The Allied Advantage

Allied ASSOCIATES LLP

2019

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Tax Changes

"Accelerated Capital Cost Allowance"

The accelerated investment incentive will allow businesses to recover investment costs sooner by allowing immediate write off of manufacturing and processing, and clean energy equipment.

Most other assets will also qualify for a deduction of up to three times the amount otherwise allowed in the year of acquisition.

	Normal	*With Incentive*
Trucks and tractors for hauling freight	20%	60%
Motor vehicles	15%	45%
Machinery and equipment	10%	30%
Buildings	5%	15%
Computers	27.5%	82.5%
Computer software	50%	100%
Goodwill and quotas	2.5%	7.5%

The accelerated investment incentive will apply to qualifying assets acquired after November 20, 2018 and will be gradually phased out starting in 2024.

"Passive Income"

Currently, small business corporations have a combined federal and provincial corporate tax rate of 13.5% for 2018 and 12.5% for 2019 on up to $500,000 of active business income each year. This $500,000 business limit will be reduced at a rate of $5 for every dollar of passive investment income above $50,000 in a given year. This income will then be subject to the combined federal and provincial general rate of 25%.

"Refundability of Tax on Investment Income"

Under current Refundable Dividend Tax on Hand (RDTOH) rules, corporations can trigger a refund of taxes paid on investment income, regardless of the source of the dividend.

Starting with taxation years beginning after 2018, eligible dividends paid out by a company that only has a non-eligible refundable dividend tax on hand account will not benefit from a RDTOH refund.

"Specified Corporate Income"

If a corporation receives more than 10% of its income from another corporation and one of the companies owns any part of the other, any of the shareholders have ownership in both companies, or any of the shareholders in one of the companies is related to a shareholder in the other company, then only the arm's length portion of the income between the companies would be eligible for the small business deduction unless the recipient corporation allocates a portion of its small business limit to the other corporation.

"Climate Action Incentive (CAI)"

The 2018 federal budget enacted a climate action incentive refundable tax credit available to residents in Ontario. Individual adults will be eligible for a refund of $154, the second adult in a couple (or first child of a single parent) will trigger a refund of $77, and each child under 18 will result in an additional $38.

(Continued on Page 3)

Government Assistance for Farmers

Canadian Agricultural Partnership (CAP)

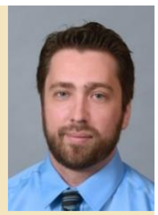
The most accessible source of funding for producers for the next five-year period (2018-2023) is the Canadian Agricultural Partnership (CAP). Projects that qualify include:

- New construction and renovations or new technology to improve animal housing (35% to a maximum of $25,000).
- Equipment modifications to improve manure applications (40% to a maximum of $30,000).
- Cover crops (50% to a maximum of $10,000, or 65% to a maximum of $20,000, depending on the geographic region).
- Food safety or traceability system equipment or systems improvement (35% cost sharing to a maximum of $10,000).

The best advice is to review the program guide to see what your operation may benefit from. The program guide can be found at https://ontarioprogramguides.net. Applications can be submitted online at https://ontarioprograms.net. ◄

Profile: Dane Anderson, *CEA, FPSC Level 1®*

Certificant in Financial Planning



Dane joined Allied In 2007 as a Staff Accountant and assumed the position of Accounting Advisor in Oxford/Elgin/Norfolk counties in 2010. He recently obtained his Certification in Financial Planning. Dane grew up on a family operated dairy farm in the Waterford area and now lives in Tillsonburg with his wife, Hillary, and their three young boys. ◄

Frequently Asked Questions

How much or how long does a property have to be used in farming to make it qualified farm property for the purposes of the lifetime capital gains exemption?

There are two sets of rules depending on when the property was purchased. One is easy to meet, the other is harder.

1) For property purchased on or before June 17, 1987, the property must be used in farming at the time of sale or for any five years during its ownership.
2) For property purchased after June 17, 1987, the property has to be owned for 24 months and in at least two years the gross income from farming must exceed net income from all other sources. However, this income test does not apply if the property is used in a family farm partnership or family farm corporation for at least 24 months and the individual, spouse, common law partner, child, or parent was actively and continuously involved in the farming business. This fact can be advantageous for those who have off-farm income and cannot meet the income test.

Does the person who owns the farm property have to use it in farming in order to be eligible for the lifetime capital gains exemption?

No. As long as the property is farmed by a spouse, common law partner, child, or parent, you can still access the exemption. Many children who inherit land from parents are surprised to learn that although they have never farmed the property, they qualify for the million-dollar exemption.

Profile: Kim Vandevrie

Kim joined Allied in 1996 as a Staff Accountant and assumed the Accounting Advisor position in South Central Middlesex county in 2001. She grew up on a dairy farm near Teeswater, Ontario. Kim takes pride in providing quality personal and corporate taxation and financial services in a valuable and timely manner. ◄

Can the lifetime capital gains exemption be used upon the death of an individual?

Yes. An executor can trigger a capital gain and use the exemption with the final tax return. This increases the cost base of the property which benefits the beneficiaries, whether spouse or children. This would usually be done if the deceased individual has any exemption available.

I am currently renting my farm to a cash cropper, I want to transfer the farm to one of my children. Can I do this without income tax consequences?

Maybe. The asset must have been used principally in the farming business by a family member before the transfer otherwise there will be a deemed disposition at fair market value when it is gifted to your child. "Used principally" means that the farm property was used more than 50% for eligible farming activities and is calculated on a total land area basis and on a total ownership period basis.

I have all my farming assets in a corporation. I intend to transfer my shares to my two children who will carry on the farm, however, they do not wish to farm together. Can I split the assets into two companies without income tax consequences?

Yes. A reorganization into two companies can be completed on a tax-deferred basis provided that you control them both. This tax deferral is far more restrictive if it is done after the shares are transferred to your children.

We want to buy a new vehicle. Can we claim back the HST at the time of purchase?

If you can prove that the vehicle will be used 90% or more in the business, then you are eligible for a full refund of HST. For vehicles used 50% or more in the business, HST can be claimed back in proportion to the capital cost allowance claimed each year.◄

The Allied Story

Allied was founded in 1956 by the Late Gerald C. Baines and operated under the name "Allied Farm Services of Canada". In the early years, services included an insurance membership as well as advice on income tax matters but it was not until 1966 that we offered an "in-home" tax preparation service.

We entered the business offering a trained tax consultant who would serve specific clients in a given area and call on them regularly each year. The Accounting Advisor concept proved to be very popular causing a tremendous growth in the business.

In 1998, "Allied Accounting and Tax Services Limited" was purchased by senior staff and today, continues to operate as "Allied Associates LLP, Chartered Professional Accountants".

Allied Associates LLP is a unique professional service firm focused on family farms and small businesses. We are represented by qualified advisors in various counties in Ontario from Windsor to Ottawa. Each advisor is an active member of the community dedicated to developing long term professional relationships. Our advisors are characterized by many years of experience as they often spend their entire careers in the communities they serve.

We are managed and organized by specialized individuals in our London and Peterborough offices committed to leading our team of advisors to the solutions you need.

Our representatives are available to meet with you regularly at your place of business based on a predetermined schedule to answer your questions, plan your business, prepare financial statements and reports, access available government funding, plan and file for income tax, and to discuss and solve problems. We provide business planning advice, succession and estate planning suggestions, business restructuring recommendations and above all, act as a sounding board for your ideas and dreams.

We complete our work on-site, at your desk or your kitchen table, explaining, discussing and reviewing the implications with you.

We emphasize efficient, common sense solutions that can be generated and discussed in a sincere and understandable manner.◄

Profile: Bryan Smith, CPA, CA

Bryan joined Allied in 1996 as the Accounting Advisor for the Peterborough area. He is now a Senior Manager and Partner specializing in business advisory services. Bryan often acts as a resource for other staff on technical matters. He grew up in Oxford county in Southwestern Ontario and has lived with his family in the Peterborough area since 1981.◄

Climate Action Incentive (CAI) *(Continued from Tax Changes on Page 2)*

Residents of small or rural communities will receive an additional 10% supplement such that the payment amount for a family of four will total $337.70.◄

2018 Facts & Figures

Individual Tax Rates:

Bracket	Taxable Income	Tax Rate
First	$0 – $10,354	0%
Second	$10,355 – $11,809	5.05%
Third	$11,810 – $42,960	20.05%
Fourth	$42,961 – $46,605	24.15%
Fifth	$46,606 – $71,500	29.65%
Sixth	$71,501 – $82,000	31.50%
Seventh	$82,000 – $92,000	34.00%
Eighth	$92,000 – $93,208	38.00%
Ninth	$93,209 – $144,489	43.50%
Tenth	$144,489 – $150,000	46.50%
Eleventh	$150,001 – $205,842	48.00%
Twelfth	$205,843 – $220,000	52.00%
Thirteenth	$220,000 and above	53.53%

Corporate Tax Rates:

Type of Income	Tax Rate
Small Business Income (includes farming)	13.5%*
Manufacturing & Processing	25%
General Income	26.5%
Investment Income	50.17%

****Reduced to 12.5% for 2019***

Our Estate Planning Process

In addition to accounting and tax preparation, we provide business advisory services. One of those advisory services is estate planning. Our process includes:

- A review of existing Wills to determine how your assets will be distributed on your death.
- Preparing a net worth statement summarizing your present assets and liabilities.
- Determine the approximate value of your estate to be distributed to each beneficiary under the provisions of your existing Wills.
- Calculate the income tax implications that may result from the distribution of your property under the Will.
- Suggesting possible changes to Wills, ownership of assets, business structure, insurance coverage and other recommendations to achieve the desired result.
- Consideration for other factors such as probate fees, future cashflows, equity protection, and family harmony.

Helping Farm Families Succeed Since 1956

Allied Associates LLP, Chartered Professional Accountants TRUST – KNOWLEDGE – SERVICE – SINCE 1956

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