



Ontario Federation of Agriculture

Ontario AgriCentre

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Beginning Farmer Programming

As noted in the Ontario Federation of Agriculture's (OFA's) strategic plan, providing services and programs specifically designed for young farmers and new entrants to the industry is an important action item.

All industries must have a strong renewal program to ensure sustainability. Renewal brings forth new ideas and approaches, coupled with the enthusiasm of new entrants. Agriculture is no exception.

It is important that support programs in Ontario and Canada reflect the needs of all producers. Due to the challenges involved in starting a new farm, new producers face a high degree of risk – this must be taken into account when creating programs designed to attract new entrants to agriculture.

- 1. Enable beginning farmers to get a Farm Business Registration number based on projections as currently done under the Farm Property Class Tax Rate Program.**
- 2. Fund a Program Information Awareness System.**
- 3. Raise the level of the loss restriction under Section 31 of the Income Tax Act.**
- 4. Use an 'industry average Allowable Net Sales' for the size and type of a beginning farmers operation for programs otherwise calculated using a historical base period.**
- 5. Allow tax free RRSP withdrawals by beginning farmers for one-time capital purchases for their farm.**
- 6. Provide beginning farmers with 100% funding for Environmental Farm Plan projects.**
- 7. Increase the Capital Gain Exemption level for qualified farm property when the property is sold to a prospective farmer.**
- 8. Expand the Land Transfer Tax exemption to apply to unrelated beginning farmers.**
- 9. Develop and fund a Loan Guarantee and Interest Subsidy Incentive program for Beginning Farmers.**

Background Information:

1. Enable beginning farmers to get a Farm Business Registration number based on projections as currently done under the Farm Property Class Tax Rate Program

As it stands now, farmers must be able to show income tax records from the previous year documenting at least \$7,000 in annual gross farm income to be permitted to register for a Farm Business Registration (FBR) number.

As a result, farms in their first year of operation cannot obtain a FBR number. This poses an additional administrative burden on beginning farmers because alternative channels are required to qualify for the Farm Property Class Tax Rate Program, Provincial Retail Sales Tax exemptions, Environmental Farm Program participation, and becoming an OFA member.

By enabling beginning farmers to obtain a Farm Business Registration number based on the same criteria used under the Farm Property Class Tax Rate program, they will avoid having to use these alternative eligibility channels for various programs.

2. Fund a Program Information Awareness System

Both beginning and existing farmers, starting a new farming enterprise, need information. Existing programs may be underutilized because they are unknown.

A Program Information Awareness System could systematically identify and address professional skills required of new farmers. Information on provincial financial assistance programs could be networked to increase flexibility and options for the variety of farmers.

3. Raise the level of the loss restriction under Section 31 of the Income Tax Act

Section 31 of the Income tax Act places restrictions on the amount of farm losses that can be used to offset other income. As it stands now, the amount of farming loss deductible is restricted for any taxpayer whose chief source of income is not farming or a combination of farming and some other source, but who still carries on a farming business with a reasonable expectation of profit.

The number of farmers affected by the restricted farm loss provisions will continue to increase as more farmers work off the farm. Nearly half (49.6%) of all Ontario farm operators reported an off-farm job or business on the 2006 Census, compared with 45.5% in 2001 (48.4% of Canadian farmers in 2006 and 44.5% in 2001).

Beginning farmers are also more likely to require off-farm income in the early years of starting their farm operations. Especially in situations where the farm operation is gradually expanded over time, restricted farm loss provisions may apply.

Both existing OFA and CFA policy calls for an increase in the restricted capped amount that farm losses can offset other sources of income.

Section 31's loss restriction amount was last raised from \$5,000 to \$8,750 in 1988. Since 1988, farm losses are restricted to \$2,500 plus $\frac{1}{2}$ of the remaining loss up \$6,250 for a maximum loss of \$8,750. Any remaining loss, greater than this amount, can be applied back three years or forward 20 years against farm profits.

4. Use an 'industry average Allowable Net Sales' for the size and type of a beginning farmers operation for programs otherwise calculated using a historical base period

This recommendation was formulated based on resolution 08-04-20 which was adopted by the OFA Board of Directors in April 2008.

08-04-20 - Beginning Farmers and Support Programs

- THEREFORE BE IT RESOLVED that the Ontario Federation of Agriculture consult with Commodity Boards with the intent of securing a commitment at both the Provincial and Federal government levels to allow beginning farmers to use an "industry average ANS" for the size and type of their operation for their start-up years, when ANS data is the basis of income support initiatives; and
- FURTHER BE IT RESOLVED that the Ontario Federation of Agriculture lobby for the implementation of a process to address farm income support program design flaws that leave out a portion of producers

5. Allow tax free RRSP withdrawals by beginning farmers for one-time capital purchases for their farm.

This recommendation was formulated based on resolution 09-01-03 which was adopted by the OFA Board of Directors in January 2009.

09-01-03 – Young Farmers and RRSP Penalties

- THEREFORE BE IT RESOLVED that the Ontario Federation of Agriculture in conjunction with the Canadian Federation of Agriculture request the Federal Government to amend the RRSP HBP to allow young and beginning farmers the opportunity to cash in their RRSP's, tax free to enable one-time capital purchase for their farm.

6. Provide beginning farmers with 100% funding for Environmental Farm Plan projects.

Since its beginnings in 1993, the Environmental Farm Plan has proven to be a great success throughout the farming sector. The difficult financial situation of many beginning farmers, however, restricts their participation in this program.

As beginning farmers are more focused on building infrastructure and farm assets, they would be more likely to participate if there was 100% funding provided to them for their projects.

7. Increase the Capital Gain Exemption level for qualified farm property when the property is sold to a prospective farmer.

The Capital Gains exemption of \$750,000 is something that can be used to encourage retiring farmers to sell to prospective farmers. However there is currently no provision that the qualified farm property must be sold to a prospective farmer.

We therefore request that this exemption be expanded beyond the \$750,000 level should assets over that amount be sold to a prospective farmer.

8. Expand the Land Transfer Tax exemption to apply to unrelated beginning farmers

The LTT exemption to within family and corporation members should also be expanded to anyone selling farmland to a qualified beginning farmer.

9. Develop and fund a Loan Guarantee and Interest Subsidy Incentive program for Beginning Farmers

Due to the high cost of buying land, a qualified beginning farmer with an approved business plan needs support in making their first land purchase. This can be done three different ways:

1. A loan guarantee split 50/50 between the Federal and Provincial governments. While this program does not necessarily involve financial costs to the government, it is understood that this does carry a contingent liability.
2. An interest rate subsidy. This can be done with a cut of 1.5 points below prime.
3. A combination of the previous two options.

Eligibility for the Loan Guarantee and Interest Subsidy Incentive program could be determined by a proposed point structure. The proposed point structure designed by the beginning farmer task team included four categories, income, net worth, relevant education, and a personal learning plan.

The task team felt the “Growing Your Farm Profits” workshops could be incorporated to provide mentoring and training for the personal learning plan. Under the personal learning plan, applicants would complete a personal needs assessment based on an industry-developed list of necessary skills. This plan will include both a detailed business plan as well as proof of agricultural related work experience.

Applications would be reviewed by a Peer Review Committee (similar to the Environmental Farm Plan) which will aid applicants in determining which skills have been mastered and which skills require further development. The skills list and Peer Review Committee will determine the appropriate scoring; in this case, applicants with a viable business plan and a greater number of agricultural skills will receive a higher scoring.

Depending on what program is being applied to, this point system can be used to exclude applicants, or limit the involvement of some in incentive programs. All programs applied to using this points system will be subject to a 15 year continuancy clause. If a recipient of programming through this system arbitrarily removes him/herself from the industry, he/she will be subject to repaying of the full cost of the program plus interest.

Improvements For All Farmers

Making adjustments to some basic agricultural delivery methods and programs are approaches that can benefit the agricultural industry as a whole.

Rural Communications Infrastructure – Since the closing of many OMAFRA offices in the 1990s, many resources have been placed on the Internet. However, due to problems with internet service in rural areas – such as low broadband coverage – it has served to make resources less available to producers. We encourage the OFA to continue to lobby for affordable high speed internet accessibility in all of rural Ontario. As a short term measure, all governmental websites should have a text-only, low-graphics option so that those on slower internet connections are still able to access available resources. By improving high speed internet capability, it also provides farmers with the potential to use more cost effective meeting groups and communication due to the ability to take advantage of Skype technology.

Centralised Program Database – While there are programs available to farmers, it is important that those programs be available in one, easy to find website or Fact Sheet. There are issues affecting Internet service within the province and it is important that one click should be able to find all of the programs quickly and easily. We'd like to thank OFA and OMAFRA for their current attention to this issue.

Review Process – Some programs miss producers who need support. There must be a process available for those producers to apply for special consideration for support.

Accelerator Loan and FarmLink – There are both producers willing to sell their farm to new producers, and new producers willing to buy existing farms that are not able to connect. The FarmLink program exists for this reason, but needs more exposure. Also, the Accelerator Loan is a program available for intergenerational farm transfers. Both programs deal with the same people, but have not been treated as potential companion programs. The administrators of both programs should be encouraged to work together, potentially widening the uptake of both. It could possibly include FarmLink advertising the Accelerator Loan and Farm Credit Canada (FCC) advertising FarmLink.

Investment in Second Generation Co-ops – It is clear that Ontario needs to improve its processing capacity. It is also imperative in today's economic climate that governmental money and support can be used to create jobs. An increase in processing capacity creates the opportunity for producers to have more competition for their products, and support for producers to enter into second generation co-ops allows those same producers to take ownership of the processing capacity, reducing the risk of that capacity leaving the Province. We believe that OFA should encourage the government of Ontario to provide support structures for the increase of processing capacity.

Streamlining and Simplifying Application Process – Many producers have complained about the need for a more simplified approach and a more supportive approach to registration for farm programs. All applications should be equally accessible both through phone and Internet (based on comments above regarding Internet accessibility).