

2024

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**Tax Highlights**

**Intergenerational Transfers Involving Owners of Family Farm Corporations or Small Business Corporations**

New rules came into effect on June 29, 2021 regarding intergenerational transfers as a result of Bill C-208. Prior to the implementation of these rules, parents or grandparents could incur a significantly higher tax bill transferring their farm business shares to their children or grandchildren than they would have incurred if they had sold those same shares to an arm's length party.

In general, the rules provide that, where an individual taxpayer transfers shares of a family farm or small business corporation to a purchaser corporation controlled by one or more of their children or grandchildren who are at least 18 years of age, the transfer will no longer be recharacterized as a dividend transaction to the taxpayer where certain conditions are met. As a result, taxpayers who now undertake these transfers may instead be able to realize capital gains and potentially utilize their lifetime capital gains exemptions, which is equivalent to the tax treatment that would apply if they sold the shares to an arm's length party.

Finance Canada subsequently introduced amendments to tighten the conditions of these rules in the 2023 budget for transactions that occur on or after January 1, 2024.

To qualify, taxpayers must satisfy the following conditions:

1. Transfer control of a business by transferring all voting shares within 36 months.
2. Transfer economic interest such that within 10 years the parent must not own debt or equity interest in the corporation with a fair market value that exceeds 50% of the fair market value of all their interest at the time of the share transfer for family farm corporations, and 30% for small business corporations.
3. Transfer of management by taking reasonable steps for at least one of the children to manage the business within 36 months.
4. The child or children must retain legal control for at least 60 months after the initial share transfer or until the final sale is completed.
5. The child or children must be actively involved on a regular, continuous, and substantial basis in the farm or business, and the business must be carried on actively

Other new changes include extending the capital gains reserve to 10 years and extending the transfer rules to apply to nieces and nephews.

## Profile: Grace Bechard

Grace started with Allied in November 2021 as a Staff Accountant. She graduated from Nipissing University with an Honours Bachelor of Business Administration. Grace grew up on a family farm near St. Thomas. ◀



## Tax Highlights Cont'd

### Trust Reporting

Prior to December 31, 2023, a trust only needed to file a T3 return for the tax year of the trust if there was tax to pay for the year, if it disposed of capital property, or if it distributed all or part of its capital to beneficiaries.

For taxation years ending on or after December 31, 2023, all trusts will be required to file a T3 return annually, including trusts that have never filed before.

In the farm and small business community, this will include any situations where legal title to a property has been registered in trust on behalf of another individual(s) or entity(s).

Titles to properties are sometimes registered in trust on behalf of a beneficial owner to facilitate estate planning strategies, creditor protection, to maintain severance from adjoining properties, and various other circumstances.

All these trust situations will now require a separate T3 tax filing. Penalties for failure to file can be up to 5% of the maximum value of the property held by the trust during the year with a minimum of \$2,500. Therefore, it will be very important to inform your Allied Advisor of any properties you may have registered in trust to ensure the appropriate filing is now made on an annual basis.

### Canadian Dental Care Plan

Effective June 30, 2024, all those who have adjusted family net income of less than \$90,000 and do not have current access to dental insurance, will be eligible for this new plan.

It will be administered by Sunlife and letters will be mailed out to those who qualify.

The dental work will need to be performed by an oral health provider who has enrolled as a participant with Sunlife.

### Tax-Free First Home Savings Account

The Tax-Free First Home Savings Account (FHSA) is a new registered account to help individuals save for their first home.

Contributions to an FHSA would be deductible and withdrawals from the FHSA will not be subject to tax, provided the funds are used to purchase a qualifying home.

The lifetime limit on contributions will be \$40,000 subject to an annual contribution limit of \$8,000. These accounts became available on April 1, 2023.

### Alternative Minimum Tax

Alternative Minimum Tax (AMT) often comes into play in situations where a taxpayer has significant income in a particular year which is offset by optional deductions such as the lifetime capital gains exemption, charitable donations, and other exemptions and deductions. Beginning in 2024, the AMT base will be broadened by limiting the exemptions and deductions that can be used in the calculation and increasing the tax rate from 15% to 20.5%.

However, the basic AMT exemption will increase from \$40,000 to \$173,000 and will be indexed annually to inflation.

This is one of the more complicated areas of income tax and it should be discussed with your Allied Advisor as there are opportunities to recover and/or mitigate its impact.

### Changes to Requirements for Payments to Receiver General Over \$10,000

Effective January 1, 2024, any remittances to the Receiver General of more than \$10,000 must be made electronically.

A remittance voucher used at a bank will be accepted as the bank will transfer the funds, however, Canada Revenue Agency will no longer accept a cheque for the payment. Penalties may be applied if electronic payment is not made.

This change applies to all payments made to the Receiver General of more than \$10,000.

Anything \$10,000 or under can still be paid by cheque.

### Clean Technology Investment Tax Credit (CTITC)

A 30% refundable investment tax credit on the capital cost of eligible equipment became available for use on or after March 28, 2023. This 30% refundable credit is for corporations only.

*(Continued on next page)*

## Profile: Nipun Patel, CPA

Nipun joined Allied in October 2023 as a Senior Manager. Nipun focuses his efforts on partnering with accounting advisors to guide and advise clients through the development and implementation of action plans addressing changes to their businesses involving expansion, succession, reorganization and divesture. ◀



## Profile: Andres Castro

Andres joined Allied in January 2022 as a Staff Accountant. He is a Graduate of the Bachelor of Business Administration, Audit & IT program at Conestoga College. ◀



## Tax Highlights Cont'd

### Clean Technology Investment Tax Credit (CTITC) (Continued)

Eligible equipment includes:

- Equipment to generate electricity from solar, wind and water energy.
- Stationary electricity storage equipment that does not use fossil fuels.
- Active solar heating equipment, air source heat pumps and ground source heat pumps.
- Equipment to generate heat or electricity from concentrated solar energy.
- Equipment to generate heat or electricity from small modular nuclear reactors.
- Non-road zero emission vehicles (Class 56) and charging or refueling equipment for them.
- Geothermal energy systems.
- Generation of heat and/or electricity from waste biomass available for use on or after November 21, 2023. ◀

## Government Programs

### Interest Relief for Agricultural Producers

The interest-free limits for loans under the advanced payment programs has been increased from \$250,000 to \$350,000 for 2023 only. In Ontario, this program is delivered through Agricultural Credit Corporation (ACC). ◀

## Other Tax Changes

- The TFSA contribution limit for 2024 has been set at \$7,000 (up from \$6,500 in 2023.)
- The Class 10.1 limit for passenger vehicles has been increased to \$36,000 from \$34,000.
- The lifetime capital gains exemption for 2024 for both small business corporation shares and family farm property will be indexed for inflation for current and future years with 2024 at \$1,016,836.
- The prescribed interest rate has been increased to 6% for the first quarter of 2024.
- Ontario manufacturing and processing corporations will be eligible for a 10% refundable investment tax credit on Class 1 buildings and Class 53 equipment. ◀

## Frequently Asked Questions

### I am selling my farm property, do I need to charge HST?

Farm property includes real property such as farmland, and CRA considers for HST purposes the term “farmland” to consist not only of the land that is being used to earn income from a farming business, but to also include any portion of vacant land (e.g., a bush area) that may not be used directly in a farming business. In addition, any fixtures on the land (e.g. a barn or other farm buildings) form part of the farmland.

If the farmland includes a house, the sale is viewed as two separate sales:

- The portion that includes the house plus the land that is necessary for the use and enjoyment of the house, and
- The remaining portion of land and fixtures.

The sale of used houses are usually exempt from HST.

The sale of farmland by an individual is usually subject to HST, although there are limited circumstances when it is exempt.

For example, the sale is exempt if a farmer sells the farmland to an individual related to the farmer (or to a former spouse or former common-law partner) who, in turn, uses the land for their own personal use and enjoyment.

Also, if a farmer makes a sale of farmland as part of a sale of a farming business, the farmer and purchaser may, where certain conditions are met, jointly elect by completing form GST 44 to have no HST payable on the sale.

If the sale is determined to be subject to HST, the HST registration status of the purchaser will determine whether the vendor is required to collect HST on the sale. If the purchaser is an HST registrant, the vendor does not need to collect HST on the sale. Instead, the purchaser must self-assess and report HST on the acquisition of the property. They may offset the amount of HST payable with an input tax credit, to the extent the property is acquired for use in commercial activities, such as farming.

However, if the purchaser is not a HST registrant, then the vendor will have to collect and remit the HST on the sale to CRA.

## Profile: Chris Perry

Chris joined Allied in January 2021. He has an Honours Bachelor of Commerce (Accounting) Degree from Fanshawe College.

Chris grew up on a family farm in the Port Burwell area. ◀





## Frequently Asked Questions (Cont'd)

### What do we need to include in our crop share agreement to ensure that the farm property continues to qualify for the lifetime capital gains exemption and intergenerational family farm transfer rules?

To be considered a legitimate crop sharing arrangement by Canada Revenue Agency, the agreement must go beyond simply receiving a fixed percentage of the crop as payment. That would still be considered a variable rate rent.

The agreement must clearly establish the expenses that each party to the agreement is solely responsible for (e.g., the landowner pays municipal taxes and insurance; the other party pays for all equipment costs). The parties must also share the variable costs in the same percentage as they share the crop. These costs would include seed, fertilizer, chemicals, drying, trucking etc.

The agreement must set out the percentage to be used. It does not need to be 50/50. However, generally speaking, the higher the productive value of the land, the higher the landowner's percentage share.

There should also be a requirement for regular communication between the parties, such as mutual decisions on what crop to plant and what type of fertilizer and or chemicals to use.

With such an agreement in place, the landowner would have a strong argument that the land is being farmed under a crop sharing agreement.

### How can Allied help?

Our accounting advisors are supported by accounting, tax and administrative staff and advisory specialists in our London and Peterborough offices.

Their role includes:

- Supporting our accounting advisors with the completion and processing of all accounting, tax, and advisory work.
- Assisting clients with CRA correspondence such as notices of reassessment, pre and post assessment reviews, and requests for supporting information.
- Responding to any tax questions that you may have, including questions relating to HST.
- Assisting with registration for "My Account" or "My Business Account" with CRA so that clients can access, respond to, and make changes to their account online. Providing basic software support for various accounting software applications, including Quickbooks, Simply, and AgExpert.
- Advice regarding succession and estate planning.
- Discussing the implications of various farm purchases and/or sale transactions.

You can contact our team by telephone at 1-800-661-1956 and our receptionist will direct you to the appropriate person, or you can send an email to [info@alliedassociates.ca](mailto:info@alliedassociates.ca) for a follow up response. ◀

## Signing Documents Using Adobe Sign

We will be continuing with our electronic signature process whereby admin staff from our office will send various documents by email such as the T183 form, to be signed by you through Adobe Sign.

This email will come from "Adobe" not an Allied staff member.

Once you receive the email, follow the instructions to add your signature in all applicable spots, and then click the button at the bottom of the screen "Click here to sign" which will complete the "agreement" and send it back to us. You will also receive a copy of the signed agreement.

We cannot file a tax return without a signed T183, so it is important these are signed as soon as you receive them to avoid any delays.

If you have questions or need assistance with this, please contact our office. ◀

## Allied Web Portal

Sending information electronically has become a more common practice as technology advances.

Email is convenient and quick but comes with some security risk as it can be accessed by unintended users.

Organizations have developed web portals that use verification and password methods to minimize these risks.

Allied has a web portal allowing secure access to transmit information such as financial statements and tax returns that you can easily save for your records or to send to third parties such as lenders.

The portal also allows you to send us documents such as signed forms or other financial information. In either case, the information can only be accessed by users who have the appropriate verification.

We encourage everyone to take advantage of this tool. If you would like to be set up with the portal, please email [portalsupport@alliedtax.ca](mailto:portalsupport@alliedtax.ca) and we will assist you with this process. ◀

## *Allied Benefits: The Allied Advantage*

- Focus on family farm clients.
- In-home service.
- Consistent Accounting Advisors year after year.
- Specialized succession, estate, and business planning advisors available in our London and Peterborough offices.
- Advisors live in your community.
- Pre-determined appointments are scheduled weeks in advance.
- Fees are pre-determined so there are not any surprises.
- Our staff participate as sponsors and members of the Canadian Association of Farm Advisors.
- Regulated by the Chartered Professional Accountants of Ontario.
- Our values are based on integrity, excellence, and respect.

## *The Allied Team*



**Allied Associates LLP, Chartered Professional Accountants**

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