Agricultural Producers Association of Saskatchewan

Agricultural Alliance of New Brunswick

Alberta Federation of Agriculture

British Columbia Agriculture Council

Canadian Hatching Egg Producers

Canadian Sugar Beet Producers' Association

Canadian Young Farmers Forum

Chicken Farmers of Canada

Dairy Farmers of Canada

Egg Farmers of Canada

Equine Canada

Farmers of North America

Pre-Budget 2015 Consultation

Autumn 2014

Submitted to the Standing Committee on Finance

By the Canadian Federation of Agriculture
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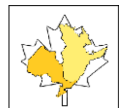
Foreign Agricultural Resource Management Services

Keystone Agricultural Producers

Newfoundland and Labrador Federation of Agriculture

Nova Scotia Federation of Agriculture

Ontario Federation of Agriculture


Ontario-Quebec Grain Farmers' Coalition

PEI Federation of Agriculture

Standardbred Canada

Turkey Farmers of Canada

Union des producteurs agricoles

Executive Summary:

The Canadian Federation of Agriculture (CFA) is an umbrella organization representing more than 200,000 farm families across Canada. These farm families operate small businesses and work hard to benefit all Canadians by contributing significantly to the Canadian economy, providing safe and affordable food and a clean, sustainable environment. The mandate of the CFA is to promote the interests of Canadian agriculture and agri-food producers, and to ensure the continued development of a viable and vibrant agriculture and agri-food industry in Canada.

Our vision:

"To be the national voice of Canadian farmers; committed to enabling their success, which will benefit Canada."

Our mission:

"To promote the interests of Canadian agriculture and agri-food producers, including farm families, through leadership at the national level and to ensure the continued development of a viable and vibrant agriculture and agri-food industry in Canada."

Pre-budget Themes & Recommendations for the 2015 Federal Budget:

Based on the six themes identified by this Committee for its consultations in 2014, the CFA has focused on two of these themes as the basis of its submission.

Increasing the competitiveness of Canadian businesses through research, development, innovation and commercialization

1. *Promote proactive investment of producer-contributed AgriInvest funds* – CFA recommends a change to the AgriInvest program to encourage proactive investments into the future competitiveness of Canadian agriculture by allowing account holders to withdraw producer contributions (Fund 1) without withdrawing taxable government contributions (Fund 2).
2. *Encourage producer-led varietal innovations & climate change adaptive innovations* – Active research activity is key to the long-term competitiveness of the agriculture sector. The CFA recommends increasing funding available to three specific areas: public-private crop varietal development partnerships, climate change adaptation & risk mitigation, and ecological goods & services.

Improving Canada's taxation and regulatory regimes

3. *Promote a smooth transfer of farms between generations* – The CFA recommends that Budget 2015 facilitate intergenerational transfers by addressing the Non-arm's Length Sale of Shares [84.1(1)] and Deemed Proceeds or Capital Gain [55(2)] provisions in the *Income Tax Act*. These provisions add significant difficulties to intergenerational transfers within farm families, and desperately need to be adjusted or removed.
4. *Remove tax barriers to the competitiveness of part-time farming operations and encourage outside investment* – The restricted farm losses provision in the Income Tax Act [31(1)] requires subordinate off-farm income for a producer to claim unrestricted farm losses. For the majority of farms across Canada off-farm income continues to provide an additional revenue source, a means of managing risk, and vital support for new and expanding operations. Expanding the maximum deductible losses from $17,500 to $40,000, based on an inflationary adjustment of the provision's original scope, will facilitate increased investment into the farm sector and increase the competitiveness of affected farm businesses.

1. Promote proactive investment of producer-contributed AgriInvest funds

AgriInvest was created as a more stable source of funding the top tier of BRM programming, where there is so much variability. It was thought that the utility of this fund could be expanded by encouraging farmers to use it for investment in their operations if they so desired. Hence the name, AgriInvest, and the inclusion of, "and/or *invest to reduce future income losses or maximize future income*", in its definition.

However, for the AgriInvest program to be effective it needs to be utilized. Although producers have withdrawn more than $750 million, accounts have grown to contain over $1.8 billion across Canada. Key to improving utilization is providing farmers with an incentive to use these funds for investment in worthwhile initiatives that will "maximize future income."

AgriInvest is comprised of two funds. Fund 1 balances are comprised of producers` post-tax contributions. These cannot be withdrawn until taxable, government matching contributions (and interest earned) in Fund 2 balances are withdrawn first. Consequently, farmers tend to leave their money in their accounts in a taxable year, typically a year where safety net money is not required, and wait for a year when the cash injection is desperately needed. Quite likely that is also a year when the farmer is not in a very high tax bracket.

This strategy allows farmers to maximize the benefit of government contributions, while incentivizing maintenance of a rainy day fund. However, these same tax considerations are a barrier to proactive investment of AgriInvest funds, limiting its support for investments into risk mitigation and future competitiveness.

CFA recommends that governments encourage producers to proactively invest in the industry through strategic projects that improve market incomes or mitigate future risks for primary producers. To accomplish this, a set of investments pre-approved by AAFC could provide producers with the ability to invest in that project directly from their own contributions without having to withdraw government contributions first. Although the tax benefits of this incentive could be relatively minor on some farms, the subjective barrier of further taxable income should not be underestimated in producer decision-making.

This would give farmers immediate access to over 800 million non-taxable dollars (Fund 1) that could be invested into projects proactively mitigate risk and maximizing future income, while creating employment opportunities in Canada's agriculture industry. Project pre-approval would also promote measurability of the program's economic impacts.

In addition to providing proactive investment opportunities, directly drawing down Fund 1 allows farmers to maintain over $1 billion in Fund 2 balances as a safety net. Farmers will continue to have the option of leaving the money in the accounts for a future "rainy day need", or withdraw funds to boost cash flow under the existing tax rules with no associated losses in government revenue.

2. Encourage producer-led varietal innovations and adaptation to climate change

With the anticipated introduction of UPOV 91 draft legislation through Bill C-18, Canada faces considerable opportunities to improve access and encourage development of novel crop varieties. UPOV 91 also provides opportunities for Canadian producers and public institutions to develop crop varietals with traits that meet the specific needs of Canadian producers by providing a more robust means of getting a return on investment. However, the timelines and costs associated with varietal development can be prohibitive to new entrants or individual public institutions.

Producers across Canada are already exploring the opportunities this legislation will provide to develop sustainable, producer-led seed development entities. However, accumulating the funding necessary to develop a variety from its initial conception to market, with little expected in the way of short-term returns, is a difficult proposition for collaborative, producer-led ventures and/or partnerships with public institutions. Therefore, ***CFA recommends that sustained funding be directed towards producer-driven, public-private seed development partnerships.*** By contributing essential seed capital, Canada's agriculture industry and public research institutions can continue to build on their long history of innovative crop variety development and position itself as innovators and world leaders.

Canadian agriculture is a major component of Canada's conservation efforts and farmland makes up 7% of Canada's working landscape, providing important habitat for 550 species of terrestrial vertebrates and over 200 at-risk species. Given the daily interaction with natural resources, farmers are best positioned to manage habitat on agricultural land. CFA is encouraged by the National Conservation Plan's focus on stewardship initiatives and believes ***further funding should be committed to the support of ecological goods & services provided by Canada's producers***. Furthermore, climate change continues to result in increased weather volatility across Canada, as seen by the recurring, devastating floods across Canada. In order to mitigate the risks associated with this volatility, ***CFA recommends the Canadian government increase funding directed towards agricultural climate change adaptation and risk mitigation efforts.***

3. Promote a smooth transfer of farms between generations

The CFA recommends that Budget 2015 facilitate intergenerational transfer issues by amending Non-arm's Length Sale of Shares [84.1(1)] and Deemed Proceeds or Capital Gain [55(2)] provisions in the Income Tax Act.

Non-arm's Length Sale of Shares [*ITA*: 84.1(1)] currently limits access to the capital gains exemption when a transaction occurs between family member (non-arms length). In situations where a parent is attempting to sell the shares in a family owned small business corporation or family farm corporation, the full income tax benefits are effectively denied as a result of anti-avoidance rules in the Income Tax Act (subsection 84.1(1)).

In a sale of company shares to a non-related purchasing corporation, a holding company is generally used as the purchasing vehicle. This allows the purchaser to access the acquired company's income stream and allows the vendor to access their enhanced capital gain exemption on the sale. However, when dealing with family (non-arms length), the benefits of this structure are effectively denied.

Most family farms now operate as corporations, as such, the intergenerational family farm transfer rules are not necessarily achieving their intended objectives (i.e., facilitating the transfer of the family farm to the next generation by deferring the income tax on the transfer, and reducing the transaction price required by the parent for retirement.) ***CFA recommends amendments be made to section 84.1 of the Income Tax Act so that it no longer constrains the transfer of farm businesses to immediate family members.***

Deemed Proceeds or Capital Gains, Section 55(2) of the *Income Tax Act*, adds significant barriers to splitting up a farm that is jointly owned by two siblings. For the purposes of Section 55, siblings are considered to be unrelated. This has implications for both intergenerational transfers and succession planning. Addressing this provision has become more urgent due to impending farmer retirements and the significant difficulties it poses for intergenerational transfers.

There are two exceptions to facilitate a tax-deferred reorganization, however each is problematic. The first is only permissible where the current owner or a related person owns the corporations that arise after the reorganization. However, this legislation deems that siblings deal with each other at arm's length, preventing access to this exemption. The second exemption allowing a divisive reorganization of a corporation on a tax deferred basis is quite restrictive and extremely complicated. This makes the exemption prohibitively expensive for all but the largest operations, and results in hesitancy on the part of tax practitioners to pursue it without first requesting a ruling.

Joint sibling ownership will be a common result of many intergenerational transfers over the next decade**.** Based on the difficulties with 55(3)(b) and the ability to divide a corporation during the parents' lifetime to then pass it along to the children on a tax-deferred basis, ***CFA recommends deeming siblings to be non-arm's length, specific to farm corporations, as non-farm corporations cannot be transferred to the next generation on a tax-deferred basis.***

4. Remove tax barriers to the competitiveness of part-time farming operations and encourage outside investment

Subsection 31(1) of the Income Tax Act, restricting the claiming of losses from a farming business, sets out the circumstances under which a taxpayer will be restricted from claiming all their farm losses against other sources of income. A 2013 increase to the maximum deduction allowable, where a restriction on farm losses applies, allows affected producers to deduct a maximum of $17,500 in farm losses. This imposes considerable financial constraints on smaller farming operations, which use off-farm income as an important tool to manage income volatility and also continue to represent the most common entry point into the agricultural industry. This limitation also creates a disincentive to non-farm investments in agricultural operations, limiting the financial resources available to contribute to the competitiveness of Canada's agricultural sector; while putting a significant portion of Canada's farms at a competitive disadvantage within international markets.

However, the current structure of this restriction was first developed in 1958, with the initial $2,500 in losses being fully deductible and half the remainder deductible up to $5,000. ***CFA recommends an adjustment based on the 1958 structure***, which would see the initial $2,500 of 100% deductible losses increase to approximately $20,000 and the subsequent $5,000 of 50% deductible losses increase to approximately $40,000. Thus, ***a total of approximately $40,000 in losses could be claimed against other income****,* when farming was not one's chief source of income. Increasing this limit would reduce the financial burden the restriction places on new entrants, investors, and Canadian competitiveness.