FARMING MATTERS

AgriStability Changes

1) **Margin Coverage**
Starting for the 2013 program year, governments will only provide assistance once a producer's margin falls below 70% of their historical reference margin. In other words, payments are generated if your current year margin falls more than 30% below your reference margin. Previously, producers received payments if their current reference margin fell more than 15%. The AgriStability fee will be reduced accordingly to make the program less expensive for producers.

2) **Harmonized Compensation Rates**
For 2013 the producer's payment will be based on the same level of government support (70%) regardless of the extent of the margin loss, including negative margins. Previously payments were based on a tier system which provided different levels of support depending on the degree of margin loss. To summarize, you will need more of a margin loss to qualify for a payment but in disastrous years payments could be larger.

3) **Reference Margins**
Under Growing Forward 1 reference margins were calculated by taking your past five years and eliminating the high and low years and then averaging the other three. For 2013 and subsequent years the producer's reference margin will be limited to the lower of this historical reference margin or allowable expenses reported in previous years.

AgriStability Appeals
Ward & Uptigrove continues to be successful in appealing AgriStability grants, generating thousands of extra dollars in assistance for clients. We initiate appeals when we find errors while reviewing Calculation of Program Benefits (CPB). Although processing errors have decreased, there are still many mathematical and processor judgment errors potentially reducing your assistance. AgriStability has a strict policy of only sending CPB's directly to the producer. **Any appeal must be received in advance of the appeal deadline, which is noted on your CPB.** We encourage clients to forward your CPBs to our office for review.

AgriInvest Changes

Effective for 2013 program year AgriInvest has been revised, resulting in changes that will ultimately reduce government payouts. Under the new agreement, producers can deposit up to 1% (instead of 1.5% under the previous agreement) of their allowable net sales (ANS) each year into their AgriInvest account and receive a government matching contribution.

In addition, the limit on matching contributions is $15,000 a year, down from the current $22,500. On the positive side, producers will be able to contribute up to 100% of their ANS annually (not all matched) and up to 400% of ANS in total, meaning you can better use the fund as a risk management tool by setting aside more for a rainy day.

The fund remains flexible in that producers can withdraw funds at any time throughout the year.

AgriInvest producer deposits are very time sensitive; **producers have 90 days from the date of their deposit notice to contribute to their AgriInvest account**. AgriInvest offers no foregiveness if producers miss the deadline date.

AgriInvest is calculated on an individual and corporation basis. In other words each partner in a partnership will receive a deposit notice and each partner must have their own account at a bank institution. Each corporation will have one AgriInvest account in the corporation name.

Risk Management Program

Changes

1) You now have a choice to pay premiums annually or semi-annually. Quarterly premiums are no longer required.
2) To ensure the funding is not exceeded, payments may be prorated. Payment rates are still based on the differences between support levels and market prices.
3) Program payments are issued semi-annually for cow-calf and sheep and three times annually for all other livestock categories.
4) Target price - this is the new term that represents the industry average cost of producing livestock- previously referred to as the cost of production.

Eligibility

- livestock ownership in Ontario
- enroll all production within a plan category
- pay the premium
- participate in AgriStability and premises identification
- cash crop producers must also enrol in production insurance

To remain eligible you must pay your premium and submit your sales (even if NIL) by the program deadlines. Failure to do either could result in cancellation of your coverage.

Changing coverage

To make changes to your enrolled categories, coverage level or anticipated sales (insured production) you must notify AgriCorp using one of the following methods

- complete the on-line coverage change request available at agricorp.com
- complete the coverage change request form on page 3 of your renewal notice and fax or mail
- call AgriCorp at 1-888-247-4999

Deadline dates

April 1 - new participant application due for new enrollers

April 30 - submit coverage changes for existing participants
- report first quarter sales for all categories except cow-calf and sheep
- enroll in AgriStability and pay fee

July 31 - pay premium either 1/2 or in total
- report second quarter sales for all categories except cow-calf and sheep
- report first semi-annual sales for cow-calf and sheep

October 31 - report third quarter sales for all categories except cow-calf and sheep

January 31 - pay balance of premium if paying semi-annual
- report fourth quarter sales for all categories except cow-calf and sheep
- report first semi-annual sales for cow-calf and sheep

Changes in insured production (sales)

During the course of the year, if you expect your annual sales to change by more than 25% you are required to notify AgriCorp. AgriCorp must be notified of the change prior to the deadline of the next reporting period. **Otherwise, your coverage may not be adjusted and you may be cancelled from the program.**

Premium adjustments

Premiums are based on your insured production for the program year. If your actual sales differ from the insured production your premium may be adjusted. Changes of 5% or less will result in no change. Agricorp will automatically change the premium for changes from 5% to 25%. Changes over 25% require you to notify Agricorp or risk coverage cancellation.

Payment caps

RMP payments for each livestock category are capped at 1.2 million per participant, per program year where participant refers to a sole proprietor, a partnership or corporation.

Continuous participation

Once you have completed a year of participation, cancelling will make you ineligible to apply again for the current year plus the next two years. The coverage level, the insured production, and your enrolled categories will automatically roll forward to the next program year. It will be up to you to change them if you so desire.

Growing Forward 2

The new five-year Growing Forward 2 program has opened and is now accepting applications. The program provides cost sharing opportunities for farm businesses. Some changes from Growing Forward 1 are as follows:

- Producers are no longer required to attend the free workshops to be eligible for cost sharing, although it is highly recommended and strengthens a project submission.
- There is no cap on a per project basis, however, funding is capped at $350,000 on a per applicant basis.
- Producers can apply for a maximum of two capacity building projects at a time and approval is based on merit instead of first come, first serve basis.

Applicants are eligible to receive 50% cost sharing for Capacity Building (planning) activities and 35% for Project Implementation.

Services provided by Ward & Uptigrove that would qualify for cost sharing include:

- Succession planning
- Human resource planning
- Business plans (start-up/expansion)

A sample of cost sharing opportunities provided by other professionals under the program include:

- Nutrient or water management planning
- Risk assessment of biosecurity practices
- Manure storage improvement/land application
- Cover crops and other projects

More information on the new Growing Forward 2 is available at www.agr.gc.ca/GrowingForward.

Do not hesitate to contact our office if you want to know more about possible qualifying projects.

Renewable Energy Projects

The first hurdle in the renewable energy process was receiving back the HST paid on installation. The Canada Revenue Agency (CRA) had been holding up some large refund requests, as they suspected a renewable energy project had been erected and they were not 100% sure on the treatment of HST on these purchases. Since CRA requires HST to be collected on the income generated; CRA has concluded they must refund the HST on the cost associated with the project. These refunds should now be processed in a timely manner.

The second decision that is yet to be made is on the taxation of income earned by these projects. The CRA has affirmed that the income earned from these projects is not farming income, but they have not decided whether it should be treated as active business income or income from property.

The treatment in corporations has been an area of debate. If the taxable income earned from the project is treated as active business income, it will be taxed similar to farm income. By treating this income as active business income, it will allow the farm corporation to possibly use the capital gains exemption when the farm shares are sold in the future. However, as the solar project is not a farm asset, and if large enough, the corporation may not qualify as a family farm corporation. Tax free transfers of the shares to the next generation would then not be available.

If the taxable income is treated as property income (an investment), it will be taxed at a higher rate of 46.17%, with a 26 2/3% refund of this tax when dividends are paid to the shareholders. This would net to 19.5% in a company, but the dividends would then be taxed in the hands of the shareholder. This tax treatment would not allow the farm corporation to qualify for the use of the capital gains exemption or the tax free transfers if the value of the project's assets are greater than ten percent of the fair market value of the farming assets in the farm corporation (e.g. land, buildings, equipment, inventory, quota) at the time of sale.

In either of the above taxation scenarios, the energy projects are placed in asset class 43.2 and the capital cost allowance (CCA) deduction is limited to the taxable income earned through the project. Class 43.2 allows for 50% unrestricted CCA deduction in year one, if the project is not connected to the grid, and the energy is being used by the owner. If the project is connected to the grid the deduction limit will apply. For example:

Income generated through project		$10,000
Less:	Repairs	500
	Insurance	300
	Interest	1,500
Taxable income		7,700
Maximum CCA deduction		7,700
Total taxable income		$ 0

As a solar project's operations are not farming, net income must be reported on an accrual basis. In most cases the farm net income calculated on the cash basis can not be lowered enough to offset the solar project's profits.

Lastly, there have been many issues with projects unable to connect to the grid. If you are having trouble, the following website http://www.hydroone.com/Generators/Pages/StationCapacityCalculator.aspx allows you to input your feeder and connecting station number, and it will let you know if your station has enough capacity for your project. This calculator is real time, and includes all energy that has been assigned to projects already approved. The OPA is strongly encouraging the preapproval of all projects by the hydro supplier before proceeding with any capital investment.

HST Reminders

We continue to see audit activity related to HST returns. Items of mention include:

Reporting Sales and Other Revenues on Line 101

The amount reported should include revenue from all active sources related to the business during the reporting period. Do not include HST refunds, tax refunds or government assistance.

At the end of your fiscal year, CRA compares sales reported on the HST returns for the year against sales filed on your annual personal or corporate tax return. Material variances may trigger an audit.

Acquisition of Taxable Real Property

When real property is acquired, you are required to self-assess HST on the purchase amount. The amount gets included on Line 107 and 205 of the HST return. The two amounts net each other out in the end, but failure to self-assess could mean an HST assessment on the total property purchase. For example, if you purchase a farm for $1,800,000, you would record $234,000 ($1,800,000 x 13%) on Lines 107 (in addition to regular input tax credits) and an identical amount on line 205 of the HST return for the period in which the property was acquired. Should you overlook including this information on the correct period HST return, the already filed HST return can be easily amended on-line to correct the oversight. Our experience has indicated this reporting is often missed or reported incorrectly. Please call our office if you need assistance.

Proper Name on Invoices

The Canada Revenue Agency has the right to deny expenses and related HST because of improper documentation on invoices. It is very important if your business is the purchaser and will be claiming back the HST that the invoice be properly invoiced to the business and not to the individual shareholder. It is also important that the supplier provide their HST number on the invoice. This is particularly important for purchases of capital assets simply because of the dollars and HST involved (i.e. vehicle purchases and construction projects). CRA seems to have very little give in this area. Invoices can be re-issued by the vendor but is an inconvenience for all parties involved.

Time Limits for claiming HST

Most businesses claim their HST in the period in which the expense was incurred; either on a cash basis or accrual basis. If you miss claiming in the appropriate period, the HST can be claimed on a future return within four years after the end of the reporting period in which the HST should have been claimed.