September 3rd, 2024

Finance Canada
Via: consultation-legislation@fin.gc.ca

Re: Feedback on the Canadian Entrepreneur Incentive

As the national voice for Canada's grain farmers, Grain Growers of Canada (GGC) represents over 65,000 cereal, pulse, and oilseed producers through our 14 grower groups. Our members are trade-oriented, sustainable, and innovative. As a farmer-driven association for the grain industry, GGC advocates for federal policy that supports the competitiveness and profitability of grain growers across Canada. We appreciate the enhancements to the Canadian Entrepreneur Incentive (CEI), and we are thankful for the opportunity to provide feedback on these revisions.

Background

Today, the average age of Canadian producers is over 55 years old[1], and over 98% of farms are owned and operated by Canadian families. Many farmers will retire over the next decade, transferring farms to the next generation. While this will secure a retirement for thousands of farmers, these transfers will also incur capital gains. Unfortunately, these transfers are becoming more difficult and expensive causing Canada to lose between 500 to 1,000 family farms each year due to farm consolidations[2].

We were disappointed to see the June 25th increase in the capital gains inclusion rate from one-half to two-thirds, which targets farmers' retirement plans, moves the goalposts for the next generation of farmers, and prices-out many farm families. Our research, in conjunction with farm tax accountants, estimated that the change to the capital gains inclusion rate will cost farms generally 30 per cent more in taxes[3]. We continue to advocate for the original one-half inclusion rate for intergenerational transfers that qualify under Bill C-208.

Canadian Entrepreneur Incentive

We appreciate the enhancements to the CEI, including extending the incentive to qualified farm and fishing property, eliminating the founder provision, and decreasing the phase-in period. While these enhancements will benefit some farmers, most farmers who produce the majority of the food that Canadians and the world rely on will still see a tax increase during succession planning. Specifically in Canada, farms classified with revenues above $500,000 (e.g., farm cash receipts) comprise only around one-quarter of Canadian farms, and yet they account for nearly 90 per cent of the annual revenues. Comparatively, farms with less than $500,000 in revenue comprise three-quarters of farms but only

[1] Statistics Canada. (Jan 9 2023). *Canada's 2021 Census of Agriculture: A story about the transformation of the agriculture industry and adaptiveness of Canadian farmers*
[2] Statistics Canada. (Aug 20 2024*). Farms classified by total farm area, Census of Agriculture historical data*.
[3] Grain Growers of Canada. (June 11 2024). *Capital Gains Inclusion Rate Changes Will Increase Taxes by 30% on Family Farms.*

account for 13 per cent of farm revenues[4]. While smaller farms will benefit from the CEI, mid-size farms that produce most of the food will see an increased capital gains tax bill.

US Comparisons

We understand that the CEI is based on the United States Qualified Small-Business Stock (QSBS) program, which allows as much as a 100% exclusion of capital gains up to $10 million USD, or 10 times the original investment. While some Canadian farmers may benefit from combining the lifetime capital gains exemption (LCGE) and CEI, unfortunately the new incentive is not nearly as generous as the US QSBS program. For instance, consider a 3,000-acre farm in Central Alberta. In 1996, the fair market value of the land averaged $748 per acre[5]. Today, the fair market value is $4,900 per acre[2]. This translates into at least $12,456,000 in capital gains simply because of rising land values. Under the new policy, each shareholder receives a combined $2,583,333 exemption in capital gains when using the LCGE and CEI together. Unfortunately, this pales in comparison to the $10 million USD exemption available to American entrepreneurs. When considering our example farm in Alberta, these differences in capital gain incentives result in substantially higher taxes paid in Canada.

Legal and Accounting Fees

As the *Income Tax Act* increases in complexity, so does farmers' reliance on accountants, lawyers, and consultants to assist them with financial planning and succession planning. In fact, many organizations are calling for a review of the *Income Tax Act*, including Chartered Professional Accountants Canada who continuously advocate for a comprehensive review of the Act, which was last reviewed in 1967[6].

Unfortunately, the changes to the CEI and capital gains inclusion rate only further complicate the tax code and increase these costs for farmers. In 2023, Canadian farmers paid over $2 billion in professional fees, equating to over $10,000 per Canadian farm. This category of expenses far exceeds the totals spent on categories such as crop and hail insurance premiums, electricity costs, and building and fence repairs[7]. These kinds of bills are becoming more commonplace as regulations and the complexity of income taxes increases. To illustrate this, one of our members from Northern Alberta recently purchased a half-section of land (320 acres). The professional fees that they incurred from that purchase alone was over $40,000.

Grandfather Policy

Under current rules, farmers can use a reserve policy—up to 10 years in the case of intergenerational transfers—where they realize the proceeds of a sale. This means that a farmer is incurring capital gains split up over several years. Due to reserve policies, some grain farmers who completed a sale under a reserve prior to June 25th, 2024 will be realizing capital gains under the new policies for up to the next nine years. To ensure that all producers can benefit from the CEI, we recommend that any producer

[4] Statistics Canada. (Mar 28 2024). *Table 32-10-0136-01 Farm operating revenues and expenses, annual*
[5] Farm Credit Canada. (Mar 14 2022). *Historical FCC Farmland Values Report*.
[6] Chartered Professional Accountants Canada. Policy & Advocacy. Canadians deserve a better tax system
[7] Statistics Canada. (Aug 20 2024). *Farm Operating Expenses and Depreciation Charges (x 1,000). Table: 32-10-0049-01*

realizing capital gains in 2025 and beyond be eligible for the CEI, even if the sale took place prior to the CEI being implemented.

Intergenerational Transfers

While the revisions to the CEI are welcomed, it does not change the fact that the capital gains inclusion rate has been increased from one-half to two-thirds for family farms. Patchwork approaches and fragmented incentives will not deliver the economic growth and support that Canada's grain farmers and rural communities need. These changes further add to the complexity of income taxes, costing all producers thousands more in accounting and legal fees when they sell their farm. We need policies that streamline Canada's tax code, not further complicate it.

To support family farms and slow down the annual loss of them, we continue to ask the government to return to the original one-half capital gains inclusion rate for intergenerational farm transfers, as enshrined in law through Bill C-208 and clarified through subsequent budgets. This measure, coupled with the revised CEI, will ensure that all grain farmers across Canada remain economically viable and that family farms are able to be transferred from generation to generation.

We thank you for the opportunity to provide feedback on these changes and are hopeful that the government will support family farms across the country.

Sincerely,

Kyle Larkin
Executive Director
Grain Growers of Canada