POUVOIR NOURRIR
POUVOIR GRANDIR

L'Union des producteurs agricoles

BRIEF SUBMITTED BY

THE UNION DES PRODUCTEURS AGRICOLES

TO THE STANDING COMMITTEE ON FINANCE

For the 2020 Pre-Budget Consultations

July 31, 2019

MÉMOIRE

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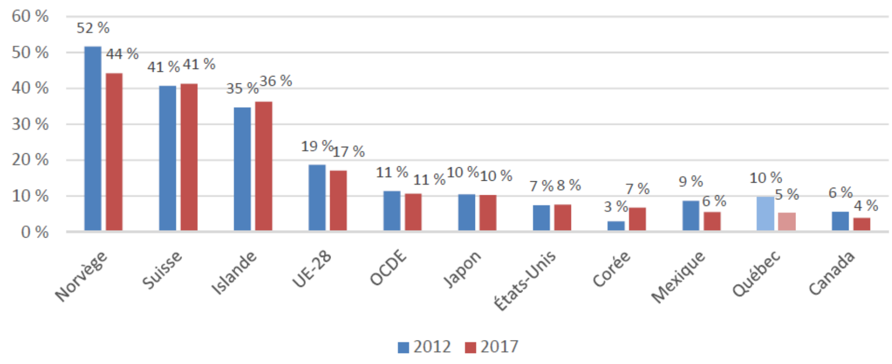
1. Summary of recommendations

- **Recommendation 1**: that the government increase the budget of Agriculture and Agri-Food Canada (AAFC), including the business risk management (BRM) envelope, to take into account the rise in farm cash receipts.
- **Recommendation 2**: that the government enhance the AgriStability program this year by increasing margin coverage to 85% and removing the reference margin cap for allowable expenses.
- **Recommendation 3**: that the government lower the enrollment costs of BRM programs for the next generation of farmers during their first five years as participants.
- **Recommendation 4**: that the government create a program to compensate producers for the environmental goods and services they provide.
- **Recommendation 5:** that the government create a program to help farm businesses adapt to societal expectations.
- **Recommendation 6:** that the government provide a stable and predictable budget for agronomic research and innovation and strategic environmental initiatives.
- **Recommendation 7**: that the government provide ongoing funding to review and maintain organic standards in Canada.
- **Recommendation 8**: that the government create a cost-sharing program for organic certification.
- **Recommendation 9**: that the government fully compensate all producers for the loss of revenue stemming from recent trade agreements.
- **Recommendation 10**: that the government exclude supply-managed products from all future trade agreements.
- **Recommendation 11**: that the government provide agricultural sectors and farm businesses impacted by trade disputes with the appropriate financial support through budgets and compensation programs.
- **Recommendation 12**: that the government exempt wood harvested in private forests from taxes and quotas in a future softwood lumber trade agreement with the United States.
- **Recommendation 13**: that the government give a transferor the same tax benefits that would otherwise be granted to a third party during the sale of a farm from a parent to a child via the transfer of shares.
- **Recommendation 14**: that the government abolish or lower the capital gains tax for the donation or low-priced sale of farm assets to sellers' nieces and nephews.
- **Recommendation 15**: that the government not tax amounts paid in consideration of shared assets during spin-offs, when those assets are not proportional to the number of shares and when said amounts are re-invested into one of the farms created as a result of the spin-off.
- **Recommendation 16**: that the government give farm businesses with an annual gross revenue of $50,000 or less a refundable and non-taxable investment tax credit for the purchase of (new or used) farm machinery and equipment that is equivalent to 30% of the purchase price.
- **Recommendation 17:** that the government create a personal silvicultural savings and investment plan, similar to an RRSP, to exempt owners from paying tax on a portion of their wood sales revenue set aside for sylvicultural projects that are vital to forest growth.

2. Providing competitive risk management tools

Budgetary transfers, an important part of the Producer Support Estimate, decreased by 33% between 2012 and 2017. In Canada, the budgetary transfer to production value ratio is lower than that of several OECD countries, in part due to significant cuts made by the Canadian government to its programs in 2013.

RATIO OF BUDGETARY TRANSFERS TO PRODUCTION VALUES, 2012–2017



Sources: OECD (2018a), Statistics Canada (2018a; 2018b; 2018c; 2018d; 2018e; 2018f; 2018g), data from the Coopérative de solidarité Carbone (2018).

IN ENGLISH, IN DESCENDING ORDER:
Norway, Switzerland, Iceland, EU-28, OECD, Japan, United States, South Korea, Mexico, Quebec and Canada.

Due to current net revenue rates and uncertainty in international trade, the government must enhance its programs, particularly the AgriStability program, this year. Returning coverage to 85% and removing the reference margin cap would give a safety net to farm businesses and especially to the next generation of farmers.

The Union des producteurs agricoles (UPA) is asking the federal government to

- increase AAFC's budget, including the BRM envelope, to take into account the rise in farm cash receipts;
- provide greater support for farm businesses enrolled in BRM programs, particularly by enhancing the AgriStability program; and
- lower the enrollment costs of BRM programs for the next generation of farmers during their first five years as participants.

3. Investing in agri-environment

3.1. Business research, innovation and adaptation

The amounts invested to adapt to climate change, reduce GHG emissions, better protect the environment and comply with new animal welfare standards will not improve farm profitability.

Farmers are agents of change in the agri-environment sector and they must be supported by well-designed adaptation programs and adequately compensated for the environmental goods and services they provide to society at large.

The UPA is asking the federal government to

- create a program to compensate producers for the environmental goods and services they provide;
- create a program to help farm businesses adapt to societal expectations; and
- provide a stable and predictable budget for agronomic research and innovation and strategic environmental initiatives.

3.2. Organic production

Canada must be competitive with the support it provides in order to develop its organic farming sector. For example:

- Federal organic standards must be reviewed every five years, yet Canada does not have any programs to support the review process, unlike the United States and the European Union.
- Canada could also certify more businesses if it created a cost-sharing program for organic certification similar to that of the United States.

The UPA is asking the federal government to

- provide ongoing funding to review and maintain organic standards in Canada; and
- create a cost-sharing program for organic certification.

4. Protecting agriculture and private forestry in our trade relations

4.1. Agriculture and free trade

In March 2019, Canada announced it would provide $3.9 billion to partially compensate for the loss of revenue experienced by supply-managed producers due to CETA and the CPTPP. However, the terms and conditions of these programs remain unknown, and there has not been any announcements to support those producers under CUSMA.

Canada has been in trade negotiations with Mercosur countries, which have shown an interest in our supply-managed market. However, Canadian producers have little to gain from trading with those countries.

4.2. Trade disputes

International trade disputes triggered by the United States have led to significant drops in certain food prices across North America. China's recent position on farm and food imports from Canada will also have a negative impact on our agriculture sector.

Additionally, softwood lumber trade disputes between Canada and the United States are over wood harvested on public land. In contrast, the American government has no qualms about wood from private forests.

The UPA is asking the federal government to

- ➲ fully compensate all producers for the loss of revenue stemming from recent trade agreements;
- ➲ exclude supply-managed products from all future trade agreements;
- ➲ that the government provide agricultural sectors and farm businesses impacted by trade disputes with the appropriate financial support through budgets and compensation programs; and
- ➲ exempt timber harvested in private forests from taxes and quotas in a future softwood lumber trade agreement with the United States.

5. Modernizing the tax system for farm and forest businesses

5.1. Tax treatments for families and small businesses

5.1.1. Sale of farm business shares within a given family

The *Income Tax Act* should be amended, like in Quebec, to qualify transferors for a capital gains deduction on their farm assets when they sell their farm to a company owned by one or more of their family members, just as they would otherwise for a sale of shares to a company owned by a third party.

5.1.2. Transfer of farm assets to a nephew or niece

The *Income Tax Act* allows transferors to limit their taxable capital gains when they sell certain farm assets at a bargain to their children. However, many farm businesses are operated by more than one family, and nieces and nephews are taking over without receiving the same tax treatment as children.

5.1.3. Division of share ownership among family members

When two co-owners part ways and continue their ownership separately, they must divide their assets. When possible, assets are pro-rated to the number of shares owned by each party.

However, in various situations, this division does not always proportionally reflect share ownership. In the interest of fairness, one of the shareholders must pay consideration to the other. We believe that this consideration should not be taxable if it is re-invested into the farm and farming operations continue.

5.1.4. Investment tax credit for small farms

Statistics Canada's 2016 data shows that over 44% of Canadian farms make less than $50,000 in gross revenue per year, and tens of thousands of them are struggling to make enough revenue to invest in order to ensure growth and profitability.

5.2. Sustainable exploitation of private forests

Canada's current tax system does not encourage development in the private forest sector. Given that forest exploitation expenses are paid at the beginning of the production period and most revenue is generated during the harvest of mature trees, there is not enough revenue in that early period to offset taxes paid on costs and there are too few deductible expenses for the amount of sales revenue generated.

The UPA is asking the federal government to

- ➲ give a transferor the same tax benefits that would otherwise be granted to a third party during the sale of a farm from a parent to a child via the transfer of shares;

- abolish or reduce the capital gains tax for the donation or low-priced sale of farm assets to sellers' nieces and nephews;
- not tax amounts paid in consideration of shared assets during spin-offs, when those assets are not proportional to the number of shares and when said amounts are re-invested into one of the farms created as a result of the spin-off;
- give farm businesses with an annual gross revenue of $50,000 or less a refundable and non-taxable investment tax credit for the purchase of (new or used) farm machinery and equipment that is equivalent to 30% of the purchase price; and
- create a personal silvicultural savings and investment plan, similar to an RRSP, to exempt owners from paying tax on a portion of their wood sales revenue set aside for sylvicultural projects that are vital to forest growth.

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