FARMING MATTERS

Newsletter December 2016

Farm Government Programs

Should you be involved?

Constant changes to farm government programs have made the decision to be involved with these programs challenging for many producers. Changes to trigger mechanisms, payout rates, coverage levels, and fees coupled with the relationship the programs have with each other has made many farmers wonder if they should be involved at all. Many farmers are getting frustrated and declining enrolments in these programs has the government concerned.

AgriInvest, AgriStability, AgriInsurance and Risk Management are the four main programs in Ontario. The government has indicated they have no intention of returning to Ad Hoc programs where they quickly come up with a program to address a disaster in a particular farm industry. Therefore it appears farmers are stuck with the current programs even though some may be revised in upcoming Growing Forward negotiations.

AgriInvest

If there is one program that is a no brainer it is AgriInvest. The program takes your eligible sales less your eligible expenses and calculates a matchable deposit of 1% of net eligible sales to a maximum of $15,000. The government will then match this deposit. Once the amount is matched you can decide yearly whether you want to withdraw all or part of the account. The government contribution must be withdrawn first and is taxable. No tax is paid until you withdraw funds from the program. The program has no fees but does require a separate bank account and filing a specific farm statement. Unlike other programs this program is both predictable and bankable. All producers with net eligible sales should be enrolled in this program. Revenue from supply management operations does not qualify.

AgriInsurance

Previously referred to as crop insurance this program is more geared to cash crop farmers but should be considered for all producers who grow oilseeds. The program compares your average yields to your current yields and pays on any shortfall. In summary, it insures you against crop failures whatever the reason. Like most forms of insurance you are better off if you don't need to use it. This program has fees based on your acres and chosen coverage levels which is a deterrent for many to enroll. Our experience has been that over the long term you will probably win by being enrolled. The program is predictable and bankable.

AgriStability

The knocks against the AgriStability program are well founded. Farmers have indicated the program is too complex, it penalizes diversification, the margins are unrealistic, and it is not bankable and predictable.

Some farm experts indicate the program should be renamed the AgriDisaster program since the Growing Forward Program in 2013 reduced the trigger for payment. The program has seen rapid declining enrolment. Part of the drop has been due to consolidations and more favourable market conditions in 2014 and 2015 while for some it is just a business decision. However, the majority of the decline has been because of changes to Growing Forward in 2013 where the payment trigger was reduced along with a revision to how your reference margin was calculated. Previously, your current margin had to only drop 15% to trigger a payment. Now a 30% drop is required, or simply put you had to have a disastrous year.

The second change is a limiting of the margins. The limited margin caps the reference margin to your allowable expenses that are included in the margin. Farmers must use the lessor of the previous Olympic average margin or the limited margin. The Olympic margin is where you take your last five year's margins and drop the high and low year, averaging the remaining three. Limiting tends to work more against those with low expenses.

Another source of frustration is that AgriStability discourages diversification on the farm. For example, if crop prices decline but livestock prices are strong, a farmer with mixed operations is unlikely to see a payment. Statistics confirm this with more mixed farmers withdrawing from AgriStability.

Farm groups are taking these concerns to governments with the hopes that the next round of Growing Forward will address these concerns.

While AgriInvest has no impact on the other programs, AgriInsurance and Risk Management payments will reduce your AgriStabilty payment.

AgriInsurance is considered eligible income and reduces both the federal and provincial payouts from AgriStability. Because Risk Management is a provincial program it would only reduce your provincial portion of an AgriStability program.

AgriStability has a fee based on your reference margin and does require separate reporting which often comes with extra accounting costs.

With all the knocks against the program is it still beneficial to enroll? The constant changing fluctuations of profitability for producers involved in cash cropping, swine, beef and other non-quota based operations would seem to indicate that these producers over the long term would benefit from the program. For other producers the decision is not so simple and a cost benefit analysis should be looked at. It could be argued it is worth staying in the program because dropping out and re-enrolling takes as much or more work than just staying enrolled.

Size of the operation also factors in because preparing the application and the time spent does not drop proportionately based on the size of the operation.

For many producers it is a business decision - Do they want “income insurance” to help cover losses or do they want to take the risk and avoid the extra costs and frustrations of being enrolled? Producers need to evaluate the probability of their margin declining by more than 30%.

Risk Management Program

The Risk Management Program for Ontario producers came into effect in 2011. The program is only available to livestock and grains and oilseed producers. To date many producers have benefitted from this program. Unlike the other programs your cost of production numbers or your actual sale proceeds have no impact on whether you get a payment or not. If you are a better farmer at controlling costs and perhaps better at marketing your commodities it may hinder your access to assistance under other programs. With Risk Management if two farmers are selling the same commodity they will both get the same payment per unit marketed regardless of their individual cost of production. The government uses industry averages for both cost of production and selling prices which will benefit a good producer.

Risk Management does have quarterly reporting requirements and fees which in most cases may be eventually refunded to producers depending on the individual commodity group.

A downside to Risk Management is if you are enrolled in AgriStability any Risk Management payment will reduce your provincial payment from AgriStability, if you are eligible for both. You will be entitled to the higher of the provincial portion of AgriStability or the Risk Management Payment. The provincial government will only pay you once. Another setback to the program is the limited budget of $100 million for all Ontario farm producers. This limit is allocated to all commodities on an individual basis based on sales for all eligible commodities in that year. The result is in a year where many commodities are having a down year this limit is spread out more resulting in less payments to producers. If only one commodity group is generating a payment then the whole $100 million is allocated to that commodity.

The program is more attractive to mixed farmers as it is more commodity specific. As the program is based on cost of production it is more bankable and predictable then AgriStability. Although the amount allocated to the program limits what producers may otherwise qualify for, the program is still a great compliment to the other programs for non-quota producers.

Programs such as AgriStability, AgriInsurance and Risk Management are effectively income insurance, and like most forms of insurance you hope you don’t need to rely on them. They do provide peace of mind in the event you suffer financially for events out of your control.

In summary, the bottom line is that when the programs are used together your losses will be mostly covered. Simply put, you guarantee yourself no payments if you are not involved. While we can assist in these decisions you will have to decide which programs will work best in your operation to reduce your risk.

Growing Forward 2

The Growing Forward 2 program will enter its fifth and final year under its current format on April 1, 2017 (ending March 31, 2018). Many of our clients have been able to obtain significant grant funding under this program over the last 4 years, receiving up to 50% cost sharing depending on the type and innovativeness of the project. Upwards of $150,000 of grant money has been received to date for clients with our main focus on business and leadership development projects. Projects under this category include:

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

The intake periods to apply for a grant for 2016/2017 is closed and submissions for any approved projects will start becoming due on November 30, 2016. If you have an approved project outstanding make sure to check your submission deadline and if an extension request will be necessary.

As you spend some time thinking about the plans for your farm business for 2017 and forward – whether it be a transfer of your farm to the next generation, expansion of your current operations and projections that might be needed from the bank to obtain financing – keep the GF2 program in mind to help assist with potential costs. There are many other categories of projects that would also be eligible for funding including some capital expenditures.

The first intake period for grant applications will open on February 3, 2017 and close on February 23, 2017. There are prerequisites for certain projects that need to be completed before applying, including mandatory attendance to multi-day workshops. If you think your farm is eligible for funding through this program or have questions about potential eligibility please contact us at your earliest convenience.

Will Planning

Let’s cut right to the issue at hand. Do you have a legal will to deal with the assets you and your family and possibly the generations before you have worked so hard to accumulate? If you happen to be one of the less than 50% of Canadian adults who have completed a signed will, when is the last time you looked at it to make sure it still meets your families goals and intentions? Wills are not a one-time thing. As you grow older, you regularly need to review them and ensure you are comfortable and confident in how your estate will be dealt with. Creating a will can be as simple or as complicated as you want, but the most important thing is that you have one completed and signed.

Values of farming assets have continued to increase and with that the value of your estate goes up as well. Have you considered the potential impact this has on your existing will? What are the tax implications on your death? How much will probate be? Are there means to fund these potential tax liabilities or is there planning that can be done today to allow you to minimize tax and/or probate on your death? We have all heard that farming can often be an asset rich and cash poor business. A crippling tax bill on death could mean liquidation if not planned for in advance. There are special tax rules for qualified family farm operations that can be used to mitigate income taxes when it comes to family farm transfers.

Has your business structure changed in the last few years from a sole-proprietorship or partnership and into a corporate structure? Have you had a secondary will prepared to deal with the investment in your corporation to allow them to avoid being probated on death? Does your corporation meet the income tax rules required to maintain “Family Farm Corporation” status and allow for a tax-deferred rollover to your children or will your investment be subject to tax on death?

While your lawyer is the person to contact to document the details of your will, working with both your lawyer and accountant can ensure your plan works from both a legal and tax minimization perspective. With the ever changing environment of rules around income taxes, property tax, land transfer tax, and probate tax it is important to have your accountant assist in looking at what your structure is today, where you want it to be tomorrow, and where you hope to see it when you are no longer there to look after it.

If you don’t have an existing will we would be happy to help you start the process and work alongside you and your lawyer to give you comfort and peace of mind going forward. If you have an existing will we would be happy to review it with you and ensure it still meets the needs of your family, your farm business and future generations.