

2020

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Upcoming Events: Please come see us at:

Event	Date	Location
London Farm Show	March 4-6	Western Fairgrounds, London, ON
East Central Farm Show	March 4-5	Lindsay Fairgrounds, Lindsay, ON
Dundas Farm Show	March 13	Matilda Hall, Brinston, ON
Ottawa Valley Farm Show	March 17-18	EY Centre, Ottawa, ON
National Poultry Show	April 8-9	Western Fairgrounds, London, ON

Frequently Asked Questions

As I operate my business from my home, what home office expenses can I deduct?

You may deduct property taxes, mortgage interest, heat and hydro, insurance and rent based on a proration of square footage of the home and the proportion of time that square footage was allocated to the business. For example, if a home office comprised 20% of available floor space and was used as an office 60% of the time, then 60% of 20% of the related expenses would be deductible.



Home office deductions are limited to your net income from the business although any expenses which are limited may be carried forward and applied against income of the same business in a future year.

In addition you may claim capital cost allowance on that proportion of the fair market value of your home, however, this is rarely desirable since it is likely to impair your claim for the principal residence exemption in the event that you sell your house. In addition, expenses such as telephone, office supplies and similar items, to the extent that they are related to the business may also be deducted.

Continued on Page 2 ...

Profile: Steve Palmer

Steve joined Allied in 2010 as a Staff Accountant and assumed the position of Accounting Advisor in Perth, Wellington and surrounding counties in 2011. He is a graduate of the Honours Bachelor of Accounting Program at Brock University and is a member of the Canadian Association of Farm Advisors (CAFA). ◀



I just received phone call from Canada Revenue Agency demanding immediate payment or I will be arrested. How do I know whether or not this is a scam call?

The Canada Revenue Agency will never:

- Use aggressive language or threaten to arrest or deport you.
- Ask for information about your passport, health card or drivers license.
- Demand immediate payment by interact e-transfer, bitcoin, prepaid credit cards or gift cards.
- Send you an email with a link to your refund.
- Leave voicemails that are threatening or give personal or financial information.
- Email you a link asking you to fill in an online form with personal or financial details.
- Set up a meeting in a public place to take a payment.
- Use text messages.

I farm near an urban centre and want to move to an area where I can expand. Is there any way to avoid capital gains on the property that I'm 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.

The lone exception is Class 14.1 properties (typically quotas) are not eligible for the replacement property rules.

We just bought a new vehicle how do we claim back the HST?

If business use of the automobile is greater than 90% then the entire amount of the HST can be claimed back as an input tax credit on the current year's HST return. The input tax credit is restricted to the capital cost limitation on Class 10.1 vehicles.

If business use of an automobile is less than 90% for business but greater than 50%, the entire amount of the HST can be claimed as an input tax credit in corporate situations, however, partnerships and individuals can only claim HST on the business portion of the capital cost allowance as an input tax credit each year. The input tax credit claimed on the capital cost allowance is deducted as an adjustment to the opening undepreciated capital cost allowance in the following year.

If the business use of the automobile is less than 50%, the HST on the business portion of the capital cost allowance cannot be claimed in corporate situations but can still be claimed on the business portion of the capital cost allowance in partnership and individual situations.

Class 10.1 restrictions would apply to the capital cost in all of the above situations.

We do all of our bookkeeping on the computer now. What electronic records must we maintain for CRA?

Canada Revenue Agency sets out their electronic record keeping requirements in IC05-1R1. Under this circular, electronic records must be maintained in an electronically readable format which means that the system is capable of producing an accessible and usable copy.

A copy is accessible if it's usable by CRA equipment. A copy is usable if it can be read by CRA software.

As with paper documents, electronic records must be maintained for a

minimum of six years from the end of the latest year to which they relate.

Businesses who keep records in an electronic format must retain them in an electronically readable format for the prescribed period even when a hard copy is available. ◀

Tax Changes

2019 Federal Budget

- New Canada Training Credit – a refundable personal tax credit of \$250 per year that can be accumulated to provide financial support to help cover up to half of eligible tuition and fees associated with training.
- An increase in the home buyers plan (HBP) withdrawal limit to \$35,000 from \$25,000.
- Access to the enhanced refundable scientific research and experimental development (SR&ED) credit for small and medium sized businesses with taxable capital of up to \$10 million, regardless of their taxable income.

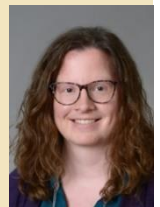
2019 Ontario Budget

- New CARE tax credit to reduce childcare costs.
- Estate administration tax relief by eliminating tax on the first \$50,000 of the value of an estate. ◀

Profile:

Sarah Radnor, BBA

Sarah joined Allied in 2008 after graduating from Durham College with a diploma in Business Administration and



Accounting. She has since also received her Bachelor of Business Administration degree from Trent University. After started in administration, Sarah eventually became the assistant manager of our Peterborough office and now serves as our accounting advisor for clients in Peterborough, Hastings and Northumberland counties. . ◀

Profile: Amanda Jennen

Amanda joined Allied in June 2016. She is a graduate of the Bachelor of Commerce and Accounting program at the University of Guelph and recently passed her Chartered Professional Accountant common final examination on the way to achieving her CPA designation.



Amanda grew up on the family farm outside of Dresden where they operate farrow-to-finish and cash crop farms. ◀

Succession Planning: Allied's Approach

- Help the family to discover what their goals and objectives are with regards to the succession process. Identify areas where key individuals disagree, encourage them to communicate with each other to reach a compromise. Present options which may overcome these obstacles.
- Complete a financial analysis of the business to determine the financial strength of the farm business. This will help to determine if the farm can support the needs of the retiring generation and the needs of the successor. It will also identify what options will be available with regards to financing.
- Prepare a retirement needs analysis given the desired timeline. This will help to identify minimum selling prices of the farm assets given their other resources.
- Determine the cost base and FMV of the farm assets involved.
- Review all pertinent documentation: partnership agreements, shareholder agreements, Wills, etc., regarding tax implications.
- Discuss current remuneration of family members. Consider alternative business arrangements to involve the next generation in the ownership of the farm assets.
- Determine if an inter vivos transfer of assets would accomplish their objectives and determine the optimum transfer price given the tax implications.
- Determine what the parents perceive to be an equitable division of their assets and review their options in this regard.
- Suggest a timetable that could be followed in implementing the plan.
- Provide assistance with communication of information and decisions to all participants at all stages of the process.
- Identify other professionals who need to be involved in the process. ◀

Basic Personal Tax Credits That Apply for 2019

	Federal (15% of)	Provincial (5.05% of)
Basic personal	\$12,069	\$10,582
Married or equivalent	\$12,069	\$8,985
Age	\$7,494	\$5,166
Disability	\$8,416	\$8,549
Supplement for children with disabilities	\$4,909	\$4,986
Canada caregiver (under 18)	\$2,230	N/A
Canada caregiver (infirm adult)	\$7,140	\$4,987
Pension (maximum)	\$2,000	\$1,463
Medical	\$ amount >3% of net income or 2,352	\$ amount >3% of net income or 2,395
Tuition	\$ amount	0
Charitable	\$200 + 29% of \$ amount thereafter	\$200 + 11.16% of \$ amount thereafter
CPP	\$ amount	\$ amount
EI	\$ amount	\$ amount
<i>Note: some credits subject to income thresholds.</i>		

Financial Analysis: Allied's Approach

- We are often asked to comment on the performance of a client's business from a financial perspective. Although financial statements are a good indicator, they do not always contain all of the information necessary to assess how a business is performing because they are based on historical costs and/or may be biased toward being prepared for tax purposes.
- Several of our clients have us answer this question on an annual basis by preparing a net worth statement and ratio analysis. The net worth statement restates the balance sheet to its fair market value so that we can assess return on investment in today's dollars. The ratio analysis then assesses the performance of the business in five main areas:
 1. Liquidity: the ability of the farm business to generate sufficient cash to meet financial obligations and cash flow requirements.
 2. Solvency: measures the ability of the business to pay off its debt if it were sold tomorrow.
 3. Financial: measures the extent to which a business utilizes its resources (assets) efficiently.
 4. Profitability: measures the ability of the farm to provide a return on investment.
 5. Debt service capacity: measures the ability of the business to service all principal and interest payments.
- We can compare these ratios on an annual basis or to benchmarks that are available for certain farm sectors. This will highlight ratios that are outside industry standards and we can offer suggestions and recommend actions. Your Accounting Advisor would be happy to discuss this service with you further. ◀

Helping Farm Families Succeed Since 1956



Allied Associates LLP, Chartered Professional Accountants

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