Agricultural Producers Association of Saskatchewan

Agricultural Alliance of New Brunswick

Alberta Federation of Agriculture

British Columbia Agriculture Council

Canadian Hatching Egg Producers

Canadian Sheep Federation

Canadian Sugar Beet Producers' Association

Canadian Young Farmers Forum

Chicken Farmers of Canada

Dairy Farmers of Canada

Egg Farmers of Canada

Equine Canada

Canadian Ornamental Horticulture Alliance

CFA FCA
CANADIAN FEDERATION OF AGRICULTURE
FÉDÉRATION CANADIENNE DE L'AGRICULTURE

Pre-Budget 2016 Consultation

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By the Canadian Federation of Agriculture
21 Florence Street
Ottawa, Ontario
K2P 0W6
(613) 236-3633

Farmers of North America

Foreign Agricultural Resource Management Services

Keystone Agricultural Producers

Newfoundland and Labrador Federation of Agriculture

Nova Scotia Federation of Agriculture

Ontario Federation of Agriculture

Ontario-Quebec Grain Farmers' Coalition

PEI Federation of Agriculture

Standardbred Canada

Turkey Farmers of Canada

Union des producteurs agricoles

Executive Summary:

The Canadian Federation of Agriculture (CFA) is an umbrella organization representing more than 200,000 farm families across Canada. These farm families operate small businesses and work hard to benefit all Canadians by contributing significantly to the Canadian economy, providing safe and affordable food and a clean, sustainable environment. The mandate of the CFA is to promote the interests of Canadian agriculture and agri-food producers, and to ensure the continued development of a viable and vibrant agriculture and agri-food industry in Canada.

Our vision:

"To be the national voice of Canadian farmers; committed to enabling their success, which will benefit Canada."

Our mission:

"To promote the interests of Canadian agriculture and agri-food producers, including farm families, through leadership at the national level and to ensure the continued development of a viable and vibrant agriculture and agri-food industry in Canada."

Pre-budget Themes & Recommendations for the 2016 Federal Budget:

The CFA has focused on two key themes, directly contributing to priorities identified in the Minister's mandate letter, as focal points for the long-term success of Canada's agriculture industry: *ensuring sustainable growth in Canadian agriculture* and *increasing economic opportunities for Canadians through careers in agriculture*. Before highlighting these specific issues, it is important to note that Canadian agriculture is at the heart of a complex and integrated Canadian agriculture and agri-food industry that includes input and service suppliers, primary producers, food and beverage processors, food retailers and wholesalers, and foodservice providers.

As the foundation of an Agriculture & Agri-food industry generating $106.9 billion and accounting for 6.7% of Canada's GDP in 2013, the continued viability and competitiveness of Canadian agriculture represents a resilient driver of the economy nationally and within communities across Canada. In contrast to many other sectors of the Canadian economy, the Agriculture & Agri-food industry's GDP has increased annually since 2007, outside a single year decline during the economic recession of 2009. In addition, employment in the Agriculture & Agri-food industry also continues on an upward trend, employing over 2.2 million people and representing 1 in 8 Canadian jobs as of 2013.

Throughout this period Canadian farms and ranches, 98% of which continue to be family owned, continue to produce high quality food to Canadians at some of the lowest costs in the world. The average Canadian spent approximately 10.4% of their disposable income in 2014, the third lowest proportion of any country in the world. Canadians continue to identify their desire to eat Canadian foods first, and we as an industry continue to adapt and evolve to meet those needs. This has been achieved through continued enhancements to agricultural productivity, over 300 percent since 1950, while simultaneously using fewer resources to do so.

These facts speak to Canadian agriculture's role as a key driver of economic and environmental sustainability, as one of the most efficient and productive agricultural sectors in the world, and as an opportunity to increase Canadian agriculture's presence as a leader in domestic and international markets. The following sections lay out three priority investment areas for the 2016 Federal budget that are required to maintain Canadian agriculture's global and domestic competitiveness, leverage its economic potential, and ensure a resilient, adaptive industry capable of meeting the demands posed by a changing climate and evolving markets.

Ensuring Sustainable Growth in Agriculture: Supporting family farms as environmental stewards

1) ***CFA recommends the following suite of amendments to ensure Canada's tax policy is conducive to sustainable growth for family farms & opportunities for new entrants:***

Canadian agriculture is in the midst of a significant period of transition. The average age of Canadian farmers was 54 years old in 2011 and continues to rise. A 2013 study by Statistics Canada[1] identified 33,000 self-employed farmers (23%), as impending retirees, with estimates suggesting upwards of $50 billion in farm assets having to be transferred over the next 10 years. Rural depopulation continues to exacerbate the challenges posed by an aging demographic, resulting in the consolidation of farm businesses and subsequently increasing capital requirements for those looking to enter the industry, while limiting the pool of potential successors.

To illustrate this changing demographic, between 1991 and 2011, the total number of Canadian farms decreased by 74,439 farms to reach 205,730. Over this period there were an increasing number of farms where the oldest operator was 55 years or older, growing from 105,604 in 1991 to 113,475 in 2011, while the number of farms with an oldest operator less than 40 years of age declined almost 75.0% from 74,159 to 20,299 farms. Farms with their oldest operator under 40 years of old represented 9.9% of the total in 2011 compared to 26.5% in 1991.[2]

Despite all these challenges, Canadian agriculture continues to attract interest from the next generation. However, the profile of this generation has evolved as well. Many farmers no longer expect to have children necessarily willing to remain on the farm. While 98% of farms continue to be family owned, North American statistics suggest that less than a third of farms have an identified successor. In order to address these challenges, farmers and ranchers require flexibility and a range of options when planning their succession. The economic viability of both parties is central to the feasibility of any succession plan and the process must work for both the retiree and the successor carrying on the operation. With the increased capital tied up in an individual operation, alongside increased risks due to climate change, effective tax planning is one of the most important succession tools. This poses great challenges to the continuation of family farming in Canada, an agricultural model rooted in sustainable growth, environmental protection & stewardship, and recognized for its predilection to spending within local communities.

However, Canada's income tax act has not caught up to the current demographic pressures facing Canada's family farms. Although the majority of farms in Canada remain sole proprietorships, more and more farms continue to incorporate, expand, and, in response to rural depopulation, look to a broader range of potential family successors. In order to ensure family farms continue to have access to the provisions that have historically been there to facilitate intergenerational farm transfers, CFA recommends the following proposals to amend Canada's *Income Tax Act*:

a) In order to ensure that agricultural rollover provisions recognize the breadth of family relations required to maintain family farming across Canada, CFA recommends **replacing the word "child" in subsection 73(3) of the Income Tax Act with the phrase "family member", adopting a similar definition of the word "family" as defined in Ontario Regulation 697 under the Land Transfer Tax Act of Ontario.**

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[1] Bollman, R.D. & Alasia, A. (2013). A profile of self-employment in rural and small town Canada: Is there an impending retirement of self-employed business operators, Statistics Canada: http://www.statcan.gc.ca/pub/21-006-x/21-006-x2012001-eng.htm

[2] Beaulieu, M.S. (2015). Demographic Changes in Canadian Agriculture., Statistics Canada: http://www.statcan.gc.ca/pub/96-325-x/2014001/article/11905-eng.htm#a1

b) Section 55(2) of the income tax act, anti-avoidance legislation that prevents capital stripping in arm's length transaction, currently treats siblings as non-related parties. Farm corporations can currently be divided and passed along to children on a tax-deferred basis during the parents' lifetime. To ensure equal treatment between the division of sibling owned farm corporations and other inter-familial corporate restructurings, CFA recommends that **section 55(2) of the Income tax Act deem siblings as non-arm's length, specific to farm corporations.**

c) In a sale of company shares to a non-related purchasing corporation, a holding company is generally used as the purchasing vehicle. This allows the purchaser to access the acquired company's income stream and allows the vendor to access their enhanced capital gain exemption on the sale. However, when dealing with family (non-arm's length), the benefits of this structure are effectively denied. CFA recommends **amendments be made to section 84.1 of the Income Tax Act so that it no longer constrains the transfer of farm businesses to immediate family members.**

d) To ensure that Canada maintains a policy environment conducive to both new entrants and investment, CFA recommends that **the federal government reconsiders its decision to amend subsection 31(1) and maintain the more comprehensive income test, as outlined in Craig v. the Queen.** This reinterpretation would maintain the intent of the combination exception and reduce the financial burden the proposed interpretation would place on new entrants and investors.

e) The decision in the 2015 federal budget to consult on a change in the treatment of eligible capital property would create impediments to the transfer of supply managed operations between generations and to the success of this industry as a whole. If these changes do proceed, CFA recommends that **an exception should be established to protect the sale of production quota from the proposed legislative change, similar to the variety of legislation already found in the Act specific to the farming industry**. This would then result in no changes to the taxation of production quota and would fall in line with the Department's historical position on the taxation of the farming industry.

2) *CFA recommends a cost-neutral amendment to the AgriInvest program to encourage proactive investment into agricultural competitiveness:*

AgriInvest is a savings account with limited government matching of contributions. This program was developed to assist producers when facing small income declines and to support investments in risk mitigation or improved market income. AgriInvest was created as a more stable source of funding for the top tier of Business Risk Management programming, where there is considerable variability. It was thought that the utility of this fund could be expanded by encouraging farmers to use it for investment in their operations if they so desired.

However, for the AgriInvest program to be effective it needs to be utilized. Although producers have withdrawn more than $750 million, accounts have grown to contain over $1.9 billion across Canada. Key to improving utilization is providing farmers with an incentive to use these funds for investment in worthwhile initiatives that will "maximize future income" and address local priorities. Currently, producers' tax planning has limited the program's utility for proactive investment due to an existing requirement that all taxable government contributions must be withdrawn first.

To encourage this proactive investment in future risk mitigation and competitiveness while maintaining funds in the program for current risk management needs, <u>CFA recommends a change to the AgriInvest program allowing account holders to withdraw producer contributions (Fund 1) without first withdrawing taxable government contributions (Fund 2).</u> To improve measurability, achieve program outcomes, and help businesses proactively address local priorities, access to producer contributions should be limited to priority investment targets identified in partnership between industry and government.

Increasing economic opportunities for middle class Canadians through careers in agriculture

3) *CFA recommends government work with industry to invest in implementation of the Canadian Agriculture & Agri-food Workforce Action Plan; a strategic a roadmap to address the sector's critical labour shortages:*

Agriculture is a complex industry that faces unique workforce challenges due to rural depopulation and seasonal production of highly perishable products. In response to these challenges, the Canadian agriculture and agri-food industries have come together as a complete value chain to develop a permanent solution to this pervasive and urgent challenge: the *Canadian Agriculture and Agri- Food Workforce Action Plan*. This action plan provides government and industry with a clear roadmap forward, laying out short, medium, and long-term action items focused on achieving two important goals:

1. To increase the supply of labour for skilled and unskilled workers;
2. To improve the knowledge and skills of workers in the industry.

The agriculture industry in Canada is at the heart of an agri-food industry that employs over 2.2 million Canadians, including nearly 300,000 employed in primary agriculture alone. (AAFC, An Overview of the Canadian Agriculture and Agri-food System (2015)) The industry is full of high quality job opportunities and career options with competitive wages and benefits, while offering unique lifestyle benefits and flexibility. However, the entire agri-food industry, including primary agriculture, continues to identify pervasive and critical labour shortages as one of the most significant constraints on enhancing productivity and capitalizing on emerging market opportunities, domestically and abroad. The agriculture and agri-food industry needs workers to remain globally competitive, to take advantage of emerging export opportunities, and to ensure the security, safety and sustainability of food for all Canadians.

The *Canadian Agriculture and Agri-food Workforce Action Plan* is a strategic roadmap developed by a Labour Task Force under the Canadian Agricultural Human Resource Council and supported by over 64 Implementation Partners, including all regions and aspects of the agri-food value chain. Through this collaborative approach, industry has recognized it can achieve more by working cooperatively to address the important labour issues facing the Canadian agriculture and agri-food industry. CFA recommends that **the 2016 federal budget immediately invest in implementation of the Workforce Action Plan, specifically by**:

- **a)** Dedicating increased funding to the collection of regional agricultural workforce supply and demand information;
- **b)** Creating a dedicated *Canadian Agriculture and Agri-food Workforce Program* to provide consistent and efficient access to international agriculture workers to support industry productivity, growth and future success
- **c)** Improving and expanding pathways to permanent residency for agriculture and agri-food workers;
- **d)** Recognizing the seasonality of agriculture's labour needs by removing existing caps on the duration of stay for those Agriculture stream workers brought in to address acute, seasonal labour needs that can't be filled through the domestic workforce; and
- **e)** Creating a single office for agriculture and agri-food *Labour Market Information Assessments* to ensure knowledgeable staff, timely Labour Market Impact Assessment (LMIA) processing, and consistent treatment of these applications.

Although international and seasonal workers represent only one facet of the long-term solution to labour shortages within the Canadian agriculture industry, standardized and efficient access to these workers supports job opportunities for Canadians. Depending on the agricultural sector, when direct and indirect impacts are included, estimates suggests between 2 and 4.2 Canadian jobs are created for every seasonal and/or international agriculture worker employed in Canada.

In Conclusion

The Canadian Federation of Agriculture recommends that industry and government work collaboratively to develop a Canadian tax policy environment that is conducive to sustainable growth for family farms and continues to provide a wealth of opportunities for new entrants to the agriculture industry. These include:

- Reducing unnecessary barriers and supplementary costs associated with the intergenerational transfer of family farms;
- Encouraging proactive investments in the agriculture industry through a slight amendment to the AgriInvest program; and
- Working with industry in partnership to champion and implement the Canadian Agriculture and Agri-Food Workforce Action Plan and secure the future stability and success of Canadian agriculture as an economic driver and source of exciting career opportunities across Canada.

The Canadian Federation of Agriculture would be pleased to provide further details on these recommendations and to work in partnership with government and other stakeholders towards their implementation. Each of these recommendations contributes to the long-term stability and success of the Canadian agriculture industry. In doing so, these recommendations held provide the agriculture industry with a foundation from which it can sustainably grow and continue to drive the economy of rural communities across Canada, provide a high quality and affordable food supply to Canadian consumers, and generate a wealth of career opportunities across Canada.