Canadian Federation of Agriculture
2017 Pre-Budget Consultation

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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. CFA's mandate 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."

Canadian agriculture: An innovative and resilient driver of the Canadian economy

Canada's agriculture and agri-food industry is essential to the future of all Canadians, for its contribution to the economy, food safety and security, health, the environment, and its role in sustaining Canada's thriving rural communities. The sector provides one in eight jobs and employs 2.3 million Canadians, with more than 275,000 working directly in primary agriculture. In addition, unlike many other sectors of the Canadian economy, the industry is a resilient driver of growth, with agriculture and agri-food's GDP contribution having increased annually since 2007, outside a single year decline during the economic recession of 2009.

Ninety-eight per cent of Canadian farms continue to be family owned, producing high-quality food at some of the lowest costs in the world. In 2014, the Canadian agri-food industry generated $108.1 billion in GDP (6.6%) and also exported $51.5 billion worth of products, placing Canada as the world's fifth-largest exporter of agriculture and agri-food products in the world. With Canada's small domestic population, vast natural resources, and highly competitive producers, the industry is uniquely positioned to meet the opportunities presented by a burgeoning global middle class, a population expected to increase to over nine billion by 2050, and a domestic consumer base looking for increasingly diverse product attributes.

Canadian farmers are eager to seize these opportunities through an ongoing, industry-wide commitment to continuous improvement. In working toward these goals, CFA recommends the following inclusions in the 2017 federal budget:

1. Create a tax policy environment that is conducive to sustainable growth for family farms and that creates opportunities for new entrants

2. Support the development and adoption of clean technology and invest in agricultural innovation

3. Establish a broad-based market access and infrastructure strategy to capitalize on emerging market opportunities in Canadian agriculture

4. Modernize Canada's internal trade system

Supporting Farm Families and New Entrants: Positioning agriculture for sustainable economic growth

1) A sustainable future – Creating a tax policy conducive to future generations of farm families

Canadian agriculture is in the midst of a significant transition. In 2011, the average age of a Canadian farmer was 54 and estimates suggest upwards of $50 billion in farm assets will be transferred over the next decade. Rural depopulation compounds the challenges of an aging demographic, resulting in consolidation, increased capital requirements for those entering the industry, and a smaller pool of potential successors. As a result, farmers no longer expect to have their children necessarily remain on the farm; less than a third of farms have identified a successor.

In succession planning, the viability of both parties is paramount. The increased capital tied up in agricultural operations poses new challenges to the continuation of family farming in Canada, a model recognized for sustainable growth, environmental stewardship, and spending within local communities. Effective tax planning is essential in this new environment.

However, Canada's *Income Tax Act* does not recognize or address this shifting context. While most family farms in Canada remain sole proprietorships, more and more continue to incorporate, expand and explore a broader range of potential family successors. To ensure the sustainability of family farms, the provisions of the *Income Tax Act* originally designed to assist with farm family transfers must remain accessible.

CFA recommendations:

a) **Ensure agricultural rollover provisions recognize the breadth of family relations required to maintain family farming across Canada**. By replacing the word "child" in subsection 73(3) of the Income Tax Act with the phrase "family member", these important provisions would reflect and address demographic pressures facing the industry, creating opportunities for the next generation of farm families.

b) **Create a level playing between siblings and other family farm reorganizations.** Anti-avoidance legislation (55(2) of the *Income Tax Act)* currently prevents sibling-owned family farm corporations from being able to reorganize on a tax-deferred basis, an option available to most farm family members. As farms continue to expand, often supporting multiple households, Canada needs to ensure farm families have the flexibility they need to maintain financially viable family farms for future generations. To achieve this, section 55(2) of the *Income tax Act* must deem siblings as non-arm's length for farm corporations.

c) **Facilitate the transfer of family farms by leveling the playing field.** In a sale of company shares to a non-related corporation, a holding company is generally used. This allows the purchaser to access the acquired company's income stream and allows the vendor to access their enhanced capital gain exemption (CGE) on the sale. However, when dealing with family the proceeds are treated as a dividend, preventing farm families from being able to access their CGE. Section 84.1 of the *Income Tax Act* must be amended to facilitate access to the CGE for farm transfers to immediate family members, thus ensuring equal treatment to farm families.

d) **Amend restrictions on claiming farm losses to encourage new entrants and investments in agriculture.** Section 31(1) of the *Income Tax Act* unduly restricts many farmers with off-farm income from being able to claim more than $17,500 in farm losses, limiting investments and creating financial challenges for new entrants with full time off-farm work. In 2013, the federal government amended this provision to require that non-farm income be subordinate to farm income, contrary to an interpretation from the Supreme Court of Canada that outlined a more comprehensive income test (Craig v. the Queen). CFA recommends that the Supreme Court of Canada's interpretation be reinstated, encouraging a more comprehensive test that considers multiple factors, beyond the predominance of farm vs. non-farm income.

2) Leadership in sustainable production – Support for clean technology and innovation

Agriculture and agri-food has been at the forefront of innovation in Canada and is a $107 billion industry. Farmers have always experimented with new varieties, production methods, technologies and solutions and some significant innovations have come from Canadian farmers, researchers and companies. Innovation in the inputs, technologies, management practices genetics and varieties have all lead to significant improvements in productivity and yields while improving environmental outcomes, strengthening rural economies and boosting competitiveness for Canadian farmers.

While Canadian agriculture has a strong track record of continuous improvement in environmental sustainability and greenhouse gas reductions, we are committed to further improvements in greenhouse gas reductions and intensities and continue to invest in climate change mitigation. Continuous innovation in agriculture is essential to sustainably meet the demands of a growing global population. This includes practices such as harnessing data from new sources through precision agriculture, genetics, input advances, and many other areas.

To assist industry with this continuous improvement and assist Canadian agriculture in climate change mitigation, government has an important role to play in providing the requisite base data and infrastructure support to enable clean technology innovation

CFA recommendations:

- **Invest in establishing the base data required to enable clean technology innovation.** Invest in initiatives that collect foundational information to support and drive further environmental initiatives, develop valuable management tools, and promote climate change mitigation and adaptation, amongst a range of other benefits. One example would be much-needed support for comprehensive soil mapping initiatives across Canada.

- **Create incentive-based support for early adoption of on-farm clean technologies.** CFA believes Budget 2016's commitment of $1 billion in support of clean technology holds great potential for Canadian agriculture. This funding must incentivize early adopters and allow flexibility to accommodate rapidly evolving best management practices. These practices incorporate new technologies that reduce greenhouse gas intensities and reduce emissions, developments in the bioeconomy and a new data-based approach known as precision agriculture. These incentives should be bolstered by investments in the supportive infrastructure required to reduce cost and facilitate widespread adoption of clean technologies.

- **Establish a regulatory atmosphere that encourages innovative products and investment in Canada.** Canada continues to struggle with cumbersome, costly regulatory processes that do not support product safety or innovation, resulting in delayed access to novel, innovative products. An example would be Health Canada's continued regulation of industrial hemp, preventing whole plant utilization and undermining Canada's competitiveness in an industry with considerable potential for growth. Investing in regulatory modernization to accelerate Canadian regulatory assessments and approval of new innovations will spur improvements in production, food safety, environmental performance, and long-term agricultural growth, resulting in a net increase in public revenues.

3) Market opportunities – Developing a clear vision to succeed

New market access and evolving domestic consumer demands require government and industry to partner in development of a broad market access strategy focused on ensuring Canada has the capacity to capitalize on current and future opportunities. Developing this market access strategy would require a broad analysis of market demands, barriers, gaps, and next steps, including measures to promote the industry both domestically and abroad. This initiative would result in a clear strategy that aligns the activities of government and all value chain stakeholders.

CFA recommendations:

- **Invest in a review of Canada's capacity to capitalize on market opportunities.** Government should work with industry to review current and future market demands, related regulatory and non-regulatory barriers, and infrastructure needs including railways, roads, ports, and domestic processing infrastructure to capture value-added opportunities in Canada and abroad.

- **Develop a strategic vision in partnership with industry to capitalize on current and future opportunities.** This strategy should clearly articulate a timeline to address identified challenges, including investments required and the respective roles, responsibilities and deliverables of all parties.

4) Modernizing Canada's internal trade system – Removing barriers to growth and Canadian prosperity:

Interprovincial trade in agricultural and agri-food products was valued at $40 billion in 2011 and, there is room to grow — farmers see that economic opportunities are on the horizon, provided that governments are willing to make changes that modernize and open up our domestic markets. Improving access to domestic markets must be a priority, and must not lapse as attention is focused on export opportunities. Gaining better access to customers here in Canada will help set the stage for Canadian agriculture to be more competitive internationally.

CFA recommendations:

- **Invest in Canada's Internal Trade Secretariat, related systems and provide federal leadership.** Federal leadership is needed to build momentum around the Agreement on Internal Trade (AIT) and work with provinces to make change happen across respective jurisdictions. To ensure this leadership has adequate support and that progress continues, the government must invest in the Internal Trade Secretariat. Specific areas of focus would include:
  - **Harmonization of transport regulations.** Permit regulations differ widely across provinces and territories, and accommodating for them can lead to extra costs, delays and other complications.
  - **Ensure access to processing and regional food infrastructures.** Discrepancies between requirements of federal and provincial inspections at meat processing plants present significant barriers to internal trade. This creates a situation where federally inspected foreign product may be readily available to a Canadian consumer than domestic product. Harmonizing these standards and investing in regional food infrastructure, such as processing, is needed to ensure Canadians have better access to Canadian-produced food.
  - **Maintain respect for supply management.** CFA continues to support the government's recognition that a renewed AIT must respect our established supply management systems, and must not affect current marketing structures.