Submission to the House of Commons Finance Committee Study on Changes to Capital Gains and Corresponding Measures Announced in Budget 2024

September 2024

List of Recommendations

1. Maintain the increased $1.25 million lifetime capital gain exemption and the enhancements to the Canadian Entrepreneurs' Incentive.

2. Allow intergenerational farm transfers, as enshrined in law through Bill C-208 and clarified through subsequent budgets, to be taxed at the original one-half inclusion rate.

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. Unfortunately, these transfers are becoming more difficult, and Canada is already losing between 500 and 1,000 family farms each year because of farm consolidations[2]. While these successions will secure a retirement for thousands of farmers, these transfers will also incur capital gains.

Budget 2024 announced several measures that came into force on June 25th, including an increase in the Lifetime Capital Gains Exemption (LCGE) from $1,016,836 to $1,250,000. However, at the same time the increase to the LCGE was announced, an increase to the capital gains inclusion rate from one-half to two-thirds was also unveiled.

Effects on Family Farms

In conjunction with farm accountants, Grain Growers of Canada (GGC) conducted research to understand the effects of the policy on family farms upon the sale of their assets. Our research showed that family farms would generally pay 30% more in taxes due to the increased capital gains inclusion rate. This capital gains tax increase targets farmers' retirement plans, moves the goalposts for the next generation of farmers, and prices-out many families.

For decades, farmers have been told by the government and accountants to incorporate to prepare for their retirement. Farmers rely on their land and assets as their retirement plan since they do not have access to pensions or RRSP matching programs like many Canadians. This tax increase introduces uncertainty into their retirement planning by targeting those funds.

With the average cost per acre at $6,900 in Alberta and $19,275 in Ontario[3], young farmers are already facing significant financial challenges. National farmland values appreciated 11.5% last year alone[3], further increasing the burden. The capital gains tax increase moves the goalposts for these future farm owners, adding hundreds of thousands or even millions of dollars to the cost of taking over family farms.

Canadian Entrepreneur Incentive

In August, the government released draft legislation on capital gains, which included revisions to the Canadian Entrepreneurs' Incentive (CEI). The revisions included the elimination of the founder provision, the inclusion of qualified farm and fishing property (QFFP), and a shortened phase-in period from 2034 to 2029. These changes now enable farmers to access the incentive.

Though we believe the enhancements to the CEI should be upheld, we noted that the overall changes to the capital gains inclusion rate will continue to represent higher taxes for most farmers who produce the majority of food that Canadians and the world rely on. 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 account for 13 per cent of farm

[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] Farm Credit Canada. (Mar 12 2024). 2023 FCC Farmland Values Report.

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 CEI 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 LCGE and the CEI, unfortunately, the new incentive is not nearly as generous as the US QSBS program. 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.

Recommendations

To protect family farms, we recommend that the government maintain the proposed increase to the LCGE and the enhancements to the CEI. However, we note that even when coupling the enhanced CEI, higher LCGE, and increased inclusion rate, the farms that produce the majority of Canada's food will still face a tax increase upon the sale of their assets. To ensure that all family farms are supported, we continue to call on the government to allow intergenerational farm transfers, as enshrined in law through Bill C-208 and clarified through subsequent budgets, to be taxed at the original one-half inclusion rate.

About Us

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.

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[4] Statistics Canada. (Mar 28 2024). *Table 32-10-0136-01 Farm operating revenues and expenses, annual*