BACKGROUNDER

Support for Farming and Farm Families

The Government of Canada supports farming and farm families through a number of measures, which include both supports in the tax system and non-tax assistance.

Tax Support for Farming

The Government supports family farming businesses in their succession planning through the tax system. In particular, the *Income Tax Act* has a number of rules that help farming businesses to accumulate capital for retirement and facilitate the intergenerational transfer of property used in a farming business.

The Lifetime Capital Gains Exemption (LCGE) on farming property is, in part, intended to help farmers save for their retirement. A farmer can claim an LCGE of up to $1 million on the disposition of eligible farm property, including on the transfer of such property to a child. The LCGE is applied on an individual basis so that each farmer is allowed an exemption up to the $1 million limit. As a result, the amount can be doubled to $2 million if both the farmer and his or her spouse qualify for the exemption. In addition to this exemption, a farmer is also entitled (as are other Canadians) to a separate tax exemption on any gain on his or her principal residence.

Farmers are also entitled to transfer their farming business on a tax-deferred basis to their children, thereby avoiding immediate tax on capital gains and facilitating the intergenerational transfer of farming businesses. For the purpose of the intergenerational transfer, a “child” is broadly defined to be a child, grandchild, or great-grandchild of an individual or of that individual’s spouse or common law partner. The definition of “child” also includes a person who has been fully dependent on the individual before the person attained the age of 19 years. A farm transfer may be structured so as to maximize an individual’s LCGE limit while also minimizing the tax implications of the transfer through use of the tax-deferred intergenerational transfer.

As well as the tax-deferred intergenerational transfer, farmers are also entitled to claim a capital gain reserve over a 10-year period where the proceeds of disposition have not been fully received and the property has been transferred to the farmer’s child. The 10-year reserve allows farmers to average capital gains income from the farm transfer over a number of years and allows the child an extended time to pay for the farm.

If a farmer is transferring his or her farm to a person for whom the farmer cannot use the 10-year capital gain reserve or intergenerational rollover (e.g., a nephew, niece, or unrelated person), then the farmer may claim a capital gain reserve over a five-year period if the proceeds of disposition are not all receivable in the year of the sale.

Farmers can also benefit from the tax-preferred treatment of savings in Registered Retirement Savings Plans (RRSPs) and Tax-Free Savings Accounts (TFSAs). Since 2009, Canadians have had the opportunity to contribute to a TFSA and earn tax-free investment income. The TFSA is a flexible account for savings over Canadians' lifetimes. All Canadian residents age 18 or older are allowed to contribute up to $5,500 a year to a TFSA, even after they reach age 71 and are required to convert RRSP savings into a retirement income vehicle. To ensure that the annual contribution retains its real value in the future, the limit is indexed to inflation in $500 increments.

In the July 18, 2017 consultation paper on the taxation of private corporations, the Government invited views and ideas on whether, and how, it would be possible to better accommodate intergenerational business transfers in the *Income Tax Act* while still protecting the fairness of the tax system by ensuring that any such accommodation cannot be used as a means to circumvent other rules of the *Income Tax Act*. Many stakeholders, including farmers, fishers and their representatives, have provided their views to the Department of Finance. The Government is carefully considering these views, including how to make intergenerational transfers of farming businesses, and other small businesses more efficient and less difficult.

In response to concerns raised by stakeholders during the consultation:

- The Government will not be moving forward with measures that would limit access to the LCGE.
- The Government will not be moving forward with measures relating to the conversion of income into capital gains.

In addition, the proposed measures related to income sprinkling will be simplified with the aim of providing greater certainty for family members who contribute to a family business, including a family farm.

Non-Tax Support for Farming

The Government of Canada recognizes the important contribution of farmers to the economy and that supporting young farmers is critical to the renewal and future of Canada's agricultural sector. There are a range of federal measures that help young farmers to access capital and acquire the skills they need to succeed on the farm. These measures include:

- the Canadian Agricultural Loans Act Program, which is a loan guarantee program designed to increase the availability of loans to farmers and agricultural co-operatives;
- the Agricultural Youth Green Jobs Initiative, which has been supported through a $5.2 million investment and which helps fund internships for post-secondary graduates and high school students working in the agriculture industry; and
- the Young Farmer Loan, the Young Entrepreneur Loan, and the Transitional Loan available through Farm Credit Canada.

As an area of shared responsibility, the federal government also works closely with provincial and territorial governments to support this important sector by delivering programs and services through a federal-provincial-territorial agricultural policy framework. The current five-year policy framework, Growing Forward 2 (2013–18), emphasizes support for agricultural and agri-food innovation, competitiveness, and market development. The framework also includes a comprehensive suite of business risk management programs to help farmers manage the risks associated with severe market volatility and disaster situations, with average federal-provincial-territorial spending of approximately $2 billion per year.

The next agricultural policy framework, the *Canadian Agricultural Partnership*, will be in place by April 2018 and represents a five-year, $3 billion investment by federal, provincial and territorial governments to strengthen the agriculture, agri-food and agri-based products sector. The new framework will focus on following priority areas: science, research, and innovation; markets and trade; environmental sustainability and climate change; value-added agriculture and agri-food processing; public trust; and risk management. The new framework will continue to include a robust suite of business risk management programs to help producers manage significant risks that threaten the viability of their farm and are beyond their capacity to manage.