

**Submission by the Union des producteurs agricoles
To the Standing Committee on Finance**

Pre-budget Consultations in Advance of the 2021 Budget

August 7, 2020

1. Summary of Recommendations

- **Recommendation 1:** That the government enhance the AgriStability program this year by increasing reference margin coverage to 85% and removing the reference margin limit for allowable expenses.
- **Recommendation 2:** That the government enhance the AgriInvest program by immediately injecting an amount equal to 5% of allowable net sales from the previous year, without requiring matching contributions by farm businesses.
- **Recommendation 3:** That the government establish a program to pay fair value for the environmental goods and services supplied by farmers.
- **Recommendation 4:** That the government offer an assistance and support program for all the climate change adaptations farm businesses must make.
- **Recommendation 5:** That the government allocate stable and predictable funding for agronomic and agri-environmental research and innovation.
- **Recommendation 6:** That the government provide permanent funding to review and maintain Canada's organic standards.
- **Recommendation 7:** That the government offer a cost-sharing program for organic certification.
- **Recommendation 8:** That, when a parent sells a farm to a child in the form of incorporated business shares, the government offers the seller the same tax benefits as if the sale were to a non-relative.
- **Recommendation 9:** That the government eliminate or limit taxable capital gains when certain farm assets are given or sold at a low price to a nephew or niece.
- **Recommendation 10:** That, when a business is divided, the government not tax the compensation paid in cases where assets are not distributed proportionally to the number of shares, if these sums are reinvested in one of the farms resulting from the division.
- **Recommendation 11:** That the government give farm businesses with an annual gross revenue of \$50,000 or less a refundable, non-taxable investment tax credit equal to 30% of the acquisition cost of new or used farm equipment and machinery.
- **Recommendation 12:** That the government increase the limit on access to the small business deduction for farm corporations generating \$10 million to \$20 million in revenue.
- **Recommendation 13:** That the government offer full and comprehensive compensation to dairy producers to mitigate the impacts of the Canada-United States-Mexico Agreement (CUSMA).
- **Recommendation 14:** That the government introduce an additional compensation program to mitigate the negative impacts of export constraints resulting from CUSMA.

Agriculture and processing are key to Canada's economic recovery for many reasons.

In strictly economic terms, the agri-food sector accounts for one out of eight jobs and revenues of more than \$112 billion. Agri-food exports have exceeded \$55 billion annually for the past five years. The sector is vital to the prosperity of rural areas and Canadians' food security. Each link in the chain must function effectively for the entire system to operate well. The COVID-19 pandemic has shown us how fragile this chain is and how it must be not only maintained but strengthened. This is why it is important

to make the agri-food sector an ongoing priority and include it in Canada's future economic recovery plan.

Lastly, agri-food is one of the economy's most resilient sectors. As people's food needs are not greatly influenced by the economy, this sector is less stressed during crises – like the one we are experiencing now and subsequent waves – making it one of the best sectors for investment in a crisis.

2. Ensure risk management tools are competitive

To ensure the agriculture sector can contribute fully to the recovery, farm businesses must be able to count on effective risk management programs that properly address their risks. However, existing programs are not designed to deal with current issues, as they were created to mitigate the effects of price fluctuations in so-called "normal" markets and the impact of varying climate conditions. The programs do not fully cover losses related to a workforce shortage or a drastic decrease in demand resulting from the closure of hotels, restaurants and institutional food services.

Although we know that the COVID-19 crisis will have major impacts on many farm businesses, the Canadian government has so far offered only a meagre \$252 million to the agri-food sector, only \$125 million of which is in direct assistance to farm businesses. In addition, this assistance will be provided through the AgriRecovery program, which has proven to be an administrative nightmare for recipients.

Taking into account the relative size of agricultural production in Canada and the United States, the \$16 billion in COVID-19 assistance provided by the U.S. government is more than 20 times greater than Canadian aid. This is even more troubling given that farm net income in Canada over the past two years has been about \$3.8 billion – far below the \$8 billion earned during the two years before that. This is why the Canadian government must offer appropriate support to the agriculture sector so that businesses are on equal footing with their competitors and can compete in the markets and survive.

Therefore, the Union des producteurs agricoles (UPA) calls on the federal government to

- enhance the AgriStability program by
 - increasing reference margin coverage to 85%
 - removing the reference margin limit for allowable expenses;
- enhance the AgriInvest program by
 - immediately injecting an amount equal to 5% of allowable net sales from the previous year, without requiring matching contributions by farm businesses.

3. Investing in the agri-environment

3.1 Research, innovation and business adaptation

Farmers are agents of change when it comes to agri-environmental issues. However, investments to adapt to climate change, reduce greenhouse gas emissions, improve environmentally friendly farming practices or comply with new animal welfare standards directly affect farm profitability.

Farmers must be properly supported, coached and trained through programs adapted to their needs and expectations, and be compensated for the environmental goods and services they provide that benefit all of society.

Therefore, the UPA calls on the federal government to

- establish a program to pay fair value for the environmental goods and services supplied by farmers;
- offer an assistance and support program for all the climate change adaptations farm businesses must make;
- allocate stable and predictable funding for agronomic and agri-environmental research and innovation.

3.2 Organic production

Canada must offer competitive assistance to support the development of Canada's organic agricultural sector. For example,

- national organic standards must be reviewed every five years, but Canada has no program to support this work, unlike the United States and the European Union;
- Canada could also increase the number of certified businesses if it established a cost-sharing program for organic certification, as the United States has done.

Therefore, the UPA calls on the federal government to

- provide permanent funding to review and maintain Canada's organic standards;
- offer a cost-sharing program for organic certification.

4. Update the tax system for farm and forest businesses

4.1 Tax treatments for families and small businesses

4.1.1 Sale of farm business shares within the same family

Following Quebec's example, the *Income Tax Act* should be amended to allow a seller to benefit from the capital gains deduction for agricultural property when their farm is sold to a company held by one or more family members, as the case would be when farm shares are sold to a company held by an unrelated person.

4.1.2 Transfer of farm assets to a nephew or niece

The *Income Tax Act* allows a seller to limit taxable capital gains when transferring certain types of farm assets at a low cost to their child. However, many farm businesses are operated by more than one family nowadays. Nephews or nieces who take over the business cannot benefit from the same tax treatment as the children.

4.1.3 Separation of shareholders within one family

When two co-owners separate and continue their business individually, there must be a division of assets. When possible, assets must be distributed proportionally based on the number of shares held by each person.

However, owing to various circumstances, the distribution is not always proportionate to the shares held. In the interest of fairness, one of the shareholders must compensate the other. We believe that this compensation should not be taxable when it is reinvested in the business and farming operations are continued.

4.1.4 Investment tax credit for small farms

According to 2016 data from Statistics Canada, more than 44% of Canadian farms have a gross annual revenue of less than \$50,000. Tens of thousands of these farms struggle to find money to invest to ensure their growth and profitability.

4.1.5 Access to the small business deduction for incorporated farms

With the major increase in the cost of agricultural assets and the ensuing debt, it is becoming more and more common for incorporated farms to exceed the taxable capital limit of \$10 million. These farms find they have limited access to the small business deduction.

The *Income Tax Act* should be amended to increase the limit on access to the small business deduction from \$10 million to \$20 million to recognize and support the increase in agricultural investment.

5. Support the dairy industry in the context of CUSMA

Canada made major dairy concessions when it negotiated CUSMA:

- U.S. access to the dairy market increased to 3.9%;
- the class of milk ingredients (class 7) that let producers offer processors a competitive option to imported ingredients has been eliminated;
- there is a limit on exports of non-fat milk solids by our dairy industry, and a surcharge is placed on exports over this limit;
- the U.S. is to review any changes to dairy classes and the price at which Canadian producers sell milk to processors.

Therefore, the UPA calls on the federal government to

- offer full and comprehensive compensation to dairy producers to mitigate the impacts of CUSMA.
- introduce an additional compensation program to mitigate the negative impacts of export constraints resulting from CUSMA.