tax Consultants*



**Tax Law**

**Planning Point**

- ❑ Corporate losses cannot be transferred to an individual.
- When starting a farm and you are expecting start-up losses, operate as a proprietorship or partnership. These “start-up” losses can be used against other income and can even be carried back to prior years.

**SELLING A FARM & TRANSFERS TO CHILDREN**

- ❑ The Lifetime Capital Gains Exemption Limit was increased to \$1,000,000 in 2015, for “qualified farm/fishing property” and shares of a family farming/fishing corporation.
- Structure your affairs to ensure you and as many family members as possible qualify for this deduction.
- ❑ The sale of a farm (or quota) may be tax-free if your farm qualifies for the lifetime \$1,000,000 capital gains exemption.
- There are specific rules that determine if your property qualifies based on the use of the property and the length of ownership. You should always look at this option as it can save up to \$179,000 of tax per owner.
- ❑ If you acquired the property after 1987, you must meet a 2-year gross revenue test to determine if farm property qualifies for the capital gains exemption. This test requires that your gross revenues from farming exceed all other sources of income.
- If you operate your farm as a partnership, you are not required to meet this test. You should always set-up your farm as a partnership to avoid this onerous test in the future. The land need not be registered in the name of the partnership if the farmer has been reporting as a farm partnership on their tax returns.
- ❑ If you received your property from your parents, you may be able to fall back on your parents farming history to see if the farm still qualifies for the capital gains exemption. Property acquired from siblings does not qualify for the look back provisions through the parents.
- You should always look at the history of a property when family is involved. You should have old tax returns to support such a claim. Affidavits from neighbors, family pictures and old dairy or apple co-op records all are good evidence.
- ❑ If you owned a farm prior to 1987, but claimed the 1994 capital gains election, you are considered to have re-purchased the property after 1987 and now must meet the gross revenue test.
- You can still look to your ownership pre-1994 to determine if you meet the gross revenue test. Again, this should be supported by tax returns.



Tax Law	Planning Point
❑ You can transfer qualified farm property at its tax cost to children during your lifetime or at your death.	➤ The child acquires the farm property at the same tax value as the parents. When a parent’s child dies, this rollover is NOT available to the child’s spouse.
❑ The sale of timber from qualified farm property may qualify for the capital gains exemption. <i>Gravel sales follow the same treatment.</i>	➤ A tax court case involving the sale of timber from qualified farm property was found in favor of the farmer. If you are planning to sell timber, try to structure the agreement for sale to be similar with this case. If you have paid tax on timber sold from farmland, you should file a Notice of Objection as soon as possible.
❑ <b>If you are selling land with standing timber, you may be subject to BC Logging Tax on the standing timber.</b>	➤ <b>Identify the value of standing timber at \$0 in the sales agreement and insist that the purchaser does not deduct the value of standing timber on his/her tax return.</b>
❑ CRA has recently confirmed their view that sharecropping is considered to be a rental activity, not active farming. As such, it may taint your ability to meet the requirements for the Capital Gains Exemption.	➤ Structure your situation as a Custom Farming Arrangement or Farming Joint Venture Agreement, where you are farmer and the other individual is an employee who gets paid with a share of the crop.
❑ An interest in a farm partnership also qualifies for the \$1,000,000 capital gains exemption.	➤ If possible, always try to structure your farm as a partnership as it provides a significant amount of flexibility that result in tax savings. Also a new partner does not need to hold their partnership interest for 2 years in order to claim the \$1,000,000 capital gains Exemption. <b>A family member can transfer assets to an existing family farm partnership and then immediately afterwards use the capital gains deduction on the sale of the partnership interest.</b>



**Rossworn Henderson LLP**  
Chartered Professional Accountants  
Farm Tax Consultants



**Tax Law**

- ❑ A company is not eligible for the capital gains exemption when selling assets. Therefore, you should “encourage” the buyer to purchase shares so as to utilize your capital gains exemption.
- ❑ In the 2014 Federal Budget, the government proposed to “simplify” the rules for the taxation of goodwill. This would be achieved by altering how goodwill is taxed to match other depreciable assets, such as buildings. This could increase the tax rate on the gain on sale of goodwill from 13% to 48% and cause Alternative Minimum Taxes. Draft legislation with the proposed new changes are expected before the release of the 2016 budget
- ❑ Woodlots can transfer tax-free to the next generation. Woodlots, whose marketable product can only be created at the end of a time period beyond the life expectancy of the taxpayer, may have reasonable expectations of profit problems.
- ❑ When reporting a sale using the capital gains exemption, you will still have a very high net income despite not having to pay much tax. This may affect your ability to claim social benefits such as child tax, OAS, and the GIS.
- ❑ **Although the capital gains exemption may reduce your taxes calculated under the normal method to nil, the “Alternative Minimum Tax” (“AMT”) rules may still apply that will have you paying some tax.**

**Planning Point**

- Consider selling at a lower price to ensure that the purchaser acquires the shares. The tax savings will more than offset the reduction in direct proceeds.
- If you see yourself selling out or transferring your quota to a successive generation in the not too distant future, you might consider whether it makes sense to sell your quota to a new company, just to sell it back again to reset the “purchase price” of quota at today’s values. This will very likely create immediate tax consequences but may be worth it.
- Ensure that the transferor or a family member be actively involved as required by a prescribed forest management plan. This is a requirement for the tax-free inter-generational rollover.
- There may be ways to spread out a sale over a number of years to have the same tax result, but allow you to continue to claim these social benefits. These options are only available if drawn-up as part of the sale agreement, so you should seek professional advice as soon as you think you might want to sell.
- AMT is essentially a “prepayment” of tax for the next 7 years. If you have taxable income in those years, you may be able to offset the tax with the AMT that was incurred in a prior year. AMT should always be considered when evaluating the options of a farm sale as it can likely be reduced or eliminated.



**Rossworn Henderson LLP**  
Chartered Professional Accountants  
Farm Tax Consultants



**Tax Law**

**Planning Point**

- ❑ CRA provides for a taxpayer to sell their home on a tax-free basis using the “principal residence exemption”. The principal residence exemption is generally limited to the home and the ½ hectare (1.2 acres) it is situated on, although recent tax court decisions have allowed significantly more than this.
  - ❑ If you sell your farm, but do not receive all of the money immediately, you do not have to pay the full amount of taxes. This “reserve” is claimed based on the pro-rata portion of money received, with at least 20% of the gain being reported in any year. This reserve is not available where a gain is recognized on the transfer to a “controlled” company.
  - ❑ If there are 2 parcels of farm land jointly owned by 2 brothers, the land can be portioned so that only 1 name will remain on each property.
  - ❑ If you sell farm property and replace it with a similar farm property, the tax on the initial sale can be deferred until the new property is sold. In some cases properties purchased prior to the disposition of the farm property can be considered replacement properties.
  - ❑ CRA has special rules when you are selling your farm to your children. In particular, you may be able to transfer the farm at a value between what you paid for it and what it is worth today, making the transaction non-taxable
- The principal residence exemption and capital gains exemption can both be claimed on a single property. You should always claim the maximum amount for the principal residence exemption, thereby saving the capital gains exemption for future sales.
  - If you sell to a related party (i.e. a child) you only have to report 10% of the gain in any year. You will need to determine whether it is more advantageous to claim the income all in one year or over a number of years.
  - There are no tax consequences providing each parcel has the same value.
  - Always try and have properties classified as farm properties instead of rental properties to ensure they qualify for the replacement property rules.
  - This provides a lot of tax planning flexibility. You are also able to claim the principal residence exemption, the capital gains exemption and the capital gains reserve on such transactions. The consideration that is paid by the children may affect the elected value. Also, the children must own the farm property for 3 years before selling; otherwise the parents will have to pay the tax on the gain.



**Rossworn Henderson LLP**  
*Chartered Professional Accountants*  
*Farm Tax Consultants*





**Tax Law**

**Planning Point**

- ❑ Once a farm has been transferred to a child, the child faces all the same rules and tax options available to the parents. However, there are some holding period tests to be met to ensure the various exemptions will still apply.
  - ❑ If you want to transfer your farm to your child, but do not necessarily want to give them full control of the farm at this time, a Family Trust may be used.
  - ❑ On death, most farm assets can transfer to children at any value between cost and fair market value. **Quota owned in a proprietorship is an exception, which can only transfer at cost at the date of death.**
  - ❑ Inventory, when transferred to a child, is done so at its fair market value and will likely result in tax. However, if you incorporate a company, the inventory can be transferred on a tax-free basis.
  - ❑ Leasing cattle to a child is an alternative to a rollover of the cattle at their fair market value.
  - ❑ When the owner of a farm property dies, he is subject to a deemed disposition of all assets immediately prior to death.
- Do the transfer to children well before (3 years) of an ultimate sale if you are intending to sell a farm outside of the family group. If done properly this can “multiply” the capital gains election.
  - All of the above considerations continue to be available, plus you get the benefit of maintaining control of the underlying assets. However, this does come with the additional cost to setup and maintain the Trust once established.
  - **Given the lack of flexibility at death, it is generally preferable to own quota in a family farm partnership or a corporation.**
  - You should consider transferring the inventory through your Will so the tax is deferred until it is actually sold. The inventory included in income the previous year will be expensed the next.
  - Make sure the lease gives your child the option to purchase a percentage of the herd (and you receive an annual payment) so that CRA will not view the lease as a complete sale and tax you on it.
  - Transfer property by bequeathing or gifting to defer any tax payable. Use as much of the deceased’s capital gains exemption as possible. Ensure RRSPs are left to spouse for tax-free rollover.



**Rossworn Henderson LLP**  
*Chartered Professional Accountants*  
*Farm Tax Consultants*



**Tax Law**

**Planning Point**

- Probate applies on death when assets are held personally.
  - Land ownership can be separated from the right to use the land, by use of a rental or lease agreement.
  - There are a number of considerations when transferring a farm to a successive generation. Most importantly, these include:**
    - How to fund retirement cash needs
    - How to deal with non-farm children and the Wills Variation Act
    - How to protect against future legal and matrimonial issues
    - How to avoid property transfer taxes
    - How to minimize the effect of Alternative Minimum Tax and social benefit clawbacks
    - How to ensure the liquidity and continuance of the farm.
    - BC Probate taxes
  - In certain circumstances, land inside of the ALR can be “traded” for property outside of the ALR.
  - At a farmer’s date of death, there is a deemed disposition of all his/her assets.
- Hold land and shares of companies in joint names with spouse to avoid probate.
  - Consider this strategy to help make the allocation of farm amounts more equitable amongst farm children and non-farm children.
  - **This is not an exhaustive list of considerations, as each family and situation is different. Further, your answer to certain issues will negatively affect other issues. As a result, there is never a single “right” answer. Instead, you should involve your accountant, lawyer, banker and investment advisor from the beginning to navigate through all the considerations and to determine the course of action that best meets your objectives.**
  - A developer may pay you to have your land designated as ALR land if it creates the opportunity to “swap” for land that could be subdivided and developed.
  - There are tax free rollovers and capital gains exemptions and the ability to file a separate Rights & Things return. Be sure that your farm properties qualify for the rollovers.



**Rossworn Henderson LLP**  
Chartered Professional Accountants  
Farm Tax Consultants



**GOVERNMENT PROGRAMS**

- ❑ Agriculture Canada has four programs available to farmers:
  - AgriInvest
  - AgriStability
  - AgriRecovery
  - AgriInsurance
- **AgriInvest** is where the producer can contribute up to 100% of their allowable net sales once per year, and the government will match the first 1% of that amount. These types of accounts are used to help put money aside that would be used for small income shortfalls.
- **AgriStability** is where a producer pays a fee to receive an insurance backed by the government. The program offers assistance once a producer’s margin falls below 70% of their historical reference margin.
- **AgriRecovery** is a disaster relief framework for governments to provide special one-time relief not covered by the other “Agri” options.
- **AgriInsurance** is an aggregation of all existing production insurance for particular industries.
- ❑ In order to qualify for “Agri” programs, you must be registered and have paid your annual fee.
- Consider registering for as many government programs as possible as they are only available to participants.



**Rossworn Henderson LLP**  
Chartered Professional Accountants  
Farm Tax Consultants



**Tax Law**

**Planning Point**

- ❑ The BC Provincial Government has a program called Growing Forward 2 which provides funding to farmers for the following services:

- Tier 1 - A farm assessment
- Tier 2 - Specialized business plan

The program is a 5 year program and will be ending March 31, 2018. To be eligible, the farm must have a minimum of \$10,000 in annual gross farm income as reported to CRA.

- ❑ The Environmental Farm Plan program provides significant funding for farmers.
- ❑ The Western Livestock Price Insurance Program is designed to help cattle and hog producers in Western Canada manage price risks faced by the industry.

- Tier 1 – a basic farm financial assessment where the government will support 100% to a maximum of \$1,900 with an upfront fee of \$100 paid by producers.

- Tier 2 – a specialized business plan to adopt progressive management policies and strategies in nine business management areas which include succession planning, reorganizations and tax planning. The government will support 85% to a maximum of \$3,000

- The government has funding available to assist with the purchase of equipment that helps to mitigate risks for environmental issues.

- For further information on this pilot program please go online to [www.wlpi.ca](http://www.wlpi.ca)



**Rossworn Henderson LLP**  
Chartered Professional Accountants  
Farm Tax Consultants





**NOTICE TO USERS:** This information is of a general nature. We try to ensure its accuracy and timeliness. No one should act on it without appropriate professional advice after a thorough examination of the facts of a particular situation. Information in this booklet is current to January 31, 2016. Changes after that date are NOT INCLUDED.