June 6th, 2024

The Honourable Chrystia Freeland
Deputy Prime Minister and Minister of Finance
90 Elgin Street
Ottawa, Ontario
K1A 0G5

Via: chrystia.freeland@parl.gc.ca

Re: Feedback on Budget 2024's Capital Gains Tax Changes and its Impact on Farmers

Dear Minister Freeland,

Grain farmers across Canada are concerned about the changes to the capital gains inclusion rate announced through Budget 2024. We would first like to acknowledge the proposed increase to the Lifetime Capital Gains Exemption (LCGE) to $1.25 million, which recognizes the accelerating appreciation of farmland values. However, our research shows that the increase of the capital gains inclusion rate to two-thirds will make it more expensive for the next generation to take on the family farm and targets the retirement savings of thousands of farmers.

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.

Today, the average age of Canadian producers is over 55 years old, and over 98% of farms are owned and operated by Canadian families. As growers retire over the next decade, many of these farms will be transferred to the next generation. While this will secure a retirement for thousands of farmers, the transfer will also incur capital gains.

Under the proposed changes, nearly every grain farm across Canada will be impacted by the two-third capital gains inclusion rate. This is because the $1.25 million lifetime capital gains exemption is too low to account for rapidly appreciating farmland values, and many will have already expended their exemption by the time they sell their farm, meaning most farms will have gains subject to the two-thirds inclusion rate. Furthermore, most Canadian grain farms are structured as corporations and do not benefit from the 50% inclusion rate for the first $250,000 of capital gains. Our internal calculations, done in coordination with farm tax accountants, estimate that the average Canadian grain farmer will pay 30% more in taxes. The table below summarizes some of the case studies we have analyzed.

Table 1 – Effect of the Proposed Inclusion Rate and LCGE on Three Example Farms

	Alberta	*Saskatchewan*	*Ontario*
Acres	2,500	4,000	800
Total Capital Gains	$15,865,000	$12,404,000	$14,124,000
Current taxes owing	3,830,711	3,026,622	$3,802,023
Taxes under new policy	$5,020,253	$3,946,285	$4,971,939
Difference	$1,189,542	$919,664	$1,169,916

These numbers highlight a saying in the agriculture sector that farmers are "asset rich, cash poor". The goal of any policy should be to minimize cash outflow, which can be used for on-farm investments, rather than servicing debt to cover increases in tax. These investments are essential to growing our food production to meet rising domestic and global demand.

Furthermore, if the capital gains inclusion rate is increased for family farms, it will impose a substantial tax burden on new farmers at the beginning of their careers. Budget 2024's emphasized "fairness for every generation," and yet the proposed changes to capital gains exacerbate farm transfer challenges and make these transfers more expensive for the next generation of young farmers. Budget 2024 also described that "differences in taxation rates between income earned from wages, capital gains, and dividends currently favour the wealthiest among us." Unfortunately, this policy targets family farms and as small businesses that are family-run, they do not represent the wealthiest among us.

To ensure that the next generation of young farmers can take on the family farm, we recommend that genuine intergenerational farm transfers be exempt from the proposed changes and be subject to the original 50% capital gains inclusion rate. There is precedence for this under Bill C-208, which passed in 2021, that acknowledged that Section 84.1 of the *Income Tax Act* imposed financial burdens on the transfer of farms between generations. Bill C-208, along with the amendments introduced in Budget 2023, aimed to rectify the provisions that made intergenerational transfers more costly than transferring to a non-family member. We recommend that all Bill C-208 eligible intergenerational farm transfers in Canada continue to be subject to the one-half inclusion rate under the *Income Tax Act*.

This fundamental amendment to the proposed capital gain changes will ensure that young farmers will be able to begin a career in agriculture on the right track without inheriting more of a substantial tax liability. It will also support aging farmers as they prepare for retirement, giving them enough funds for the future. Lastly, it will ensure that the government is not penalizing family farms, which are the backbone of Canada's agriculture sector.

We thank you for considering these changes. To discuss these matters further, I would like to request to meet with you and your staff at your earliest convenience. To coordinate a meeting, I can be reached at kyle@graingrowers.ca.

Sincerely,

Kyle Larkin
Executive Director
Grain Growers of Canada