

2018

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**Allied on Facebook**



We are pleased to announce that we have expanded our social media presence by publishing an Allied Facebook page.

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**Tax Changes**

**"Small Business Corporate Tax Rate Reduced"**

The combined Federal and Provincial small business corporate tax rate will be reduced from 15% in 2017 to 13.5% on January 1, 2018, and to 12.5% on January 1, 2019.

**"Children & Youth Pharmacare"**

Ontario now provides prescription drug coverage for everyone under the age of 25 regardless of family income.

**"Canada Caregiver Tax Credit"**

This credit replaces the infirm dependent credit, the caregiver credit, and the family caregiver amount.

**"Tuition"**

Federal education and text book credits eliminated for 2017.

**"Children's Fitness & Arts Credits"**

Federal and provincial tax credits eliminated for 2017.

**"New OSAP Post-Secondary Education Program"**

Starting in Fall 2017, there is a reduced expectation of contribution by parents or spouses of students, and saving from RESP's will not reduce OSAP assistance.

An OSAP aid calculator is available on the OSAP website ([osap.gov.on.ca](https://osap.gov.on.ca)) to determine what affect the changes in parents' income levels will have on a student's ability to obtain assistance.

**"Eligible Capital Property (Farm Quotas)"**

Beginning in 2017, farm quotas are now treated as depreciable capital property under a new Class 14.1 of the Income Tax Act. Family farm corporations disposing of their quota may now be faced with capital gains taxed at rates as high as 50.17%. ◀

**Tax Proposals**

In July 2017, the Federal government introduced certain proposals affecting private corporations as they relate to income splitting, holding passive investments inside a private corporation, and converting income into capital gains.

Since that time, the proposals related to capital gains have been scrapped and we are awaiting further details on the taxation of investments that will likely be announced in the next Federal budget.

The income splitting proposals affect dividends or interest paid by a private corporation to an individual. The government is proposing certain restrictions on income splitting involving specified individuals between the ages of 18 and 24 who do not meet a reasonableness test in regard to their participation in the private company that will be subject to additional tax.

Individuals 25 years of age and older will also be subject to additional tax but the reasonability test for involvement will be less stringent.

Individuals age 65 or over would be largely unaffected. ◀

## Profile: Laura Thompson, CPA, CGA

Laura joined Allied as a Staff Accountant in 2009 after graduating from Fanshawe College. She obtained an Honours of Commerce from Laurentian University in 2014 and obtained her Certified General Accountant designation in 2015. Laura grew up on a small farm in Eastern Ontario and was actively involved in the family business, a farm machinery dealership and milling operation. Laura became Assistant Manager in our London Office in 2017. ◀



## FAQ's

**I currently have a farm that I own personally but operate through my family farm corporation. I would like to transfer the farm to the corporation, will I have to pay land transfer tax?**

Certain transfers of farmland between family members may qualify for an exemption from land transfer tax as follows:

- Transfers from an individual to a family farm corporation.
- Transfers from an individual to an individual.
- Transfers from a family farm corporation to an individual.
- There is no exemption on transfers from a corporation to another corporation.

For the above exemptions to apply, prior to the transfer, the land must have been used predominately in farming carried on exclusively by an individual, therefore, in your case, the land transfer tax exemption would not apply as the corporation is not an individual.

**I recently used my family farm corporation to purchase the shares of another farm corporation that includes land. How do I ensure this new farm is eligible for the Farm Property Class Tax Rate Program?**

If the property is owned by a corporation, more than 50% of the voting shares must be legally owned by individuals who are either Canadian citizens or permanent residents of Canada. As a corporation does not qualify as an individual or a Canadian citizen, the Farm Property Class Tax Rate Program may not apply.

Eligibility can be regained by reorganizing the share structure of the corporation so that you or another individual own more than 50% of the voting shares.

**How do I develop a business plan and a vision for my farm?**

A vision is a mental image of what you want your business to look like in the future based on your current goals, principles and values.

When documented in a business plan, it helps the family, staff and lenders understand the operation and its current and past state, along with the management style.

The purpose of documenting the vision and history is to capture emotions, passion, and the thought process as to why certain decisions were made and the outcome.

Essentially, it is a story the future generations can use to reflect on with regard to the history of the operation.

It would also serve as a guide going forward as a starting point to discuss and evaluate various planning decisions which could include estate and succession planning, farm transfers, incorporation or corporate reorganization.

**Is income from share cropping considered farming income?**

It depends on the share cropping arrangement. If the landlord simply receives a percentage of the crop, it is considered to be rental income and not income from farming. There are other types of share crop arrangements where both the landlord and share cropper share in all of the expenses, input costs, and revenues, on a proportionate basis. Under these types of arrangements, the landlord can often be considered to be in the business of farming depending upon the facts of their case.



**I want to sell my farm and replace it with one closer to home. Is there any way to avoid capital gains on the property that I am selling?**

The "replacement property rules" provide a deferral to reduce the capital gain to the amount of proceeds on the sale that are not reinvested. In the event that all of the proceeds are reinvested in a similar property, the capital gain would be deferred until the eventual disposition of the replacement property. ◀

## Profile: Jordan Domm, CPA, CGA

Jordan joined Allied in 2005 as Staff Accountant London Office after graduating from Fanshawe College. He became the Accounting Advisor in Perth County in 2008. In 2013, he obtained his Certified General Accountant designation. In 2016, Jordan also took on the role of Director of Business Development. He is a member of the Canadian Association of Farm Advisors (CAFA). ◀



## Benefits of Our Advisory Services

Many Allied clients take advantage of our business advisory services provided by each client's Accounting Advisor and our team of Business Advisory Specialists. Our Advisors use their knowledge about you and your business and combine this with the expertise of our in-house specialists focused on business planning, estate and succession planning, and farm management to help your business and your family.

Some recent examples of the benefits of our Advisory services are as follows:

- Assisted with business planning and its implementation involving the sale of a poultry farm in Southern Ontario and the purchase of a dairy farm in another province, using the replacement property rules to minimize income tax. We integrated these transactions with a succession plan to include one of the client's children in the ownership and management of the new farm.
- Assisted with the retirement of the parents from an elevator and cash crop operation involving a brother and two sons. Ownership structure included shares in three family business corporations. A purchase and sale was structured in such a way that utilized their lifetime capital gains exemption, spread the personal income tax implications over a number of years, provided for their retirement, and transferred ownership control and management to the next generation without impacting the brothers' ownership.



- Creating and assisting with the implementation of a succession plan for a highly leveraged swine operation from the parents to their son and daughter-in-law. The plan was structured in a way that allows the parents to continue to work on the farm but at a reduced level, provides for the parents' retirement, supports the cost of living of the next generation and their family, while balancing against the cash flow needs of the farm. The key to this plan is the implementation of a shareholder agreement that

details an exit strategy for anyone who wants to get out, includes terms and conditions for the withdrawal of funds from the

company, and sets out the expectations of each family member as a shareholder in regard to work responsibilities, as well as ownership, management and control.

- Assisted in the development of an exit strategy to sell a dairy farm and set up a holding company to defer tax on the proceeds, and put together a deal to use some of the proceeds to provide financial assistance to another family member so that they can purchase and expand a new non-farming business.
- Provided instructions to the lawyers for a couple equalizing their net family property as a result of a marriage split while minimizing negative income tax implications, ensuring financial security for the children, and providing financial peace of mind for all parties involved to reduce the emotional fallout from the breakdown of the relationship.

- Assisted an executor with the settlement of an estate for a deceased farmer who had nine children but no Will. This included an analysis of various tax alternatives, presentations to all parties involved including the family, executors, lawyers, bankers, and financial advisors. The analysis and presentations included recommendations as to the best action plan under the circumstances. ◀

## Peterborough Office Relocation

On November 15<sup>th</sup>, our Peterborough office moved to an improved location.



The new address and contact information is:

380 Armour Road, Suite 256  
Peterborough, ON K9H 7L7  
1-800-661-1956  
705-760-9900 ◀

## Profile: Reba Jefferson

Reba Jefferson started with Allied as a Staff Accountant in our London Office in 2015. She became Accounting Advisor for our clients in Grey, Bruce, and Huron Counties in December 2017. Reba is a graduate of Wilfrid Laurier University with a Bachelor of Business Administration, specializing in Accounting and has passed her Chartered Professional Accountant exams on her way to the CPA designation. ◀





## 2017 Fact & Figures

### Individual Tax Rates:

Bracket.....	Taxable Income.....	Tax Rate
First .....	\$0 – \$10,171.....	0%
Second.....	\$10,172 – \$11,635 .....	5.05%
Third .....	\$11,636 – \$42,201.....	20.05%
Fourth.....	\$42,202 – \$45,916.....	24.15%
Fifth.....	\$45,916 – \$74,313.....	29.65%
Sixth.....	\$74,314 – \$84,404.....	31.48%
Seventh.....	\$84,405 – \$87,559.....	33.89%
Eighth.....	\$87,560 – \$91,831.....	37.91%
Ninth .....	\$91,832 – \$142,353.....	43.41%
Tenth .....	\$142,354 – \$150,000.....	46.41%
Eleventh .....	\$150,001 – \$202,800.....	47.97%
Twelfth.....	\$202,801 – \$220,000.....	51.97%
Thirteenth.....	\$220,000 and above.....	53.53%

### Corporate Tax Rates:

Type of Income.....	Tax Rate
Small Business Income (includes farming).....	*15%
Manufacturing & Processing .....	25%
General Income.....	26.5%
Investment Income .....	50.17%

*\*Reduced to 13.5% for 2018, and 12.5% for 2019*

## Top Seven Practices That Drive Farm Financial Success\*

- 1) Never stop learning.
- 2) Make business decisions using accurate financial data.
- 3) Seek the help of business advisors/consultants.
- 4) Have a written business plan, follow it and review it annually.
- 5) Know and monitor your cost of production and what it means for your profits.
- 6) Assess risks and have a plan to manage and mitigate risks.
- 7) Use a budget and financial plan to monitor financial position and options.

*\*According to study  
commissioned by  
Agri-Food Management  
Institute and Farm  
Management Canada. ◀*



## Helping Farm Families Succeed Since 1956



**Allied Associates LLP, Chartered Professional Accountants**

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