

# FARMING MATTERS

Newsletter December 2015

## Year End Tax Planning

It's that time of year again where farmers should review their income levels to determine if year-end tax planning is necessary. While cash crop prices have cooled somewhat, many producers may have made sales early in 2015, sold two crop years in one year or locked in good prices. Lower feed costs may mean more profits for other commodity groups, especially swine and beef producers who were hit hard with higher than normal feed prices previously.

You should also consider government programs such as Risk Management Payments or withdrawals from your AgrilInvest accounts which can result in extra income. AgriStability payouts, which are often from the previous year, may result in an unexpected higher income. In summary, tax planning is easier before the year-end. If you feel an interim calculation of your taxable income would be beneficial then please contact us as soon as possible.

## Income Splitting

For many farm businesses, income splitting with family members is an effective way to reduce taxes. If you have a spouse who is not a farm partner, or children that have contributed to your farm business, it may make sense to allocate some income to them. The amounts need to be reasonable for work performed and amounts should be reported on a proper payroll. Any earnings to a spouse or children would be insurable for purposes of Workmen's Compensation. Despite the extra reporting there can be significant tax savings from income splitting. Any income allocations would need to be paid before your year end.

## Missed AgrilInvest Deposits – Opportunity Lost

Unfortunately we continue to come across many producers that have missed making their AgrilInvest deposit by the required deadline. It is very important to ensure that you get your deposit made at your participating financial institution by the deadline on your AgrilInvest Deposit Notice or you will miss out on the government matching contribution. The deadline is 90 days from the date on the Deposit Notice.

Most financial institutions now participate in the AgrilInvest program, so in most instances there is no need to have to go to a different bank than the one you use currently. Talk to your banker if you still need to set up an account. Once you

have the account established at your financial institution, it is as simple as taking your AgrilInvest Deposit Notice to your bank to deposit or transfer the funds across to your AgrilInvest account. The bank then forwards this information on to Agriculture and Agri-Food Canada who transfers the matching funds into your AgrilInvest account. This account is always held at your participating financial institution and earns interest at the rate established by your bank. The government will not match the deposit if it is made after the 90 day deadline.

These funds can then be withdrawn at any time, however note that the government portion will come out of the account first and is taxable in the year it is withdrawn from your account.

Please watch for your AgrilInvest Deposit Notices in the mail and ensure that you make your required deposit before the deadline to get your matchable contribution. It's unfortunate when producers miss out on this opportunity to access government funding.

If you have any questions on this, please contact our office on this matter.

## Farm HST Audits

Continuing on a trend from 2014, 2015 has continued to see a large increase in HST desk audits. In particular these audits are centering on the following issues:

- 1) Class 10 capital additions- these audits are zeroing in on motor vehicles and their business use. Auditors are asking for support by verifying whose name is on the invoice, who is the legal owner on the ownership and who is paying the insurance. They also want details of business use. Class 10 assets typically includes all mobile equipment including tractors, vehicles, snow machines, ATV'S and motor bikes.
- 2) Names on invoices- we continue to see HST audit issues where HST is claimed from an invoice in one name but the HST registrant is in a different name. It is very important that all your business invoices are in the same name as your HST account. This should be the same name as the business. If you operate through a company it must be the company name on any invoices.
- 3) Incorrect names on HST accounts. We have had several enquiries about HST accounts in one individual name and the business being run as a partnership or

even a company. We have seen issues where HST has been denied as only one partner's name is on the invoice but the HST is registered under a partnership account. This can cause delays in getting refunds and or denials.

- 4) Large HST claims- almost without fail if you are claiming input credits higher than your normal amount you will be asked for support. Recently HST auditors are going further and requiring proof the asset is in fact a business asset. One recent example requested a farm site plan showing the location of a new drive shed in relation to the residence to ensure it was in fact a business asset and not a shed to be used to store personal assets.
- 5) Personal HST claims- auditors are always on the lookout for those being over aggressive in their HST claims on personal items such as house repairs and renovations, house expenses such as hydro, heating and telephone, personal vehicles etc.

Other HST errors include:

- 1) Not including correct sales on HST returns. It is important to show the correct sales in box 101 of the return even though you may always be in a refund position. Do not include income on HST exempt items such as government grants, HST refunds or HST exempt sales.
- 2) Recording in the wrong boxes- putting numbers in the wrong box can sometimes turn an expected refund into a payable or vice versa. These errors can typically be corrected but it is very inconvenient to do so.
- 3) Forgetting to send in HST returns- even if a return is a nil return it must be filed. Canada Revenue Agency (CRA) will not generate a refund for a return if a previous return is outstanding.
- 4) Not paying installments. If you are an annual filer and have HST owing in excess of \$3,000 annually you are required to make quarterly instalments. Failure to do so will result in interest and penalties.

#### **When is a Sharecrop a Sharecrop According to CRA?**

With the recent increase to the capital gains exemption to one million dollars for eligible farm property, proving eligible farming status from CRA's perspective is more important than ever. Many part time or smaller farmers attempt to

enter into a sharecrop arrangement with a larger farmer in order to make their rent income appear to be farming.

Be aware that the CRA has stated "The crop share received by a landlord in a sharecropping arrangement is considered to be rental income and not income from farming." The above reference to "Sharecropping arrangement" means an arrangement where a taxpayer or landlord receives from a tenant a share of crop in lieu of rent."

CRA states that "a taxpayer is considered to be carrying on a particular farming business when that person, to the extent that the particular circumstances of the particular farming operation allow, exercised general management and control of the overall farming operation, such as, for example, determining which fields will be planted, the type of crops to be seeded and the times for spraying and harvesting." "Ordinarily the person would be expected to contribute time, labour and attention to the business to a sufficient extent that such contributions would be determinant in the successful operation of the business."

If your sharecrop agreement is simply the receipt of a percentage of the crops, your arrangement will likely be viewed by the CRA as a rental agreement.

#### **Is Your Farm Owned by a Holding Company and not Directly by You?**

If this is your situation you may have an issue getting the low farm property tax rate. Prior to 2012, the government looked to "beneficial ownership" to determine if a rebate was available (essentially looked past "legal ownership" through the holding company). As long as it was Canadian citizens at the top there was no issue. A recent court case changed this. They no longer look through the holding company. They now look at voting control of the company itself and whether it is controlled by Canadian residents directly. Proper structuring can be done to maintain the low farm property tax rate. There may be other issues to consider and therefore each client situation must be looked at individually.

#### **Growing Forward 2**

The Growing Forward 2 program enters its fourth year on April 1, 2016. The program provides cost sharing opportunities for farm businesses in a wide variety of focus areas.

Applicants are eligible to receive up to 50% cost sharing depending on the type and innovativeness of the project. We have seen a lot of success over the first three years of the program, obtaining over \$100,000 worth of grants, with the focus of most of these projects in business and leadership development. We have had success in some specific project areas such as:

- Succession planning.
- Business/expansion plans.
- Human resource plans.
- Financial forecasts and cash flows.

The third year of the program is coming to a close with all the intake periods closed. This program year brought about significant changes from the first two years. These include the following:

- Caps on the dollar value of eligible grants based on type of project. For example, the maximum grant available for succession planning is capped at \$10,000.
- Specific intake periods for applications as opposed to being able to apply at any time during the year.
- Prerequisites for most projects. For projects under business and leadership development a certificate from the Growing Your Farm Profits workshop proving your attendance along with an approved action plan is required. If you have one within the last five years that is considered valid. Other projects may require attending an Environmental workshop or other types of workshops.
- change in the date for final submission of documents to receive your grant money from May 15 to March 31.
- Projects should not be started and cannot be invoiced or paid prior to the date on the grant approval letter (typically 45 business days after an intake period closes). This is important for planning when to apply for the grant as it will determine when you can complete your project.

As you plan your 2016 projects here are a few key things to keep in mind:

- When do I need my project completed and how does that line up with the following application intake periods?
  - February 5 to February 25, 2016
  - June 16 to July 17, 2016
  - October 14 to November 3, 2016
- Do I need to attend a workshop before applying?
- Will my project be done by the end of the program year or should I apply for a multi-year project or possibly wait to apply until next year?

If you think your farm is eligible for funding through this program or have questions about potential eligibility please contact our office at your earliest convenience.

#### **On Line Access**

In the fall, our office sent out communications to farm clients regarding the setup of online accounts with Agriculture and AgriFood Canada. If you have not already set up an account, please consider setting this up as this will be beneficial to our office when preparing year-end financial statements. Having online access makes it more efficient for us to verify taxable and non-taxable withdrawals, as well as to ensure deposit notices have been sent to clients in a timely manner.