Prairie Oat Growers Association

PO Box 20106
Regina, SK S4P 4J7
(306)530-8545
smathieson@poga.ca

October 2, 2017

Minister of Finance
The Honourable William Francis Morneau
Department of Finance Canada
90 Elgin Street
Ottawa, Ontario K1A 0G5
bill.morneau@canada.ca

Tax Planning Using Private Corporations Submission:
fin.consultation.fin@canada.ca
Bill.Morneau@parl.gc.ca

Dear Department of Finance Canada,

Thank you for the opportunity to provide comments on the potential tax changes for small businesses. POGA is comprised of the three Provincial oat grower commissions in Alberta, Saskatchewan and Manitoba, and thus represents about 90% of the oats grown in Canada. Canada is the largest exporter of oats in the world with about 50% of Canadian raw oats, and another 20% of production processed, exported each year. Approximately 90% of those exports go to the United States. Maintaining a vibrant and competitive Ag sector, which in 2014 alone generated over $108 billion and employed over 2.3 million people, is vital to our economy. Obviously, the Federal Government realizes the importance of this sector since the 2017 budget showed an aim to increase agricultural exports from $55 Billion to $75 Billion by 2025. The "Tax Planning Using Private Corporations" proposed tax plan is a direct contradiction to this goal and the Liberal party's position to "support the agricultural sector."

In a recent press release it was noted that there is "rampant misinformation" regarding the proposed tax changes. Farmers are not accountants, however they use accountants to file their taxes each year. If the accountants are misinterpreting the information in a negative way there are huge implications to our sector. Whether intended or not, this "misinformation" will affect our businesses. Below are quotes from 4 different, respected accounting firms in Canada on the affect the new proposed tax changes would have on Canadian farms:

1. The new rule encourages the sale of the farm to an arm's length party instead of a family member, discouraging family farm succession.
2. The family farm will be destroyed. This (new proposed tax law) will result in more large scale agri-farming (Big-Ag) at the cost of family farms.
3. Farming operations are such that family members often provide labour to the operation however the seasonal nature and variation throughout the year may pose complications with reasonability tests. There may be undue burden in supporting this reasonability of amounts with the proposed changes. . . The proposed legislation could affect a farm operation's ability to pay salaries to family members aged 18-24. . .
4. There is no doubt that these rules will be difficult and expensive to follow in comparison to the current tax rules. For example, consider the cost of having a real estate appraisal or business valuation on each of your children's eighteenth birthday to satisfy these tax proposals.

Succession Planning for the Next Generation

Considering that over 25% of family farms were incorporated as of 2016, this new proposal creates much uncertainty for a large part of our industry. For farmers, the succession of your farm to the next generation is a key reason to continue the operation. Many producers are now 4th generation farmers and that's something both they, and Canada, should be proud of and encourage.

It's definitely not the influx of money that's driving people to be farmers. It's estimated that most farms have to invest 1.5 times their gross revenues on equipment and 6 times their gross revenue on land. Farms are incredibly capital intensive and tax deferral is necessary to prepare for "rainy days" especially in farming where, literally, too many, or too few "rainy days" may mean there is no income generated for that year. While Canadian farmers typically feed the rest of Canada, and the world, in the "rainy days" they still need to feed and clothe their own families. Allowing these farm corporations the option to defer taxes (note, these taxes are deferred, *not eliminated*) is vital to the Ag industry. The example below, from MNP, shows that the effective tax rate for a corporation is actually higher when all taxes are calculated (please note, this chart is for illustrative purposes only; the income listed on this chart is not necessarily reflective of what is normal for an average farm). This means the corporation is already paying more taxes over long term. However, being incorporated allows farmers to grow and operate their business, which is vital to the continuation of a healthy and sustainable agricultural landscape.

		Corporation	Employee
Income		500,000	500,000
Total Income		500,000	
Income Tax	12.50%	- 62,500	
After Tax Funds Available (A)		**437,500**	
Dividend / Salary to Shareholder		437,500	500,000
Personal Taxes on Dividend	41.29%	- 180,644	
Personal Taxes on Salary	48.00%		- 240,000
Ending Cash Available to Shareholder B)		**256,856**	**260,000**

Farmers are not offered financial tools such as pensions, health insurance, or unemployment insurance. As such, they need to be proactive in saving and planning for their retirement from the onset of their career. Since farmers retirements are entirely self-funded, many rely on either rental revenue from their land or proceeds from the sale of that land in order to sustain themselves in their later years.

One accounting firm stated that, "Under the current proposed draft, the overall tax rate on the sale of corporate held land or corporate held quota may more than double, going up from 26% to 57%. In addition, income from renting land would be taxed at a higher rate (in some cases up to 73%)." Another accounting firm advised, "Renting farmland through a corporation – even to a sibling or relative – will be taxed at confiscatory rates of 70%+ if the passive asset / income proposals get passed into law as discussed in the consultation paper. The multi-generational farm will be dead in its present form, as the tax costs to sell to a child or other relative will be exponentially more than selling to an unrelated neighbor, a communal organization or a pension fund."

In one example provided, where a child's company is buying land from their parents, the parents would use their Lifetime Capital Gains Exemption (LCGE) and, under the current rules, the child's company would purchase $500,000 worth of farmland. Under the new rules, with the parents not able to use the LCGE, the child's company would need to buy $840,000 worth of land so that the parents still net $500,000 as required for their retirement. However, if the parents sold the farmland to an unrelated third party or directly to a family member that is not in a corporation, under the proposed new rules, they would still be able to use the LCGE and they would only need to sell $500,000 worth of land.

The POGA board and the 11,000 growers we represent would encourage the Government to ask if it's fair for all retired Canadians, including elected officials, to be taxed from 57%-73% and if that is sustainable for the economy of Canada. We feel it is not, and therefore it's also not fair to ask farmers to pay this astronomical amount either. Additionally, it would inevitably lead to many of those farmers, who have worked their entire lives towards retirement, to become a drain on society since many would not be able to pay their bills.

This new proposed rule is not only unfair to the family who has worked hard to pass the family farm to the next generation, it's also unfair to the child who has worked on the farm, typically for little pay, for as long as they can remember with the plan to take over that farming operation. In addition, it also contradicts the 2011 Liberal party statement, "A Liberal government will work in partnership with Canadian farmers to build farm programs from the farm up, not Ottawa down."

With so many Canadians wanting to buy local and being opposed to "Big Ag" or large corporate farms, producers in Canada want to know why the Federal Government is encouraging this. In 2011 the Liberals went so far as to say they would "promote high-quality, homegrown foods produced by local farmers." This proposed tax plan simply does the opposite of this.

<u>Education and Off-Farm Income; Necessities in Today's Environment</u>

While not commonly boasted about, over half of Canadian farmers have post-secondary education. A post-secondary education allows farmers the opportunity to have better, and more, opportunities including improving their own business, adapting to changes, becoming more sustainable, and increasing the value and productivity of the entire agricultural sector. The accounting firms agree that for someone between the ages of 18-25 to meet the requirement to be "actively engaged on a regular, continuous and substantial basis in farm activities," and therefore be able to be paid a dividend at the regular tax rates, those individuals would not be able to attend post-secondary education between the ages of 18-25 (the typical time many Canadians pursue post-secondary degrees). This is incredibly alarming. As stated, farming operations are very capital intensive and it's very common for farmers to have off-farm jobs. In fact, nearly 45% of Canadian farmers work off-farm to help support their families. This allows them to contribute financially not only to their family but to the local, provincial and national economy. It's incredibly disheartening for the Government of Canada to discourage our youth from attending post-secondary education, and forcing a trade-off between higher education and continuing the family farm.

Finally, off farm employment does not always just happen from one member of the family. In many cases a spouse works off farm but takes time off during seeding and harvest and works on the farm during evenings and weekends. For example, our own Executive Director takes time off to drive a grain cart or combine on their family farm during the busy harvest season and works nights and weekends on the farm. The proposed new TOSI laws would likely mean that because she has off-farm income it would be incredibly challenging to split the income with her husband that they, together, earn on the farm. In addition, she would potentially lose access to the LCGE on the future sales of shares of that company. Many people have more than one job, to penalize farmers for working 15-20 hour days during their peak season goes against the entire goal which you stated as: "We want a tax system that is fair."

In 2015, the Regina–Wascana MP, Ralph Goodale, reaffirmed the Liberal Party of Canada's commitments to invest in the middle class and support the agriculture sector. The "Tax Planning Using Private Corporations" proposed tax plan does just the opposite of this. This tax plan will create significant barriers to successfully transition a farm to a family member, thus encouraging the growth of large corporate farms. In addition, the proposed plan discourages post-secondary education for those wanting to farm. Finally, this proposed plan will leave many farmers unsure of their finances for retirement, causing unnecessary stress on those individuals as well as on Canadian Social programs.

By making this change to Canadian Agriculture, where the current Federal budget shows an aim to increase Ag exports to $75 Billion by 2025, the Canadian Government would instead be stifling growth in this sector. This, in turn, would make it even harder for family farms in Canada to be a viable option.

Producers are price takers on all inputs. It is critical to provide producers with as many tools as possible because so much of their business relies on factors out of their control, like the weather, the transportation system and conditions in other countries. We kindly ask that the Government of Canada continue to drive the Canadian economy by helping Agriculture - the largest driver of Canadian Gross Domestic Product- continue to be profitable and feed not only Canadians, but the world. Therefore, we kindly request that the Government of Canada exempt all farm corporations from any effects of the new corporate tax laws proposed.

If you have any questions please do not hesitate to contact our organization.

Sincerely,

Art Enns

Art Enns, President
(204)746-5037

Shawna D. Mathieson

Shawna Mathieson, Executive Director
(306)530-8545

CC: Office of the Prime Minister
The Honourable Lawrence MacAulay, Minister, Agriculture and Agri-Food
The Honourable Scott Brison, President, Treasury Board
Maxime Dea, Policy Advisor to the Prime Minister