Grant Thornton
An instinct for growth™

Agriculture

Agricultural update
WINTER 2019

How the treatment of quota sales impact your farm

Treatment of quota sales prior to 2016 budget changes

Prior to January 1, 2017, sales of quotas used to be treated the same as any cumulative eligible capital (CEC) property; meaning, the proceeds would be used to reduce the pool, and any amount over the pool would be reduced by 50 percent and then taxed as income. The entire amount of quota a farm held was put into one large pool that any disposition would reduce. This typically meant that any partial disposition of quota would result in no immediate tax implications to the seller.

Subsequent to 2016 budget changes

After January 1, 2017, CEC no longer exists. The existing balance is now moved to a new class of depreciable property called **class 14.1**. Because any amounts that were in existence prior to this date would have been added to the pool at 75 percent, there are transitional rules to make sure that the balances in the CEC pools are transferred to class 14.1 and can be deducted so taxpayers end up in the same place.

Sale of quota

For dispositions of quota after the transition date, there is a reduction to the class 14.1 pool for the lesser of cost and proceeds and then a capital gain if the proceeds were larger than the original cost. This doesn't change the treatment for the previous regime if the entire quota is disposed of. In this situation, the disposition will look at the total amount paid for the quota in the past and the reduction to the pool will be based on the lesser of cost or proceeds and the taxpayer will end up being taxable on 50 percent of the excess of proceeds over cost.

However, what if only a portion of the quota is sold?

Based on the new rules, Canada Revenue Agency (CRA) views quota as indistinguishable identical properties. This means that, when it is sold, any capital gains have to be reported on a unit-by-unit basis. The cost of each unit of quota must be calculated separately on a per-unit basis. As a result, almost any sale of quota will result in income, whereas previously, if you still had a balance in your CEC pool, there would be no income to report.

Conclusion

As mentioned above, these rule changes were effective as of January 1, 2017. So, if you want to sell quota for immediate cash flow, you may end up with **less** after-tax cash than you would have previously. If you are thinking about selling quota, please let your accountant know so they can give you the proper information to report it.

Tips to avoid a CRA GST review

More and more farmers are becoming victim to the dreaded "GST review" by Canada Revenue Agency (CRA). There are a few reasons for this, but the two most common reasons are:

- a higher than usual GST refund, or
- large sales reported on the GST return but no GST collected.

CRA uses computer-aided techniques to select files for review—this saves time for CRA but it does cause more work for the corporations receiving the letter. Typically, the letter requests information about your business, your ten highest revenue invoices and your ten highest expense invoices. The reviews tend to result in no changes but they can be time consuming.

What can you do to avoid these letters?

If filing your GST return electronically, you can now enter your sales on two different lines:

- Line 90 allows you to enter your taxable sales including zero-rated supplies (grain sales are zero rated); and
- Line 91 reports any exempt supplies.

REMEMBER:

- **Land and equipment rent should have GST charged on them. Only claim GST paid on expenses to the extent that the GST was reported on the supplier's invoice.**
- **Expenses like insurance and property taxes do not have GST added to them.**

If you receive one of these letters or have further questions on GST matters, reach out to one of our team members. We would be happy to assist you.

Farm vehicles 101

Whether you own your farm vehicle personally, or it's the property of your corporate farm, you need to be aware of the rules around it.

Canada Revenue Agency (CRA) is reviewing additions to class 10 depreciable properties, which often includes farm vehicles. CRA is looking for instances where non-farming vehicles have been incorrectly recorded as farm property.

A vehicle qualifies as a class 10 asset when

- it's used more than 90 percent of the time to transport goods or equipment to earn income, and
- the seating capacity, including the driver, is from four to nine people. (If the seating capacity is less than four it only needs to be used 50 percent or more of the time to transport goods or equipment to earn income.)

If you meet these criteria, you can claim the full cost of your vehicle as a capital asset addition. It will depreciate, or can be expensed, at a rate of 15 percent in the first year and 30 percent in all remaining years.

If you don't meet either of the above tests but are using the vehicle for farm purposes, you can include it as a class 10.1 asset, but the cost is then capped at $30,000.

Regardless of which class the vehicle falls into, the onus is on the taxpayer to provide log book records to show they use it for income-earning purposes. CRA also requires the bill of sale, registration and insurance documents, so if the vehicle is recorded in your corporate farm, be sure all the documentation supports this. To further support your claim, it helps to account for other personal vehicles and vehicle-related expenses for personal use outside your farm operations.

An alternative to claiming a vehicle as a class 10 asset is to charge your farm for any farm-related usage of your personal vehicle. This can be done by tracking trips with a log book. Under this option, the purchase price and all vehicle-related expenses would not be recorded in the company. The farm-related kilometers would be recorded for the year and aper-kilometer allowance charged to the company. This allowance is deductible in the company but is not taxable to you personally. For 2018, the allowance is 55 cents for the first 5,000 kilometers driven and 48 cents per kilometer after that.

It is important to choose the option that is most effective for you while minimizing risk. Be sure to reach out to the Grant Thornton team to discuss your specific situation and find the best solution for your business.

Could your business benefit from the Canada-Alberta Job Grant?

What is it?

The Canada-Alberta Job Grant is a government funding program designed to help employers cover the costs of employee training. Employers decide which employees would receive training, as well as what type of training may be needed, and are responsible for applying on behalf of their employees.

How much funding can I receive?

When eligible employers contribute a minimum of one-third of the total training costs for existing employees, the government contributes two-thirds (up to a maximum of $10,000 per trainee per fiscal year). If you choose to hire and train an unemployed Albertan, you could be eligible for up to 100 percent of training costs, to a maximum $15,000 per trainee.

Am I eligible?

Eligible Alberta employers have either existing or potential employees that require training to fill current or future positions. Their trainees must live in Alberta and be either:

- Canadian citizens,
- permanent residents, or
- protected people under the Immigration and Refugee Protection Act (Canada) who are entitled to work in Canada.

What are the requirements?

Training programs must:

- total 21 instructional hours or longer per trainee per application;
- start within six months after receiving Canada-Alberta Job Grant approval;
- be completed within 52 weeks of the training course(s) start date;
- result in some credential (e.g. record of completion, certificate or grade); and
- be incremental (i.e. the training is in addition to the employer's regular operational training and would not have otherwise taken place without the grant).

To learn more about this program, and determine whether you're eligible, visit www.albertacanada.com/jobgrant.

Alternatively, feel free to reach out to your Grant Thornton advisor to learn more about how this job grant can benefit your business.

In case you missed it:

The United States-Mexico-Canada Agreement. What's next?

Now that Canada, the United States and Mexico have concluded negotiations around an updated free trade agreement, many Canadians may be wondering: what's next? One of the industries potentially most affected by the changes in the USMCA is Canada's dairy industry. **Find out more.**

Fall Economic Statement 2018

In its Fall Economic Statement 2018, the federal government announced a number of tax and economic policy initiatives intended to make Canada more globally competitive and bolster areas of social capital. We've outlined some of the most significant changes that may offer new opportunities for Canadian businesses. Read the full summary **here**.

Contact us

E AlbertaAgTeam@ca.gt.com
Camrose | **T** +1 780 672 9217
Wetaskiwin | **T** +1 780 352 1679

Grant Thornton
An instinct for growth™

grantthornton.ca

Audit | Tax | Advisory

©2019 Grant Thornton LLP. A Canadian Member of Grant Thornton International Ltd. All rights reserved.

About Grant Thornton LLP in Canada

Grant Thornton LLP is a leading Canadian accounting and advisory firm providing audit, tax and advisory services to private and public organizations. We help dynamic organizations unlock their potential for growth by providing meaningful, actionable advice through a broad range of services. Together with the Quebec firm Raymond Chabot Grant Thornton LLP, Grant Thornton in Canada has approximately 4,000 people in offices across Canada. Grant Thornton LLP is a Canadian member of Grant Thornton International Ltd, whose member firms operate in over 100 countries worldwide.