Leveraging Canada's Agri-Food Growth Potential

2018 Pre-Budget Submission

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CFA MEMBER ORGANIZATIONS:

AGRICULTURAL ALLIANCE OF NEW BRUNSWICK
AGRICULTURAL PRODUCERS ASSOCIATION OF SASKATCHEWAN
ALBERTA FEDERATION OF AGRICULTURE
BRITISH COLUMBIA AGRICULTURE COUNCIL
CANADIAN FORAGE & GRASSLAND ASSOCIATION
CANADIAN HATCHING EGG PRODUCERS
CANADIAN HONEY COUNCIL
CANADIAN ORNAMENTAL HORTICULTURE ALLIANCE
CANADIAN SEED GROWERS ASSOCIATION
CANADIAN SUGAR BEET PRODUCERS ASSOCIATION
CANADIAN YOUNG FARMER'S FORUM
CHICKEN FARMERS OF CANADA
DAIRY FARMERS OF CANADA
EGG FARMERS OF CANADA
EQUESTRIAN CANADA
FARMERS OF NORTH AMERICA (STRATEGIC AGRICULTURE INSTITUTE)
FOREIGN AGRICULTURAL RESOURCE MANAGEMENT SERVICES
KEYSTONE AGRICULTURAL PRODUCERS (MANITOBA)
MUSHROOMS CANADA
NATIONAL SHEEP NETWORK
NEWFOUNDLAND & LABRADOR FEDERATION OF AGRICULTURE
NOVA SCOTIA FEDERATION OF AGRICULTURE
ONTARIO FEDERATION OF AGRICULTURE
ONTARIO-QUEBEC GRAIN FARMERS' COALITION
PRINCE EDWARD ISLAND FEDERATION OF AGRICULTURE
STANDARDBRED CANADA
TURKEY FARMERS OF CANADA
UNION DES PRODUCTEURS AGRICOLES (QUÉBEC)

Executive Summary:

The Canadian Federation of Agriculture (CFA) is an umbrella organization representing more than 200,000 farm families across Canada. These families operate small businesses and work hard to benefit all Canadians by contributing significantly to our economy, and providing safe and affordable food and a clean, sustainable environment.

***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."

Agriculture: An innovative sector with immense potential for inclusive growth

As identified in Budget 2017, Canadian agriculture and the broader agri-food sector hold immense potential for inclusive growth across Canada. The industry is committed achieving the Budget's ambitious growth targets set, such as targeting $75 billion in annual agri-food exports by 2025.

Canadian farmers are eager to seize current and future growth opportunities, both domestically and abroad. To ensure Canadian agriculture can meet these opportunities head on, CFA recommends the following inclusions in the 2018 federal budget:

1. Invest in agriculture as a strategic economic sector with growth potential in domestic and global markets
2. Reform Canada's *Income Tax Act (ITA)* to address obstacles to growth for current farmers and future generations
3. Ensure Canada's regulatory framework is facilitating innovation and continued agri-food growth
4. Develop policies that leverage agriculture and rural Canada's potential as a driver of inclusive growth

1. Long-term vision for agri-food growth

Since Budget 2017, Canada's agri-food industry has mobilized to position itself for unprecedented growth. CFA continues to support government and industry working in partnership to leverage the Innovation Superclusters Initiative and the Strategic Innovation Fund as critical investments to promote technology adoption throughout the agri-food value chain.

However, Canada's agricultural policy frameworks still represent the primary vehicle through which government and industry address many of the priorities for primary agriculture. The recently announced *Canadian Agricultural Partnership (CAP)* acknowledges the unprecedented challenges presented by climate change and public trust and the need for further investment in the food processing sector, while committing to market development, innovation, and risk management.

Despite an ambitious vision for growth, the CAP funding envelope is unchanged from its precursor, *Growing Forward 2,* failing to even account for inflation. The lack of further investment leaves fewer funds to achieve greater outcomes. Added investment is critical during this window of opportunity to capture new markets.

Another initiative linked to growth is the development of *A Food Policy for Canada*, a unique opportunity to align government departments, the entire agri-food value chain, and a range of other stakeholders around a common vision and, ultimately, mobilize coordination around policy outcomes like the agri-food growth targets.

Recommendations:

1.1. Increase the federal funding envelope available to the Canadian Agricultural Partnership in recognition of the increased demands facing the sector and the growth mandate. Additional federal funding in the CAP is required to ensure Canada's producers can fully leverage impending growth opportunities. Funding must be allocated for:

- Market development to compete in diverse markets both globally and within Canada.
- Environment Farm Plans across all provinces capable of assisting producers with their investments in environmental best practices.
- Response to the costs imposed by Canada's impending carbon pricing regimes.
- Implementation of improved, innovative risk management solutions.
- Career promotion and training to address chronic labour shortages and improve business development.

1.2. Provide early funding for *A Food Policy for Canada*. Budget 2018 must provide funds to support the interdepartmental collaboration, stakeholder engagement, and early action items that will be essential to early momentum for this long-term initiative.

2a. Globally competitive tax policy

Compared to other industries in Canada, agriculture continues to demonstrate unparalleled productivity growth through a commitment to innovation. Canadian farmers now use less than half the inputs to produce as much food as we produced in 1961. [1]

To continue this progress, the CFA strongly supports the approach advocated by Minister Morneau's Advisory Council on Economic Growth – to remove obstacles to growth and competitiveness. Changes to Canada's tax policy represents a means to facilitate private sector investment to capitalize on global and domestic agri-food growth opportunities, while reducing the sector's carbon footprint.

Recommendations:

2.1 Ensure farmers have appropriate access to the Small Business Deduction (SBD). The CFA strongly supports Finance Canada's decision to exempt sales to agricultural cooperatives from recent changes to the SBD. However, farmers also regularly come together to invest in corporations that maintain necessary processing and marketing infrastructure in their local regions. Without the ability to access the SBD on sales to local processing corporations, farmers will be required to pull their investments, resulting in the loss of critical, local value-added opportunities essential to achieving Budget 2017's growth targets.

2.2 Amend restrictions on claiming farm losses. Section 31(1) of the *ITA* unduly restricts many farmers with off-farm income by permanently denying any annual losses that exceed $17,500, undermining those businesses' capacity for continued growth. While a more comprehensive test is ultimately required to determine applicability of Section 31[2], CFA recommends that any losses not deductible against other income in a given year because of Section 31 be deemed a farm loss that is incurred in the subsequent year.

2.3 Maintain Tax Deferrals for Cash Purchase Tickets. These deferrals provide a critical contribution to income management for Canadian producers, and, by extension, to the orderly marketing of grains and oilseeds in Western Canada. Due to the significant income variability in Canadian agriculture, these deferrals directly contribute to fairness in the *ITA* by preventing undue tax liabilities on grain producers when compared to equivalent businesses with more consistent year-to-year income.

2.4 Provide 100% Depreciation on Farm Machinery in the first year. Innovation in farm equipment and machinery is central to productivity growth. Investments in more innovative, efficient farm equipment is essential to reducing emissions and increasing efficiency. By providing a 100% machinery depreciation in the first year, Canada's *ITA* can encourage investment, promote sustainable production, and address competitive imbalances arising from tax inequities between Canada and other countries,[3] which is especially important given the increasing capital cost of new equipment.[4]

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[1] Farm Credit Canada Ag Economics (2016). Canadian Agriculture's Productivity and Trade. Available at: https://www.fcc-fac.ca/en/ag-knowledge/ag-economist/canadian-agricultures-productivity-and-trade.html

[2] 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.

[3] Section 179 of the IRS tax code provides businesses in the United States with a 100% depreciation in the year of purchase on up to $500,000 equipment purchased for business use

[4] The Machinery and Equipment Price Index for Crop and Animal Production has increased by 41% since 1997 alone.

2b. Success for the next generation of farmers

Canadian farms continue to grow larger and more technologically complex, requiring more capital than ever before to enter the industry. With more than $50 billion in farm assets expected to change hands over the next decade, posing potentially significant disruption to an industry where 98% of businesses remain family owned and operated.[5]

Canada's *ITA* constrains succession planning for family farms, having not evolved to respond to the rise in family farm incorporation[6] or the multiple families supported by larger operations. Undue transaction costs pull valuable funds away from investments in productivity and competitiveness. As a model recognized for sustainable growth, environmental stewardship, and local spending, family farming promotes inclusive growth across Canada.

CFA believes the provisions of the *ITA* originally designed to assist with farm family transfers must remain accessible.

Recommendations:

2.5 **Develop agricultural rollover provisions conducive to family farming in Canada**. By replacing the word "child" in subsection 73(3) of the *ITA* with the phrase "family member"[7], these important provisions would reflect and address demographic pressures facing the industry, creating opportunities for the next generation.

2.6 **Ensure equity between siblings and other family farm reorganizations.** 55(2) of the *ITA* currently prevents sibling-owned family farm corporations from reorganizing on a tax-deferred basis —an option available to most farm family members. As farms expand, often supporting multiple households, Canada must ensure farm families have flexibility to maintain financially viability for future generations. To achieve this, section 55(2) of the *ITA* must deem siblings as non-arm's length for farm corporations.

2.7 **Ensure equal treatment for family farm transfers.** When selling 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 capital gain exemption (CGE) on the sale. However, proceeds to family members are treated as a dividend, preventing to access their CGE. Section 84.1 of the *ITA* must be amended to facilitate access to the CGE for farm transfers to immediate family members, thus ensuring equal treatment to farm families.

[5] Statistics Canada (2017). A portrait of a 21st century agricultural operation. Available at: http://www.statcan.gc.ca/pub/95-640-x/2016001/article/14811-eng.htm
[6] Ibid.
[7] The CFA recommends adopting a similar definition of the word "family" as defined in Ontario Regulation 697, under the Land Transfer Tax Act of Ontario.

3. Regulatory services that facilitate global competitiveness

While Canada's agri-food industry mobilizes to reach the targets set in Budget 2017, Canadian producers are hampered by ongoing regulatory inertia and initiatives that will increase the cost of regulatory compliance. Innovative products take too long to gain regulatory approval, thereby raising costs for small and medium enterprises that cannot afford to wait years for regulatory approval on new technology. As Canadians respond to carbon pricing and look for less carbon intensive alternatives, the agricultural sector is well positioned to supply the raw material for many products.

The process to obtain permits, licenses and certification across a suite of federal departments also impedes growth, efficiency and timeliness. Improve regulatory service efficiency requires a whole of government approach and adequate investment.

Ongoing attempts to introduce fees, such as through the Safe Food for Canadians Act draft regulations and CFIA's cost recovery initiative, will raise costs at a time of other unprecedented financial pressures. Reducing regulatory compliance costs presents an opportunity to invest in agriculture as a strategic sector. In leveraging new export opportunities and promoting job growth, the federal government must address regulatory barriers that continue to depress investment.

Recommendations:

3.1 Invest in regulatory departments and agencies to provide service at the speed of business. Government should make the necessary internal investments in staffing and streamlining administration in order to support fast, electronic (where possible) and seamless service delivery across departments. These must be supported by transparent, strictly enforced service delivery standards.

3.2 Address regulatory barriers to innovation, clean technology and investment through a coordinated effort. Identification of regulatory barriers must be undertaken across value chains with appropriate follow-up action to modernize and streamline regulations to entice investment in Canada's clean technology, biotechnology and agricultural sectors. *A Food Policy for Canada* presents an opportunity for multiple departments to analyse the cumulative cost of various regulatory initiatives across the federal government.

4. *Vibrant rural communities*

Agricultural production alone takes place across nearly 200,000 small and medium-sized operations that undertake businesses in rural communities, and employs 1 in 8 Canadians.

A successful agricultural sector requires policies that recognize both the global and domestic context in which the industry operates.

For example, the stagnation of rural populations creates challenges for remote, rural industries like agriculture to source sufficient labour. Primary agriculture continues to face a labour shortage with approximately 60,000 vacancies, which is expected to double by 2025[8]. These shortages demonstrate a significant constraint, while highlighting opportunities for rural employment and rural economic growth.

By ensuring policies respond to the challenges confronting the vibrancy of rural communities, there is great potential to drive growth in Canada's agriculture sector and create further economic opportunities for millions of rural Canadians.

Recommendations:

4.1. Reinvigorate the Rural Policy Secretariat. To leverage rural Canada's potential, CFA believes the federal government must examine all federal policy and legislation with a view to assessing and addressing potential impacts facing rural Canada. Unlike previous iterations of this secretariat, which resided at Agriculture and Agri-food Canada, this secretariat must be housed within the privy council to ensure that the consideration of rural vibrancy occurs across all departments and policy domains.

4.2. Develop a Rural Immigration Strategy. CFA continues to recommend the Canadian Agriculture and Agri-food Workforce Action Plan[9] as a multi-faceted, long-term roadmap to address agriculture's chronic labour shortages. Agriculture's ability to attract and retain new Canadians is a key facet of this roadmap, as well as the long-term vibrancy of rural communities. Canada requires a rural immigration strategy to ensure flexible immigration policy that can accommodate the diverse and unique skill sets required by agriculture and other rural industries. This strategy should be developed in concert amongst all orders of government, engaging settlement agencies, agricultural stakeholders, and others.

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[8] Canadian Agricultural Human Resource Council (2016). Labour Market Information. Available at: http://www.cahrc-ccrha.ca/agriLMI.ca

[9] Labour Task Force (2013). Canadian Agriculture and Agri-food Workforce Action Plan. Available at: http://www.cahrc-ccrha.ca/workforce-action-plan