

Tax Changes

Winter 2017

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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

"Small Business Corporate Tax Rate Decrease Halted"

The 2015 Federal budget had proposed to reduce the small business tax rate by 0.5% increments beginning in 2016 ending in 2019. The 2016 budget however, caps the small business tax rate at the previously scheduled 2016 rate of 10.5%. The Provincial rate remains at 4.5% for a combined rate of 15%.

"Reporting the Disposition of Principal Residences"

The gain on the disposition of principal residences is exempt from tax. Up until 2016, taxpayers were not required to report this disposition. In the future, failure to disclose these details could result in a penalty of \$100 per month to a maximum of \$8,000.

"Farm Quotas"

In the past, farm quotas have been treated as eligible capital property for tax purposes. Beginning January 1, 2017, farm quotas will be treated as depreciable capital property under new Class 14.1 of the Income Tax Act. For the most part, while the producer owns the quota, the treatment will be similar as farmers will continue to claim depreciation. However, family farm corporations disposing of their quota may now be faced with taxable capital gains taxed as investment income at rates as high as 50.17% opposed to rates as low as 15% for active business income in the past.

"Canada Child Benefit (CCB)"

The Canada Child Tax Benefit (CCTB) and the Universal Child Care Benefit (UCCB) were replaced on July 1, 2016 by the Canada Child Benefit (CCB). As a result, eligible families will receive one single payment per month. Families participating will see an average increase in benefits of almost \$2,300, such that the program will provide a maximum annual benefit of up to \$6,400 per child under the age of 6 and up to \$5,400 per child for those aged 6-17. One level of benefits will be phased out between \$30,000 and \$65,000 of adjusted family income and the second phase out will apply when it is in excess of \$65,000.

"Federal Tax Rate Changes for 2016"

A new 33% Federal tax bracket has been introduced for income over \$200,000. The combined Federal/Provincial personal income tax rate for income above this level can now reach 53.53%.

"Family Income Splitting Eliminated"

The family income splitting amount allowed couples with at least one child under 18 years of age to transfer up to a maximum of \$50,000 of income to their spouse for the purpose of reducing the Federal income tax liability in situations where they were in different tax brackets will be eliminated for the 2016 tax year.

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FAQ's

Should I Invest in a Tax-Free Savings Account (TFSA) or a Registered Retirement Savings Plan (RRSP)?

If cash resources are available, and particularly where taxable incomes are high, contributions to both of these plans are generally recommended. However, where marginal rates are low, consideration should be given to topping up your TFSA first, and making RRSP contributions only when marginal tax rates are higher.

Do I Have Qualified Farm Status for Tax Purposes?

Qualified farm status for farms gives producers access to the capital gains exemption and the opportunity to complete inter-generational farm transfers on a tax-deferred basis. This means producers should ensure their assets qualify if assets are owned in a corporation or a partnership. Large custom work operations in particular, can put this at risk since custom work is not considered farming.

Large cash or investment balances are not considered farming assets. Changes to the structure of a family farm corporation or partnership may need to be made to ensure the qualified farm status for tax purposes is maintained.



Why Do I Need Financial Statements?

Financial statements consist of a balance sheet, income statement, and statement of cash flow.

The balance sheet provides the foundation for accrual basis accounting. Its purpose is to provide a summary of information about the financial position at a specific point in time. It is primarily used by lenders and other third parties to measure the financial strength and position of the business.

Successive balance sheets will indicate if financial progress is being made. A balance sheet can show if the business can readily meet its short-term debt obligations, identify future commitments that have been made and must be met, the amount of money owed to creditors in relation to the amount left for owners, the financial position of the business and the amount of room available for additional debt.

The purpose of the income statement is to provide information on the results of business operations for a given time period, usually one fiscal year. It details all revenues and expenses to determine net income which is another way of expressing the return to the operators, family labour, management and investment.

The statement of cash flow summarizes the operating, financing and investing activities of a farm business for a specified period of time. It provides insight as to why the cash position of the business has changed during the period to provide information about the liquidity or solvency of the business.

Advisors Recommend Completion of a Succession Plan, What Does This Involve?

A typical succession plan includes the following:

- Personal goals and expectations of the current owners and the successors.

- A plan describing how the owners will retire, both financially and lifestyle (who will live where).
- A plan to train the successor.
- An outline of desired changes in operations and size.
- Detail everyone's role (who will do what).
- Ownership transfer plan.
- Timetable.
- Communications plan.
- Contingency plan for if/when something goes wrong.

Allied can assist with implementation of any planning. Your Accounting Advisor may involve other experienced Allied staff members allowing them to participate and provide input in meetings or act as a sounding board in respect to technical issues. We also provide specialized support preparing instructions and agreements to lawyers, banks, real estate agents and life insurance brokers related to Wills, farm transfers, and reorganizations.

Recently, we assisted a dairy family enabling them to split their operation into one operation for each of their three sons. We also assisted another family to transfer their cash crop operation to the next generation while taking into consideration the desire to be fair to their non-farming children.

Should I Set Up My Assets in Trust for My Beneficiaries?

Intervivos trusts can be used to transfer future growth and value of assets to the next generation avoiding liability to the deceased. However, trusts are rarely used in family farm situations due to the availability of the inter-generational farm transfer rules that allow assets to be transferred to the next generation on a tax-deferred basis provided that specific conditions are met. ◀

Unique Benefits of Allied Associates LLP

- ✓ In home service.
- ✓ We complete our work onsite at your desk or kitchen table explaining, discussing and reviewing the implications with you.
- ✓ Our involved approach promotes the development of your farm financial knowledge and skills.
- ✓ Consistent Accounting Advisor will visit you year after year.
- ✓ Pre-priced fee estimates (eliminates surprises).
- ✓ Experience and familiarity with family farms, Allied has been serving family farms for 60 years.
- ✓ Accounting Advisors are often active members of the local community.
- ✓ Accounting Advisors are supported by specialized individuals in our London and Peterborough offices.
- ✓ Representation in the event of an audit by CRA on income tax returns including returns prepared prior to this Engagement Contract, HST returns if these returns have been prepared by Allied, and AgriStability applications if these applications have been prepared by Allied (within reasonable time limits).
- ✓ Tax planning strategies are suggested for your particular circumstances.
- ✓ A convenient appointment time is arranged at your place of business.
- ✓ Allied agrees to pay any penalty assessed by Canada Revenue Agency if such penalty is assessed as a result of an error made on an income tax return prepared by Allied and does not arise as a result of a specific request by the client.
- ✓ Experienced Accounting Advisors and office specialists work together to provide expertise in all aspects of accounting, income tax preparation, advisory services and government program utilization for proprietorships, partnerships and corporations.
- ✓ We work from your office so we can ask questions and discuss matters as they arise.
- ✓ We provide you with an estimate of your tax situation and answer your questions and concerns immediately.
- ✓ Several staff are designated accountants and our governing bodies require ongoing professional development and high professional standards and expertise.
- ✓ Allied is part of the Chartered Professional Accountants of Ontario and as such is subject to mandatory practice inspection and professional liability insurance programs with comprehensive public oversight and discipline mechanisms.
- ✓ Guaranteed time reservations with Accounting Advisor as close as possible to the month requested. Appointment notices are mailed approximately three weeks prior to the appointment date.
- ✓ Answering all inquiries regarding the client's file with Canada Revenue Agency (CRA).
- ✓ Information bulletins throughout the year.
- ✓ All work is reviewed by specialized individuals who can provide input and further suggestions for discussion along the way for your benefit.
- ✓ Telephone and/or personal advice on tax matters "within reason" between client and Accounting Advisor throughout the year. ◀

Profile – Eric Love

Eric served as a Staff Accountant in our London office until 2016 when he moved to Cobourg Ontario where he serves as the Accounting



Advisor for our clients in Peterborough, Northumberland, Hastings, and Prince Edward Counties. Eric has received his Honours Bachelor of Commerce in Business Administration from the University of Windsor and an Advanced Accounting Diploma from Fanshawe College. ◀

Tax Changes (Cont'd from Page 1)

"Provincial Tax Changes"

Tuition and Education tax credits, the Children's Activity tax credit, and the Healthy Homes Renovation tax credit will all be eliminated during 2016.

The Ontario Retirement Pension Plan was cancelled as a result of an agreement that had been reached to revamp the Canada Pension Plan. This will come into effect in 2019 when premiums and benefits will be increased. ◀

Profile – *Lisa Benson*

Lisa is one of our team leaders managing a group of internal staff and Accounting Advisors. She will be celebrating her 30th year with Allied this year. Lisa is also responsible for keeping all staff up to date with any changes to our tax preparation software. ◀



Growing Forward 2

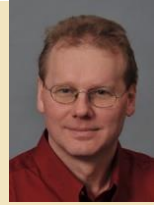
Growing Forward 2 provides funding assistance for producers under two main categories including capacity building and implementation. Funding assistance for these projects is generally provided on a 50/50 cost basis with the producer.

Go to www.ontariosoilcrop.org for additional information.

Producers can submit an application for cost share funding assistance from February 3-23, 2017, and again from May 12-June 1, 2017. ◀

Profile – *Jim Radler, CPA, CA*

Jim Radler has been an Accounting Advisor for Allied Associates LLP serving Waterloo and Wellington Counties since 2003. He received his Chartered Professional Accountant (CPA) designation in 2002. Jim and his wife, Charlene live in St. Jacobs with their three children. ◀



Helping Farm Families Succeed Since 1956



Allied Associates LLP, Chartered Professional Accountants

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Head Office: 1490 Richmond Street, Suite 200, London, ON N6G 0J4 Tel: 519-673-1940 1-800-661-1956 Fax: 519-673-5906 E-mail: info@alliedassociates.ca
Peterborough Office: 133 Hunter Street E., Peterborough, ON K9H 1G7 Tel: 705-760-9900 1-866-883-0006 Fax: 705-760-9926 www.alliedassociates.ca