

News & Views

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The Capital Gains Exemption and the Sale of Farm Property

Susan McIsaac, FCPA, FCA, McIsaac Darragh Chartered Professional Accountants

The capital gains exemption (CGE) for qualified farm property is one of the most advantageous tax breaks available to primary producers. Like most tax provisions, however, it is mired in tax law, definitions, qualifying periods and unintended consequences. We'll go through an overview of what it is, when it can benefit you, how you qualify and what you should look out for. Remember, a general article is no substitute for professional advice from an advisor who understands your specific situation.

WHAT IS THE "CGE"?

The capital gains exemption, or deduction as it is sometime called, is a tax break available to individuals that allows them to realize a gain on the sale of certain farm property, and be exempt from tax on all or a portion of the gain. For the CGE 'property' is not just land, it includes any of the assets discussed below under "what qualifies?". You can benefit from the CGE if you plan to sell farm land, shares in a farm corporation or your interest in a farm partnership, whether you plan to sell to a family member or to an unrelated party, or pass on your farm property in your will. The capital gains exemption can be used to offset up to \$1,000,000 in gains. For example, if you purchased farmland for \$500,000 and are now selling it for \$1,500,000, the CGE could be used to eliminate tax on the entire gain.

WHAT QUALIFIES?

For assets to qualify for the CGE, they have to meet specific definitions in the Income Tax Act. Land, quota and buildings owned by an individual (companies don't get to use the CGE) and used in the business of farming can qualify, as can shares of a family farm corporation and an interest in a farm partnership. Equipment does not qualify, but as it is seldom sold for more than its original purchase price, there is usually no gain to be offset.

WHO QUALIFIES?

For you to qualify for the capital gains exemption, you have to have owned the property being sold for at least two years, but you don't have to be the person who is using, or used, the property in the business of farming. If your spouse, child or parent was the farmer, you can still use the CGE.

If you have owned the property since before June, 1987 (tax rules changed at this date), the property can qualify if it was used in the business of farming at the time of sale, or if it was so used for at least 5 years during the period of ownership. For example, if you inherited farm land from your parents in 1986 and have not farmed it since, but your parents had a farm business that used the land for 20 years before passing it on to you, the

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Viewpoint

The end of the government fiscal year and the end of the 5 year growing forward program mean that the scramble to finish projects and programs is a bit more frantic than usual. With the end of GF2 federal and provincial governments are currently working on the final details of the new Canadian Agriculture Partnership (CAP) framework. The federal only program details and applications are now available online for the six federal programs: AgriMarketing, AgriCompetitiveness, AgriScience, AgriInnovate, AgriDiversity and AgriAssurance. The details can be found here: https://www.canada.ca/en/agriculture-agri-food/news/2018/02/federal_activitiesand-programs.html

The Nova Scotia Federal/Provincial programs under Growing Forward 2 were released in December in 2016; because of the rollover to a new program, that won't happen until late April. This delay will once again cause a challenge for farmers since programs are being launched in the busy part of the farming season. Hopefully, we can get back to a December launch in the next 4 years of the CAP program.

The Nova Scotia provincial budget was delivered on March 20th. Since the budget debate starts with agriculture it will be finished by now; and since it will be held in the red room, the transcript of the debate won't be available for a month or more. Here are the numbers for the province:

- Total revenues are projected to be \$10.810 billion showing an annual surplus after expenditures of \$29 Million.
- The net debt stands at \$15.5 billion.
- Perhaps it's also worth noting that debt servicing/interest

charges on the net debt are \$893 million.

The Department of Agriculture budget is \$49.65 million, which is in line with the 2017-18 forecast. The total department staff is reported at 169.6 full time equivalents. The NSDA business plan says that: ***"The new Canadian Agricultural Partnership takes effect on April 1 and will provide programs and supports that contribute to the growth and prosperity of our agricultural sector."*** During the coming year, the department will be rolling out programming under the five-year budget of \$37 million. The focus will be increasing competitiveness, productivity and profitability, supporting the environmental sustainability of the agriculture and agri-food sectors and expanding access to domestic and international markets.

I also can't help but get back up on my soapbox and remind you that in the year 2000 the agriculture budget was reduced by \$8 million with the elimination of the Production Technology branch. Agriculture took that loss in a time that government was signaling they would look for reductions in all departments; Ag took the hit but no other department followed suit. That was 18 years ago so the inflated value of that loss is quite a bit higher. If we are serious about growing agriculture in NS as rural development, export value and food sovereignty then we need that budget amount reinvested in agriculture.

The government also announced in the budget the Building Tomorrow Fund. In the address by Finance Minister Karen Casey, she stated:

"The concept for this fund is based on the very successful Honeycrisp Orchard Renewal program. This \$3 million fund will help fisheries, aquaculture, and agricul-



Henry Vissers

Executive Director, Nova Scotia Federation of Agriculture

ture companies innovate, develop, and sell new products, explore new markets, and become more efficient in their operations. We will work with industry as we develop this program. The Building Tomorrow Fund will also help to sustain sector growth, as will our Wine Development program. Last year, sales of Nova Scotia wines topped \$17 million. It is a growth category for sales at the Nova Scotia Liquor Corporation. This program has already helped to increase the number of acres of grapes planted in Nova Scotia by 40 per cent, supporting the goal of the Grape Growers Association to double acreage by 2020."

This is good news and we expect to be working with the Department of Agriculture as the details of the program emerge. It is expected that this will be a multi-year fund.

Finally, I expect we will see a number of changes in the way programs are delivered; there has been lots of discussion about changes to the delivery model so that programs can be more efficient and timely in their delivery to farmers and to insure funds are fully utilized. We will be working on your behalf to make sure your voice is heard as the programs roll out. We are your voice - contact us with any concerns.

Comments?
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Financial Recovery Options during Business Cycle Downturns

John Murray, CRA, P.Ag, Special Credit, Nova Scotia Farm Loan Board, Crown Lending Agencies

During my past 21 years with the Nova Scotia Farm Loan Board, I have seen many producers respond positively to the many challenges facing their businesses and sectors.

In my role in Special Credit, I work with those producers who struggle with the financial aspect related to these challenges in terms of their inability to service their debt obligations. These challenges are often the result of a changing market place. The ability to service debt begins to be an issue when expected revenue streams have dropped significantly or operating costs have increased to a point where it is no longer profitable to continue. When these scenarios happen, producers often find themselves in a difficult position and try various remedies to resolve or correct the challenges. Some challenges are easier to fix than others, while the more frustrating one is the inability to pay bills and creditors. There are many recovery options available to assist producers in this area.

As many producers realize the importance of a well prepared business plan, a contingency plan is so critical when things do not work out as planned. Although some people believe that the only reason you need a business plan is to support a loan request or obtain some form of financial assistance. Many experienced business owners have realized that a business plan helps “Plan Your Work” and once up and running it is important to “Work Your Plan”. This advice is so important, as it helps guide you through the many changing aspects you will face as business owners. The first thing I often tell

producers is when things start to head in the wrong direction, practice the 5 R’s of a post business plan (REVIEW, REFLECT, REACT, RECONSIDER and REMEDY).

The Remedy part is where the development of Recovery Plan comes into the equation. In some cases a recovery plan can be as simple as sitting down and reviewing what is needed to change with your lender. Some questions to raise and address are as follows: Do we stay in this line of business? , Is there another market for our product?, Where can we cut costs ?, Are there any non-income generating assets we can sell to pay down debt ? Do I or someone in the business need to source an alternative income source as a temporary course of action until we get back on track? These are just a few questions some producers address when facing challenges. There are of course many more.

As for developing a recovery plan, I strongly recommend producers review options under Agriculture and Agri-Food’s Farm Debt Mediation Service. This service has proven to be a valuable tool for agricultural producers, as they obtain professional financial advice. More importantly it helps formulate a recovery plan for the future.

For some, a licensed insolvency trustee can assist in reviewing debt management solutions under the Bankruptcy and Insolvency Act. Although for some this can be intimidating, there are many well qualified professionals in Nova Scotia that can greatly assist in matters of insolvency.

Like any challenge, it is important no matter the stage of your farming business, the earlier you address an issue the more options there are to choose from in making the best informed decision.

The Nova Scotia Farm Loan Board have worked with producers for over 80 years. We have assisted many producers through their challenges over this time. Evaluating challenges and turning them into opportunities is very rewarding for all parties involved.



5 R'S OF A POST BUSINESS PLAN

- REVIEW
-
- REFLECT
-
- REACT
-
- RECONSIDER
-
- REMEDY

Capital Gains Exemption...

property can qualify for the CGE when you sell it.

If you purchased or inherited the property after 1987, the ownership rules are more difficult to meet. In at least two of the years that you owned the property, gross income from farming (gross income = sales before considering any expenses) must have exceeded income from all other sources, OR, the property must have been used by a family farm partnership or corporation in which you, your spouse, child or parent were actively involved. These rules may be challenging to meet if you have off-farm income and aren't farming full time.

WHAT TO WATCH OUT FOR

Like many good things in life, there are catches to the use of the capital gains exemption. Even if you are meticulous in ensuring that you qualify and the farm property you want to sell qualifies, there could be unintended consequences of using the CGE. Several of these consequences arise because of the mechanics of how the capital gains exemption is applied. First, the taxable capital gain is included in your income (50% of capital gains are taxable, so if you sold land for \$150,000 that you originally purchased for \$50,000, you would have a gain of \$100,000, of

which 50% = \$50,000 would be taxable). The taxable gain is then included in two subtotals on your tax return, called "line 150 - total income" and "line 236 - Net Income". The capital gains exemption is deducted from Net Income to arrive at "line 260 - Taxable Income". The gain goes in and comes out, so you don't pay tax on it, but several tax-related benefits are based on the subtotals at line 150 and line 236. If you are receiving Old Age Security (OAS), then the higher Total Income that results from the inclusion of the taxable gain could mean your OAS is clawed back (you have to repay it for the year). In addition, next year's OAS payments will be reduced by the amount clawed back. Guaranteed Income Supplement (GIS) payments are also reduced and often eliminated for one year when the GCE is used, as GIS eligibility is based on Net Income. Another blow for seniors may be the loss of the Age credit – a federal tax credit that is reduced when your Net Income increases, thus increasing taxes payable. For young families, Canada Child Benefits are based on Net Income and thus affected by reported capital gains, as are quarterly HST payments.

Worse than the loss of credits, however, is Alternative Minimum Tax (AMT). As the name suggests, this is a separate, alternative tax calculation that is

mandatory when an individual has a high net income and a low taxable income – exactly the situation you are in if you report a capital gain and use your capital gains exemption to eliminate the tax. The calculation that kicks in is complicated, but the end result is a separate calculation of your taxes payable in the year you report the gain, and you end up paying tax (the AMT) in the year the gain is reported. This separate AMT is refundable over time when your income returns to normal – you get a credit against future taxes owed. However, you need to have adequate income in the seven years after the AMT applies in order to use the credit, or it is lost. A small consolation is that there is no AMT calculation in the year you pass away.

NEXT STEPS

If you own farm property, you will be selling it, gifting it or passing it on in your will at some point in the future. It is never too early to start planning for that event. Why not start now to determine if you qualify and have access to the CGE, if the property you own is eligible, and understand any unintended consequences that may apply to you? This will give you time to plan to maximize the benefit of the capital gains exemption.



5 Things to Consider When Purchasing Insurance

By: Dustin Hickey, CAIB, CRM - Macdonald Chisholm Trask Insurance

1. What are your specific insurance needs? Loans on vehicles and buildings along with rental agreements for equipment all have coverage and limit requirements. Also, your personal or business risk tolerance and your budget will determine the amount of coverage that is right for you. Remember that these needs will change yearly so make sure to review and make any necessary policy changes.

2. Find the right broker: Every broker is unique with regards to qualifications, experience and values. You should find a broker that aligns with what you or your business is looking for regarding coverage and service. It is a broker's job to identify risks, find the best market(s) for your business,

explain coverages and take care of anything insurance related during the term of your policy. Think of your broker as your partner in protecting what is valuable to you or your business.

3. Find out what is covered or, more importantly, not covered by your policy: Every insurance policy has perils that are not covered by your policy. These perils are referred to as "exclusions", and every policy has them. Ask your broker to explain the exclusions in your policy to avoid discovering what they are once you incur damages or a loss.

4. Take measures to minimize risk and prevent losses from occurring. Insurance is just one aspect of

an overall risk management strategy. Risk management can go a long way in helping you stay protected. If you own a building, consider performing seasonal maintenance checks. For your vehicles consider installing winter tires to avoid accidents. Implement safe business practices to keep your employees and assets protected. Risk management and planning, in addition to getting the right insurance, can help you be prepared and stay ahead.

5. Your insurance history will impact you. Claims, vehicle convictions and payment issues will affect your future policies. Limiting these will ensure you receive the best insurance premiums for your risks.

Member Benefit – AIL Insurance

As a member of the Nova Scotia Federation of Agriculture, you and your employees are entitled to a \$4000 accidental death or dismemberment policy. Usually once a year, the NSFA will do a mailout to members on behalf of AIL relaying information about this policy and providing the opportunity to name beneficiaries to the policy. This is done by returning the yellow card that is included in the mailout. This is done only if you want to name beneficiaries and avoid the payout being paid to the estate. You are under no obligation to return the card – you will still be covered should there be an unfortunate accident.

When you do return the yellow card, you will be contacted by an AIL representative to come to your home to deliver your policy and discuss your insurance requirements. Again, you are under no obligation to allow an agent to visit your home or purchase further insurance.

Should you be willing to have an agent visit your home and explain the services they have to offer, please be aware of what you are purchasing. Ask questions and ask the agent to explain anything you are not clear on. Ask him or her to explain what is not covered in the policy so you can make an

informed decision before you purchase a policy and can decide what type of policy best suits your needs. Be sure to make it clear to the agent what you are expecting from the policy you are buying.

And remember, you are under no obligation to do anything – this is a benefit of being an NSFA member. If you have any questions or concerns, please contact us at (902)893-2293 or email info@nsfa-fane.ca.



Welcome Katherine Doyle!

*Member Engagement Coordinator
Hired through AAFC Career Focus*

NSFA is excited to welcome Member Engagement Coordinator, Katherine Doyle! Katherine joins NSFA through the AAFC Career Focus internship and will be working on member engagement initiatives identified through the engagement process over the last year. Katherine will graduate from Mount Saint Vincent University this Spring with a Bachelor of Public Relations. Katherine can be reached at kdoyle@nsfa-fane.ca.



NSFA Attends Canadian Federation of Agriculture AGM



While in Ottawa, NSFA President, Victor Oulton and CAHRC Chair, Mary Robinson met with Nova Scotia MP Scott Brison.

From February 27th to March 2nd Victor Oulton, Tim Marsh, Chris van den Heuvel and Henry Vissers attended the CFA AGM. The three days were packed full of meetings including a joint meeting with the other three Atlantic federations of agriculture and Federal Minister of Agriculture, Honourable Lawrence MacAulay to discuss topics with a national scope relevant to Atlantic Canada.

Under the theme "Partnering for Success" the meeting heard presentations on topics such as international trade negotiations, economic growth strategies, and newly announced government programs. CFA also hosted a symposium on research and best practices in mental health in agricultural communities.

Congratulations to Chris van den Heuvel on being elected as Member at Large to the CFA Executive Committee. Also on the committee are: Western - Dan Mazier, Central - Keith Currie, Atlantic - Mary Robinson, Non Supply Managed - Andrew Kuyvenhoven and Supply Managed - Ryient Dykstra.

Improving the mink industry in Canada

Younes Miar, an Assistant Professor and Industry Research Chair in Mink Genomics at Dalhousie University Faculty of Agriculture, is an accomplished geneticist committed to bettering the mink industry in Canada. With exceptional expertise and a long list of notable accomplishments, Younes' journey began by simply following in the footsteps of his ancestors. Now, after discovering his passion, he is forging his own path and making an impact in the Canadian mink industry.

Born and raised in Tehran, Iran, Younes began studying animal science at the University of Tehran. With nearly 700 years of agriculture background in his family, agricultural studies were a natural choice.

"Except for my father, who is an electrical engineer, all of my ancestors were livestock, rice and wheat producers," Younes says. "I wanted to follow in their footsteps by taking animal science. During my undergrad studies, I became interested in genetics and breeding and how genetic selection has helped livestock producers to improve their profitability."

Younes received a BSc in Animal Science in 2005 and continued his education to receive his MSc in Animal Breeding and Genetics from the University of Tehran in 2008. During his graduate studies, Younes worked with new technologies of genomics and bioinformatics and their applications in livestock breeding programs.

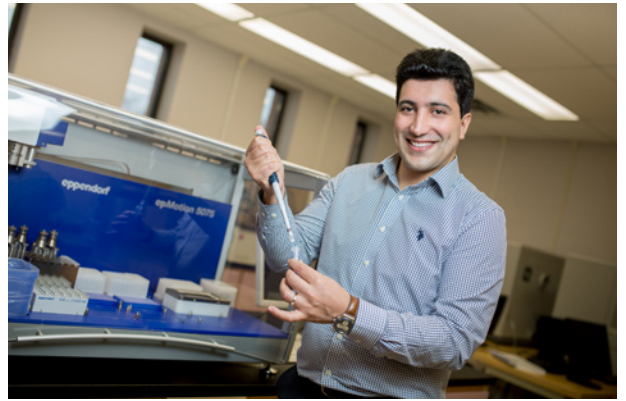
"I continued on to receive my PhD in Animal Genomics at the University of Alberta where I was working on genomic selection for improving pork

quality and carcass traits in pig breeding programs," Younes explains. "I then worked as a Postdoctoral Fellow in Statistical Genomics at the University of Guelph on a variety of projects involving the analysis of large-scale genomic data."

In July 2016, Younes began his position at Dalhousie University Faculty of Agriculture as Assistant Professor and Industry Research Chair in Mink Genomics. Using his extensive expertise in animal breeding and genomics, Younes is now developing an advanced and innovative research program that applies genetics and genomics to promote mink selection and management. His research will also enhance the quality of breeding stock and improve the environmental sustainability of the industry.

"I always wanted the chance to dig deeper in the animals genome, which is why I'm so excited about my current position at Dalhousie University," Younes says. "I'll have the chance to work on a unique species of mink that has not been studied a lot before, in terms of genetics and genomics, and help the mink industry."

The mink industry in Canada is experiencing difficult times. Several contributing factors, such as high feed prices, declining price of fur, and prevalence of diseases, are making it difficult for mink farmers to maintain their business. Younes aims to find a solution to these issues through his research. Specifically, he is looking at the genetics of mink, collecting and analyzing



Shown above is Younes Miar, Assistant Professor & Industry Research Chair in Mink Genomics at Dalhousie University Faculty of Agriculture.

the genetic codes, to better understand the biology underlying economically important traits in mink.

Younes' research consists of field work to collect phenotypic data - data that relates to the observable characteristics of mink in relation to the genetic codes. He then works in the molecular genetics laboratory to produce genomic information, and also spends time in a computational lab to analyze large genomic and phenotypic data sets using high performance computer systems.

Once his research progresses, the mink industry will have access to the necessary tools and knowledge to implement genetic and genomic selection in their breeding programs. According to Younes, these tools will enable mink breeders to incorporate economic traits as breeding objectives in their routine genetic evaluation systems.

"The overall goal of my research program is to help improve the current position of the Canadian mink industry," Younes says. "The industry will be revolutionized if genetic/genomic selection is successful in a major way. Farmers will save money, while the international competitiveness of Canada's mink

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Upcoming Events

- APRIL 7 IONA**
Farmer to Farmer Spring Session
- APRIL 10 & 11 TRURO**
NSFA Council of Leaders Meetings
- APRIL 12 BERWICK**
Pork Nova Scotia Annual Meeting
- APRIL 25 BIBLE HILL**
Christmas Tree Council of NS Annual Meeting
- APRIL 25 TRURO**
NS Institute of Agrologists Annual Meeting
- JULY 5, 6 & 7 BIBLE HILL**
Sheep Classic
- SEPTEMBER 9 - 12 HALIFAX**
Canadian Biosolids & Residuals Conference
- SEPTEMBER 16 ACROSS NS**
Open Farm Day
- OCT 15 & 16 NIAGARA FALLS**
Advancing Women in Agriculture Conference

NSFA News & Views is the Newsletter of the NS Federation of Agriculture, the United, Strong & Caring Farm Organization representing the best interest of Nova Scotia's Agricultural Industry.

News & Views is provided free of charge to its members. We value comments and concerns from our members. Please direct them to Executive members or the Office Staff.

2018 EXECUTIVE MEMBERS:

Victor Oulton	President	902-798-4440
Tim Marsh	1 st Vice President	902-798-7924
Chris deWaal	2 nd Vice President	902-582-7756
Chris van den Heuvel	CFA Director	902-631-1884
Kimberly Stokdijk	Director at Large	902-895-4817
Amanda Eisses	Director at Large	902-662-3811
Sylvestre Dion	Director at Large	902-664-6781
Lauren Park	Director at Large	902-292-5160
Past President:	Chris van den Heuvel	902-631-1884

STAFF: Executive Director: Henry Vissers; Associate Director: Wanda Hamilton; Financial Services Coordinator: Krista Vroegh; Administrative Services Coordinator: Shelly MacKenzie; Communication & Research Coordinator: Maxine MacLean; Farm Safety Manager, Carolyn Van Den Heuvel, EFP Staff, Kathryn Bremner, Paul Brenton, Trevor Davison and Cory Roberts



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Improving the mink industry in Canada

industry will increase. This will help improve the overall performance of the Canadian mink industry."

Although Younes has only been in his position as Industry Research Chair at Dal AC for a little over a year and a half, he has reached a major milestone in his research already. As Industry Research Chair, he is responsible for developing an advanced and innovative research program in mink genetics and genomics. While a program of this nature takes time to develop, Younes

has successfully secured industry partnership for his program. The Mink Research Partnership Grant has been his biggest accomplishment during his time at Dal AC so far.

While his teaching and research keep him busy, Younes loves every part of his job.

"I love working with and teaching students that are thirsty to learn, working with colleagues that are always there to help you, researching to help farmers overcome their challenges, and proudly serving the university and the industry," Younes says with a smile.

With such passion and dedication going into his work, Younes is sure to accomplish his goal of bettering the mink industry in Canada.