

FARMING MATTERS

Tax Planning

For many farmers 2012 was an above average year with high crop prices and exceptional yields. Tax planning is easier and more effective if completed before the year-end. Most farmers file tax on a cash basis, therefore any amounts received in 2012 are taxable in 2012. Holdovers from 2011 were likely received in 2012. Program payments from Risk Management, AgriStability, Production Insurance and AgriInvest may also increase taxable income in 2012. For producers that anticipate high income we suggest doing an interim calculation to determine your tax exposure. Please contact us in early December if you would like us to estimate your liability for 2012 .

Growing Forward 2

On September 14, 2012 the federal and provincial governments reached an agreement on the new five-year Growing Forward 2 policy framework for the agriculture and agri-food sector. Key highlights include:

- 50% increase in cost-shared investments in strategic initiatives to stimulate innovation, competitiveness and market development.
- complete and effective suite of business risk management programs to protect against market volatility and disasters.
- greater flexibility for provinces to tailor programs to their individual needs.
- greater flexibility for provinces to invest in environmental initiatives and on-farm water infrastructure.
- ongoing support for farmers with a full suite of risk management programs. Changes to these programs are discussed below.

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for the 2013 program year, governments will only provide assistance once a producer's margin falls below 70% of their historical reference margin.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.

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

Changes to AgriInvest

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 contributions that will be matched 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.

Agricultural Commodity Corporation (ACC)

The ACC has a vision to be Canadian Agriculture's preferred choice for financial services. The ACC administers two programs - the provincial Commodity Loan Program (CLP) and the federal Advance Payment Program (APP). The APP has three components depending on your commodity. Details of the CLP and each component of the APP are:

Commodity Loan Program

- available for crops only (including farm fed grains)
- maximum loan \$750,000
- interest rate is prime
- available for wheat in December
- financing for up to 22 months or until the crop is sold
- advanced on a first come first serve basis
- crops are used for security

Advance Payment Program-Crop Inputs

- maximum loan is \$400,000
- first \$100,000 interest free
- balance at prime interest
- financing up to 18 months or until crop is sold
- must own the crops and be responsible for their marketing
- must carry production (crop) insurance
- producer must provide a "first rank security interest" of crops until full repayment of the liability
- farm fed grains and silage are not eligible
- eligible advances available April 1
- application deadline June 15 for winter wheat and August 31 for spring seeded crops

Advance Payment Program-Stored Crops

- maximum loan is \$400,000
- first \$100,000 interest free
- balance at prime interest rate
- financing up to 12 months or until crop is sold
- must own the crops and be responsible for their marketing
- producer must provide a "first rank security interest" of crops until full repayment of the liability
- farm fed grains and silage are not eligible
- eligible advances available October 1
- application deadline - February 28

Advance Payment Program-Livestock

- maximum loan is \$400,000
- first \$100,000 interest free
- balance at prime interest rate
- hog loan repayments - one year from date of advance or September 15
- cattle loan repayments - as cattle are sold and no later than March 15 of following year
- sheep repayments - as animals are sold and no later than September 15
- must own the livestock and be responsible for their marketing

- producer must provide a "first rank security interest" of livestock until full repayment of the liability
- eligible advances available October 1
- application deadline - February 28

ACC has Streamlined the Process by:

- having on-line access to client loan statements
- having funds transferred by direct deposit
- having on-line loan applications
- allowing faxed or emailed applications
- removing the requirement of a bank priority agreement if no lien is registered
- no necessity to provide financial statements
- applications are available in January 2013
- simplifying the forms and application process
- having interest on defaulted loans calculated at prime plus 3% calculated from the date of the advance (you lose the interest free portion if in default)
- limiting advances to the amounts outstanding from the previous production period (cannot have more than \$400,000 outstanding at any one time)
- allowing \$100,000 interest free for each production period

The ACC can be contacted by calling 1-888-278-8807 or emailing www.accfarmersfinancial.ca

Proper Name on Invoices

Recently we have seen some audit activity by CRA that has resulted in denial of expenses and HST refunds because of improper documentation on invoices. It is very important if your business is the purchaser and will be deducting and claiming back the HST that the invoice be properly invoiced to the business and not to the individual shareholder. This is particularly important for purchases of capital assets simply because of the dollars and HST involved. CRA seems to have very little give in this area.