Grain Growers of Canada
Les Producteurs de grains du Canada

Written Submission for the Pre-Budget Consultations in Advance of the Upcoming Federal Budget

August 2024

List of Recommendations

Grain Growers of Canada recommends that the Government of Canada implement the following recommendations in Budget 2025:

Recommendation 1: Revert the capital gains inclusion rate on intergenerational farm transfers from two-thirds to one-half.

Recommendation 2: Amend the *Greenhouse Gas Pollution Pricing Act* to exempt the on-farm use of propane and natural gas from the carbon tax.

Recommendation 3: Increase the extended interswitching pilot project by 30-months with a pathway to permanency, expand the distance from 160km to 500km, and include British Columbia's Peace Country region.

Recommendation 4: Reinstate and improve the currently phasing out Accelerated Investment Incentive.

Introduction

Canadian grain farmers know that a safe and ever-growing food supply is key to protecting our food security. With an international reputation for consistency and high quality, Canadian grains are depended upon worldwide. Canada's grain sector is also a major driver of economic growth domestically. As one of the top five global exporters, demand for Canadian grain is only growing.

In 2023, the grain sector accounted for $25 billion of Canadian gross domestic product (GDP)[1] and over half of the production was and continues to be bound for international markets[2]. Farmers are also stewards of their land, caring for over 100 million acres of land[3]. Simply put, Canada's grain sector is essential to our economy and environment, and the government must ensure that it continues to be supported today and well into the future.

Supporting Family-Run Grain Farms

Budget 2024 included numerous changes to the capital gains tax, none of which were consulted on previously with grain farmers. The primary change announced, with an implementation date of June 25th, was the increase in the capital gains inclusion rate from one-half to two-thirds. The budget also announced an increase in the lifetime capital gains exemption (LCGE) to $1.25 million, but due to ever-increasing land values across the country and based on our research in conjunction with farm tax accountants, the increase in the capital gains inclusion rate represents an increase in taxes for farmers by generally 30%[4]. Currently, 98% of Canadian farms are family owned and operated, but this is quickly changing due to farm consolidation. In fact, from 2001 to 2021, the number of family farms decreased by 23%[5]. Unfortunately, this policy change targets the livelihoods of family farms across Canada and will only accelerate farm consolidation.

Today, the average age of Canadian farmers is over 55 years old, and many will be retiring over the next decade. For most farmers, their land and assets are their retirement plan, as they do not have access to pensions or RRSP matching programs like other Canadians. Unfortunately, this tax increase targets farmers' retirement plans directly by targeting the funds that they planned to use after the sale of their assets.

Furthermore, while Budget 2024 was titled "Fairness for Every Generation," these changes will instead have the opposite effect by increasing costs and increasing barriers to entry for young farmers. The next generation of farmers is already facing expensive transfers and going into debt in the millions of dollars to take over their family's farm. The capital gains tax increase, unfortunately, will make it even more costly for young farmers to take over the family farm by hundreds of thousands or even millions of dollars.

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[1] Agriculture and Agri-Food Canada. (Jun 7 2024). *Overview of Canada's Agriculture and Agri-Food Sector*.
[2] Farm Credit Canada. *Understanding agriculture and food trade: An overview.*
[3] Statistics Canada. (July 17 2024). *Estimated areas, yield, production, average farm price and total farm value of principal field crops, in metric and imperial units*
[4] Grain Growers of Canada. *Protect Family Farms*. https://www.protectfamilyfarms.ca/
[5] Statistics Canada. (June 3, 2024). *Land use, Census of Agriculture historical data*.

Lastly, a 30% tax increase dramatically increases the cost of farms, pricing out many families from their own operations. With farmland already so expensive, it has become difficult for family farms to resist companies buying out farmland, which is growing year-over-year.

At the same time as the capital gains changes, the government also introduced the Canadian Entrepreneurial Incentive (CEI). However, under the current proposal, most farmers will not be eligible for the benefit. The policy, as currently proposed, only allows the founding investor to claim the CEI. This means that successive generations of farmers who continue to take on substantial risks will be ineligible for this benefit. Furthermore, the CEI will not be fully implemented until 2034. Given that the current wave of retiring farmers will be passing down or selling their operations within the next decade, none of them will benefit from the CEI, even if they were eligible.

To protect family farms and to ensure the next generation can take over, we ask that the federal government include intergenerational transfers that qualify under Bill C-208 (passed in the last Parliament) and its subsequent amendments to be subject to the original one-half inclusion rate instead of the newly implemented two-thirds rate.

Ensuring Tax Fairness on Farm Fuels

When the *Greenhouse Gas Pollution Pricing Act* was first passed, gas and diesel used for on-farm activities were exempt to allow farmers to remain competitive. The rationale for this was because farmers rely on these fuels to operate essential machinery to produce crops. Unfortunately though, despite many farmers across Canada relying on propane and natural gas for essential processes such as grain drying, these two fuels were not exempted, despite there being no viable alternatives that exist.

The use of a natural gas or propane grain dryer is necessary to prevent food spoilage. They are used during harvest time to reduce the moisture in the grain to either be sold to market or stored for later sale. If the grain's moisture content is too high, it will rot. Unfortunately, no viable alternatives to natural gas or propane grain dryers currently exist or are being developed. As a result, grain farmers are paying over $2,000 for one month in carbon taxes[6] on these non-exempt fuels, which is a cost they cannot pass on, unlike many other businesses in Canada. Simply put, farmers are price-takers, meaning that they must accept the commodity prices that the market offers them without any recourse to pass costs onward, including the carbon tax.

We urge the government to amend the *Greenhouse Gas Pollution Pricing Act* to exempt on-farm propane and natural gas from the carbon tax. This measure will ensure that grain farmers can use these fuels for essential services vital to food security while remaining competitive on the global stage.

Promoting Efficient Supply Chains

In September 2023, the Government of Canada launched an 18-month pilot project for extended rail interswitching. This pilot project increased the radius at which interswitching is available to grain shippers from 30 kilometres to 160 kilometres.

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[6] Agriculture Carbon Alliance. *The Impact of Carbon Pricing On Farmers, Growers and Ranchers*. https://agcarbonalliance.ca/understanding-the-impact-of-carbon-pricing-on-farmers-growers-and-ranchers/

The pilot has presented three important benefits to grain farmers and shippers. First, it increases competition by allowing shippers to have more options for rail service, instead of the current geographical monopoly that most grain shippers otherwise face. Second, it improves service and efficiency by giving shippers leverage in discussions with the serving railway through the threat of loss of business. Lastly, it allows Canadian grain farmers to have greater access to new markets and customers, providing opportunities for growth and expansion.

Unfortunately, an 18-month pilot project is not long enough to receive valuable data from shippers to assess the success of the pilot. Grain shippers, in partnership with farmers, typically plan 12 months ahead by signing contracts with the railways. Due to this, the pilot will only technically provide benefits for a few months. Moreover, grain shippers have shown that they are reluctant to use a temporary tool that will draw the ire of their rail service provider and cause possible repercussions following the pilot.

Between 2014 and 2017, the government introduced a temporary extended interswitching initiative, and during this timeframe, less than 2% of traffic used extended interswitching. Furthermore, the railways stated that[7] they believed the project "did not significantly alter transportation shipping patterns." During a similar timeframe from 2013 to 2022, Canada's two railways had the lowest operating ratios in North America and earned over $50 billion more than what Canadian regulators consider necessary to be financially viable[8]. These measures show that extended interswitching will have a negligible effect on Canadian railways' profitability and logistics. The fact that the measure was minimally used is a sign of the success of the pilot, as shippers can use the threat of using a different service provider as leverage for better prices and services during negotiations. If the percentage of traffic that used extended interswitching were higher, it would suggest that shippers were not able to negotiate with the predominant railway that services their elevator or processor and instead had to agree to contracts with a different railway.

We recommend that the government extend the pilot period by 30 months, with a pathway to permanency, to allow additional time to fully assess the trial. We also recommend that the radius be increased from 160 kilometres to 500 kilometres, to allow most grain farmers and shippers to make use of this tool. Moreover, consideration must be given to making this provision available to the BC Peace River Country region, which is an important grain producing region not covered under the current pilot.

Encouraging Technology Adoption

In the 2018 Fall Economic Statement, the government introduced the Accelerated Investment Incentive (AII). This measure has allowed farmers to write off a larger share of the cost of newly acquired depreciable assets, such as tractors and combines, in the year the investment is made. More specifically, the AII increased depreciation rates for farm equipment from 15% to 45%. This incentive was in response to the American *Tax Cuts and Jobs Act* which introduced 100% bonus depreciation rates for farmers and new farm equipment.

Since the implementation of the AII and 45% bonus depreciation, farmers have been able to depreciate new tractors, combines, seeders, sprayers and other equipment more rapidly. This has been a helpful

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[7] Stuhldreier, L. (Dec 2023). *The Regulations of Interswitching in Canada: A Different Perspective on the Case for Ditching the Switch*. Journal of Transportation Law, Logistics & Policy.
[8] Coalition for the Factual Analysis of International Rail Rates (Sept. 26, 2023). *Rail Rates in Canada White Paper*.

incentive to support farmers in purchasing new technologically advanced and energy-efficient equipment to replace older, less efficient equipment. New equipment can not only boost food production to meet rising demand but can also lower emissions through more energy-efficient engines and reduce the amount of inputs used through technological advancements. Furthermore, this incentive has been especially helpful with rising inflation that is impacting farm equipment, which has caused the typical new combine to often exceed $1 million.

Unfortunately, despite the popularity of this incentive, the AII began to be phased-out in January 2024 and will be fully phased-out by 2027. While US bonus depreciation is also being phased out on a similar timetable, American farmers have been able to access 100% depreciation rates since 2017.

To continue incentivizing farmers to adopt today's modern equipment, we call on the government to stop the phase-out and enhance a permanent Accelerated Investment Incentive to enable producers to invest in the most up-to-date technologies on their operations.

About Grain Growers of Canada

As the national voice for Canada's grain farmers, Grain Growers of Canada (GGC) represents over 65,000 cereal, oilseed, and pulse producers through our 14 national, provincial and regional grower groups. Our members are trade oriented, sustainable and innovative. As a farmer-driven association for the grains industry, GGC advocates for federal policy that supports the competitiveness and profitability of grain growers across Canada.