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**Written Submission for the Pre-Budget Consultations in
Advance of the 2019 Budget**

By: Ontario Federation of Agriculture

**Ensuring Canada's Competitiveness through Agri-Food:
An Economic Powerhouse**

August, 2018

Recommendations

1) Unleash the Growth Potential of Rural Communities Through Infrastructure Investment

Recommendation 1: That the government partner with Ontario to provide funding in the amount of \$75 million per year for an Ontario Natural Gas Expansion program in rural and remote areas.

Recommendation 2: That the government provide funding in the amount of \$100 million per year for a Broadband Internet Expansion program in rural and remote areas.

Recommendation 3: That the government provide funding in the amount of \$700 million for rural infrastructure such as roads and bridges.

Recommendation 4: That the government implement long-term, predictable funding programs in relation to rural communities with flexibility to support capital priorities of local governments.

Recommendation 5: That the government implement a rural lens in relation to all federal policies and programs to better support rural competitiveness.

2) Address Financial Disincentives to Improve Tax and Trade Competitiveness

Recommendation 6: That the government amend the Income Tax Act in order to remove the financial disincentives currently in place for intergenerational transfers of family farm corporations.

3) Remedy Labour Shortages Through Regulatory Improvements and Skills Training

Recommendation 7: That the government implement a streamlined and standardized “Trusted Employers Program” in relation to the LMIA application process.

Recommendation 8: That the government provide funding in the amount of \$100 million per year for an agriculture and agri-food skills development and training program for in-demand upskilling and career opportunities.

Recommendation 9: That the government implement an awareness campaign in relation to opportunities for high-skilled, well-paying careers in the agri-food sector within other fields of study (e.g. STEM).

Recommendation 10: That the government implement flexible, timely funding programs to farms and food businesses in relation to experimentation with research and development of new products and processes.

Recommendation 11: That the government implement supportive programming for on-farm diversification and modify regulations to enable new farm business ventures.

Ensuring Canada's Competitiveness through Agri-Food: An Economic Powerhouse

The Ontario Federation of Agriculture (OFA) is Canada's largest voluntary general farm organization, representing more than 37,000 family farm businesses across Ontario. Ontario is home to 26% of Canada's farm businesses, exporting nearly \$15 billion in agricultural products in 2017.

Thank you for the opportunity to voice the crucial issues facing Ontario agri-food businesses to ensure Canada's competitiveness. Agriculture and agri-food businesses are leading economic drivers for the province; contributing nearly \$40 billion in GDP and employing over 820,000 Ontarians.

In the 2017 Federal Budget, the agri-food sector was identified as one of six key priority areas with the greatest potential to drive economic growth in Canada, supported by a report commissioned by Minister Morneau - *Unleashing the Growth Potential of Key Sectors* (also known as the Barton Report). OFA is very pleased to see the economic importance of the agri-food sector recognized nationally and hopes to provide further opportunities for the Ontario agri-food sector to drive national prosperity.

OFA has identified three priority areas to ensure Canada's competitiveness:

- 1) Unleash the growth potential of rural communities through infrastructure investment;
- 2) Address financial disincentives to improve tax and trade competitiveness; and
- 3) Remedy labour shortages through regulatory improvements and skills training.

Priority 1: Unleash the Growth Potential of Rural Communities Through Infrastructure Investment

Investing in Agri-Food Growth

Growing the Canadian agri-food sector requires affordable energy, the availability of rural broadband internet and access to innovative technologies, a skilled workforce, and more broadly, vibrant rural communities.

OFA's provincial election campaign, *Producing Prosperity in Ontario*, calls for greater investment in Ontario's agri-food sector and rural communities as an effective strategy to deliver economic growth, enhance competitiveness and produce prosperity for both urban and rural communities. New investments in rural communities will boost economic growth, create new jobs, build new affordable housing options, ensure food security. Alleviate congestion, and contribute to environmental stewardship.

In 2018, the Federation of Canadian Municipalities (FCM) released a report entitled *Rural Challenges, National Opportunity – Shaping the Future of Rural Canada*. While rural areas provide food, water and energy for Canada’s rapidly growing urban centres, they also contribute to Canada’s economic prosperity. Rural communities contribute 27 per cent of national GDP and employ over four million Canadians. However, rural municipalities have limited fiscal and administrative capacity, and typically have low population density over vast geographies.

Rural communities have a disproportionately large stock of infrastructure versus their local tax base. Key infrastructure investments are essential to rural competitiveness and economic growth.

Natural Gas

Natural gas is a cheaper, cleaner, reliable fuel source to ensure farm businesses - as well as residential, commercial and industrial operations - have access to a competitive energy source. In Ontario alone, OFA estimates 60% coverage of rural access to natural gas will provide over \$1 billion in energy savings annually for home heating and appliance costs alone. That is the equivalent of 25,000 full-time jobs in rural Ontario every year, which has a significant impact on the Canadian economy.

Broadband Internet

For today’s modern farm business, like nearly all Canadian businesses, broadband internet is an essential service, as identified by the Canadian Radio-television and Telecommunications Commission (CRTC). Without affordable access to consistent broadband, efficient on-farm technology (e.g. auto-steer technology on tractors, GPS-enabled yield monitors) are unavailable, resulting in inefficiencies and lost opportunities for a competitive advantage.

Transportation

The competitiveness of Canadian agri-food businesses suffers if they cannot access transportation systems such as roads and bridges in a cost-effective and timely matter.

Priority 2: Address Financial Disincentives to Improve Tax and Trade Competitiveness

The current wording of the Income Tax Act (ITA) provides a disincentive for Canadian farmers to transfer the shares of their farming corporations to their children. This threatens the tradition of family owned farms given the fact that more than 25% of farm businesses in Canada are incorporated.

As currently worded, subsection 84.1(2) of the ITA deems the seller and purchaser corporation to be dealing at non-arm’s length if the purchaser corporation is controlled by a child of the seller.

Why Arm's Length Matters

Whether a buyer and seller are deemed to be dealing at arm's length or non-arm's length in this type of transaction has major tax implications.

Arm's Length Transactions: If you sell to a third party that you have no relationship with, you are deemed to be at "Arms Length" and the sale of the shares would be treated as a capital gain.

Non-Arm's Length Transactions: If you sell shares of your farm corporation to a family member, that is deemed to be a "Non-Arm's Length" transaction and the sale of shares would be treated as a "dividend" rather than a capital gain.

Tax Considerations

- Capital gains are taxed much more favorably than dividends.
- Being taxed as a dividend would negate the \$1 Million Life Time Capital Gains Exemption (LTCGE).

To understand the financial disincentives currently in place for a farmer to sell the shares of his or her family farm corporation to their child, consider the following example:

- Farmer A holds shares in his farming corporation that qualify for the \$1 million LTCGE. Farmer A has never used any of his LTCGE in the past.
- The shares of the farming corporation currently have a Fair Market Value (FMV) of \$5,000,001 and a cost base of \$1.

Scenario 1:

- Farmer A sells the shares of his qualified family farm corporation to an unrelated third party. A capital gain of \$5,000,000 will be realized.
- After subtracting the \$1 million LTCGE, Farmer A is left with a capital gain of \$4 million. 50% of the gain will be tax exempt and the remaining \$2 million will be added to Farmer A's taxable income and taxed at his marginal tax rate which in Ontario is approximately 53%.
- Farmer A will pay approximately \$1.03 Million to sell to a third party.

Scenario 2:

- Farmer A sells the shares of his qualified family farm corporation to a corporation controlled by his daughter.
- Current wording of section 84.1 of the Income Tax Act will deem Farmer A to have received a dividend of \$5,000,000. This would result in \$1,750,000 in tax.
- **Farmer A would have to pay over \$700,000 more in tax if he sold to his daughter as opposed to a stranger.**

Over \$50 billion in farm assets are set to change hands over the next 10 years as farmers age and succession plans executed.

Priority 3: Remedy Labour Shortages Through Regulatory Improvements and Skills Training

Addressing Labour Shortages

In 2016, the agri-food sector employed approximately 2.3 million Canadians and accounted for one in eight Canadian jobs. However, labour shortages represent one of the most significant constraints on the competitiveness and sustainability of Canada's agri-food sector.

In a recent report by the Canadian Agricultural Human Resource Council (CAHRC), the agricultural labour shortage has climbed from 30,000 unfilled positions to 59,000, with projections to reach 114,000 vacancies over the next decade if we do not intervene. These job vacancies are costing the farming industry \$1.5 billion each year, placing these existing jobs in peril, and threatening the future competitiveness of Canadian agriculture.

Agri-Food employers attempt to hire Canadian workers to fill job vacancies. Unfortunately, not enough Canadian workers can be recruited to fill all the vacancies. To address this issue, primary agriculture brings in approximately 45,000 temporary foreign workers each year. In 2014, the 35,000 Seasonal Agriculture Worker Program workers and the 10,000 Agricultural Stream workers represented 12% of the Canadian agri-food workforce.

Foreign labour has become an important part of the sector with the Temporary Foreign Worker Program (TFWP) Primary Agriculture Streams making up over 60% of the overall program. From 2015 to 2016, the percentage of temporary foreign workers in Canada's primary agricultural workforce increased from 13.5% to 15.5%. In 2017, a CAHRC report indicated that job vacancy rates in rural meat processing plants and mushroom farms are approaching 10%.

Hiring temporary foreign workers is not without its challenges. Currently it takes months for the government to process Labour Market Impact Assessments (LMIAs) and work permits, even for employers who have accessed the program for years, who have a clean record, and whose application details are the same as before. Streamlining the process reduces the administrative burden but also ensures labour is accessible at crucial times in the growing season.

Promoting Agri-Food Careers

The potential for a career in agriculture or a related field is growing. In 2017, Guelph's Ontario Agricultural College (OAC) study found that four jobs exist for every single OAC graduate entering the agri-food sector.

There are also many opportunities for careers in agri-food beyond agricultural degrees. To ensure our agri-food competitiveness, Ontario needs skilled tradespeople, students educated in science, technology, engineering and mathematics (STEM) fields, culinary expertise, and other fields not typically associated with agriculture.

Supporting Agri-Food Innovation and Entrepreneurship

Canadian farms utilize their innovative and entrepreneurial spirit every day to ensure competitiveness in a global marketplace. New and beginning farmers are poised to explore growing new crops and diversify into creative and innovative on-farm value-added activities. Entrepreneurship should be encouraged through tailored programming for farms and food businesses to develop new products and enhance our agri-food competitiveness.

Conclusion

OFA will continue to advocate for an even stronger, more vibrant sector and supporting the competitiveness of farming and agri-food production in Ontario.

As FCM's Rural Forum Chair, Ray Orb, said, "As a key driver of economic growth, we know that investing in rural Canada means building a better country for everyone". We look forward to working together to build an even stronger, more competitive Canadian agri-food sector that produces prosperity for all.

Respectfully submitted,

Ontario Federation of Agriculture
August, 2018