POTATO GROWERS OF CANADA
LES PRODUCTEURS UNIS DE POMMES DE TERRE DU CANADA

Proposed Small Business Tax Changes will Negatively Affect Potato Farmers

In July, the Department of Finance Canada released a discussion paper titled "Tax Planning Using Private Corporations. Since the proposed tax changes could have major ramifications for small businesses in Canada, and particularly potato farmers, our organization submitted the following response to Finance Minister Bill Morneau.

Dear Minister Morneau:

Our organization represents potato farmers across the country, from British Columbia to Prince Edward Island. With over 1,300 producers in the county growing 345,000 acres of potatoes, the proposed Corporate Tax Changes will put a large number of these small businesses at risk. It is important for our government to understand that farms are family run businesses in the heart of small Canadian communities and not offshore tax havens for the wealthy.

One of the significant challenges to our profession has been the succession of ownership to younger family members. As a result, the average age of a farm operator in Canada at 57 years is much higher than non-agriculture related businesses. Ultimately land and other assets will need to be transferred to younger generations to maintain a healthy, viable industry producing food in Canada. Your proposed changes will make it much more difficult for family farms to transfer assets to their children. The majority of successful family farms today have had to utilize the labour input of children and spouses in order to make below average salaries meet the domestic needs of their households. Many successful entrepreneurs in our industry began their careers cutting seed, picking stones off the harvester, and shoveling dirt in the potato warehouses. Children on dairy farms fed calves, did chores, and milked cows seven days a week and on statutory holidays that other businesses would have had off. Women often paid the bills, did accounting and banking requirements, all while raising families, and frequently working off the farm at another full time job. Do any of the foregoing sound like participants in a tax shelter? Are they even eligible to be called “middle class” by the Prime Minister of our country? On the contrary, women and children are being disproportionally affected and certainly are far above the “reasonability test” in your proposal to address income splitting (TOSI – Tax On Split Income).

The potato industry in Canada is very capital intensive. Canada’s cheap food policy has meant that growers often receive the same price (and sometimes less) for produce that was the standard of a generation ago. The industry requires larger equipment to utilize economies of scale in order to meet the “grow more for less” philosophy that large multi national food companies seem to be demanding. Land costs are accentuated by the crop rotations we follow for crop and soil health reasons. A farmer producing 650 acres of potatoes, often utilizing a minimum three-year rotation, will require 2,000 acres of land. The take home message is that it is very difficult to just start farming without some generosity from your family or friends. As a result, many farmers, on the advice of accountants, created limited corporations where they could roll over assets into the company and allow transfer of shares to new entrants – a very honest, sound, ethical, and compassionate way of passing the torch of ownership. Similarly, the corporate structure allows farmers to accumulate capital for retirement using the lifetime capital gains exemption (LCGE). The government has proposed to restrict this tool with few good alternatives.

Potato farming, like other facets of agriculture, is a high-risk business, dependent on weather, commodity pricing, and world events. It is an economic generator, and a large employer, needing tax planning tools. It is definitely not solely in place to take advantage of perceived “loopholes” in the system. The Department of Finance Discussion Paper makes many comparisons between Small Businesses and Employees and how they are treated under the existing legislation. It is compelling to point out some extreme differences between the two scenarios: Pensions – small business owners are responsible for their own retirement plans. Vacation and Sick Leave – Very little time off and no pay earned on sick leave. Parental Leave – non-existent on the paternal side and less secure on the maternal side. Overtime – In addition to working much longer hours, most farms do not include overtime bonuses. Business Failure – No benefits available such as Severance and Employment Insurance. The proposed changes in your discussion paper will stifle risk takers by providing a disincentive to those pursuing their dreams of entering and owning a small business enterprise such as a farm.

The 75-day consultation period ending on October 2 2017 falls within our grower members' busiest time of the year. With all farmers harvesting their crops and their source of income for the next year, it has been challenging for producers to get out and have their voices heard.
Please extend the consultation time in order to allow for more thorough analysis and revision of your proposal to avoid very negative unintended consequences, and to allow our members to provide meaningful feedback.

Agriculture was identified as a Key Growth Sector in the Federal 2017 Budget. However the proposed tax changes are significant and far-reaching for small businesses and for farmers in our country. Given those changes it will be difficult to meet those ambitious targets outlined in the budget.
We would encourage you to consider our concerns, and instead look at other ways to modernize the tax system on behalf of all Canadians.

Sincerely,

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