

# Farm Succession Planning

“The Kitchen Table Discussion”

Part 2



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**Wealth Management**  
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# Who are we?



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# Two very important questions

1. What is the future of this farming operation?
2. What if something happens?



# Today's agenda

- 1.** Why and how to hire an agriculture professional
- 2.** Capital gains exemption – how it applies to farmers
- 3.** Children are given vs. purchase farming assets
- 4.** Estate equalization for farming families with one or more non-farming children

*(Based on listener feedback from last webinar on Aug 29, 2018)*



# Why and How to Hire an Agriculture Professional



## Farmer

- busy running operation
- emotionally invested
- don't know where to start
- scared to offend family

## Professional

- listen & understand
- proactively advise
- help explore all options
- professional expertise
- tailored to your individual situation

## Great Outcomes

- save time & money
- a proper, well thought out plan
- better chance of family harmony
- more time to continue great management of your operation

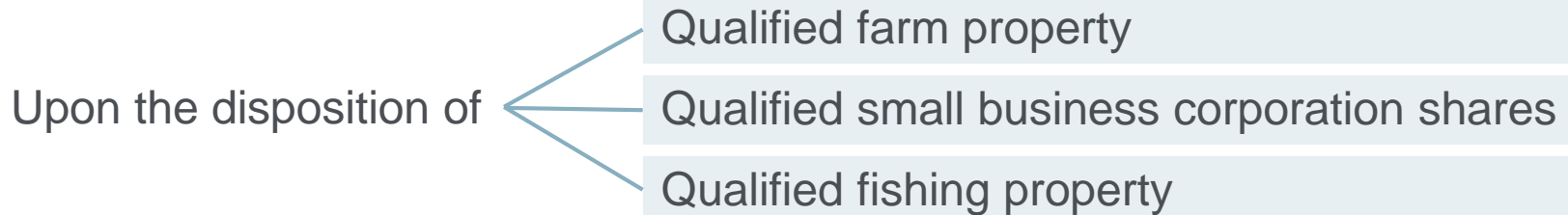


# Lifetime Capital Gains Exemption

## What is it?

- Allows an individual to receive up to **\$848,252** of a capital gain tax-free

## When do you get it?



## Impact of 2015 Federal Budget

- For **qualified farm property** and qualified fishing property, the lifetime capital gains exemption was increased to **\$1,000,000**



## Types of farm assets considered Qualified Farm Property

May qualify for the capital gains exemption:

- Shares in a family farm corporation
- Farm land
- Farm buildings
- Quotas

Will not qualify for the capital gains exemption:

- Inventory
- Farming equipment and machinery



# Defining Qualified Farm Property

## 1) Real or immovable property and eligible capital property used in carrying on a farming business in Canada by an individual, spouse, parent or child

### What does “used” mean?

#### Property purchased **after June 17, 1987**

- Owned for at least 24 months immediately prior to disposition; AND
- For at least 2 years ownership, gross revenue from farming must exceed the total of all other sources of income; AND
- The property was **used principally** in a farming business where the individual, spouse, parent, child is **actively engaged on a regular and continuous basis**

#### Purchased **prior to or on June 17, 1987**

- Property must have been **used principally** in a farming business during the year of disposition; OR
- In at least 5 years during ownership, property was **used principally** in a farming business

# Defining Qualified Farm Property

## 2) Shares of a family farm corporation

### What is a *Family Farm Corporation (FFC)*?

- ❑ Throughout any 24 month period prior to disposition, 50% of property owned by the FFC is **used principally** in a farming business where the individual, spouse, child or parent is **actively engaged on a regular and continuous basis**
- ❑ At time of disposition, all or substantially all of the fair market value of the property owned by the FFC is **used principally** in a farming business where the individual, spouse, child or parent is **actively engaged on a regular and continuous basis**

# What does “used principally” mean?

**>50% of property’s use is in the business of farming by the individual, spouse, child, parent**

**?** What if I used to use it for farming but now I don’t?

**?** What if I lease it to tenants who farm it — Is this considered farming?

**?** What if I’m in a sharecropping arrangement?

# What does “Actively Engaged on a Regular and Continuous Basis” mean?

## Actively Engaged

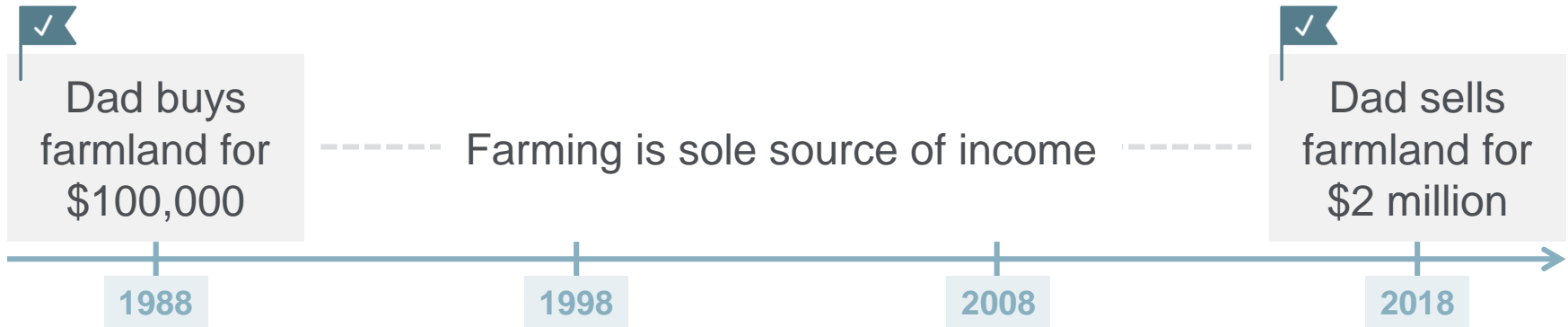
- CRA Guidance → actively engaged in the management or day-to-day activities
- Contribution of time, labour, and attention

## Regular & Continuous Basis

- CRA Guidance → an activity that is undertaken infrequently, or at irregular intervals, would not meet the requirement

# Dad sells the farmland

Is the capital gains exemption available?



Owned for 24 months? .....

Yes

Gross revenue from farming exceeded total of all other sources of income for at least two years? .....

Yes

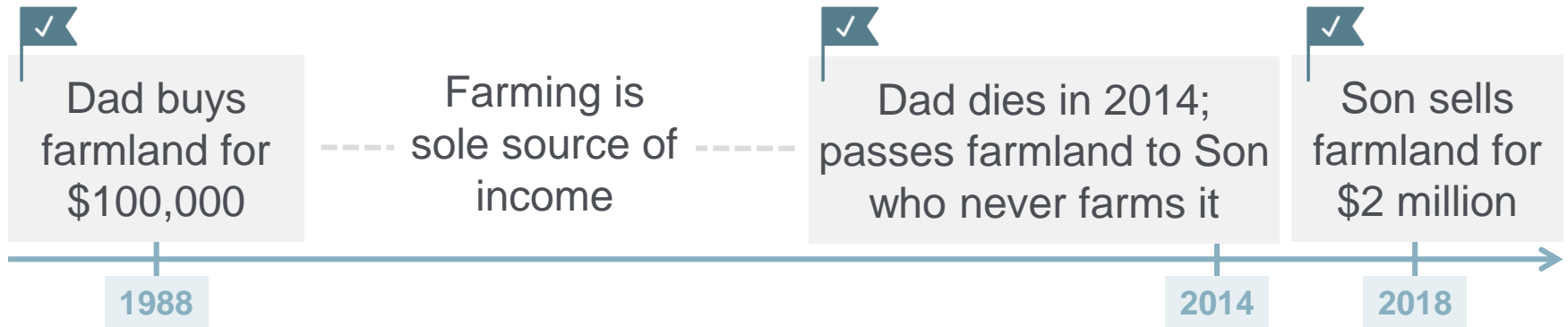
Property was used principally in a farming business in Canada in which Dad was actively engaged on a regular & continuous basis? .....

Yes

→ Therefore, Dad can use the capital gains exemption on the sale of this farmland

# Son sells the farmland

Is the capital gains exemption available?



Owned for 24 months? .....

Yes

Gross revenue from farming exceeded total of all other sources of income for at least two years? .....

No

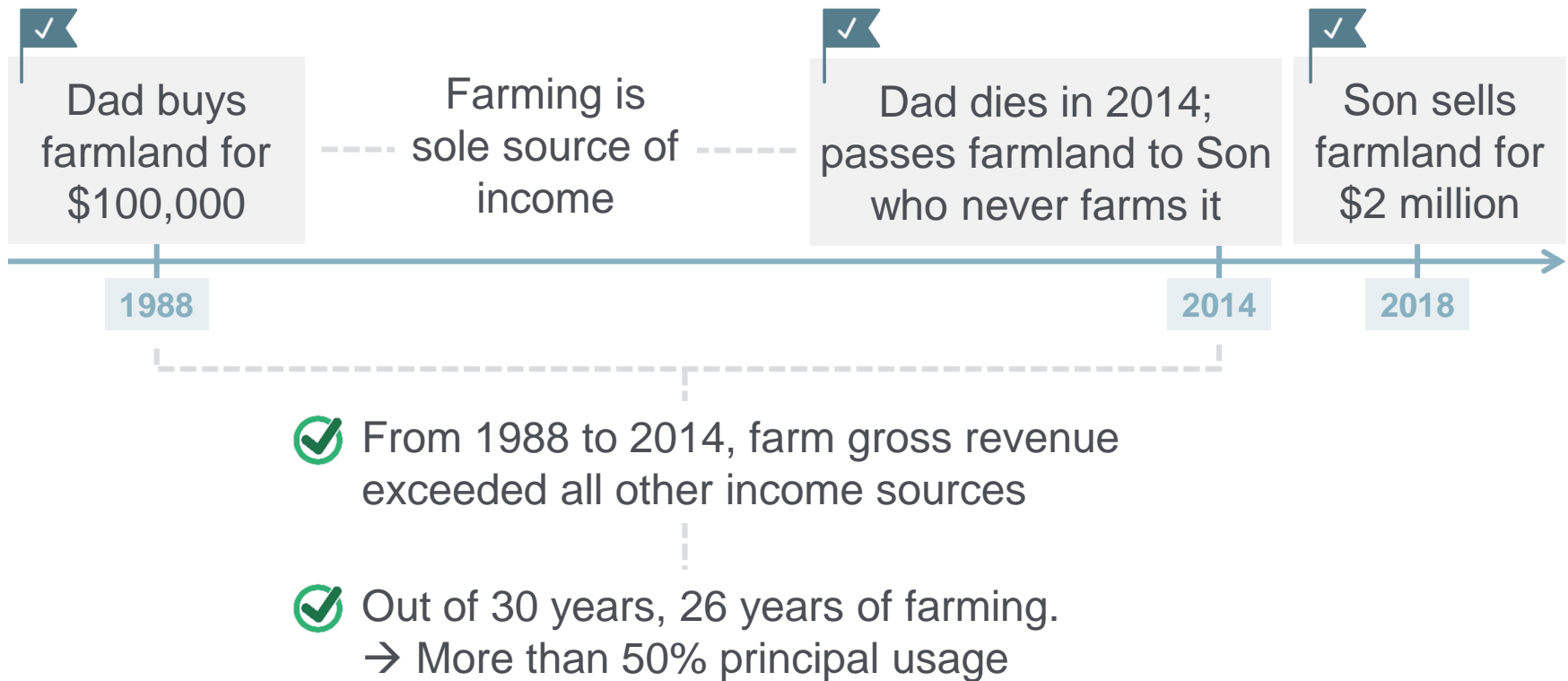
Property was used principally in a farming business in Canada in which Son was actively involved on a regular & continuous basis? .....

No

→ **Yes**, Son can use the capital gains exemption on the sale of farmland... *but how?*

# Son sells the farmland

How can Son use the capital gains exemption?



→ Therefore, Son can use the capital gains exemption by relying on Dad's years

# Children being given vs. purchasing farming assets

## Giving the farming assets to your child or children

- During your life time vs. at death?
- Ownership vs. profit sharing?
- Do you have other non-farming assets?
- Other children—what about them?
- What is your retirement income?



Can gain more flexibility if some assets are outside of the farm operation



# Children being given vs. purchasing farming assets

## Child purchases farming assets (full price or discount)

- Do they have funds to purchase?
- Can they take on debt to do so?
- Should they sell some farming assets to fund your retirement?
- Can they put in sweat equity ?



**Want to make sure the farming operation remains viable  
without jeopardizing the current owner's retirement**

# Estate equalization for farming families with one or more non-farming children

Establishing a sinking fund

Sell some farming assets for non-farming assets

Life insurance





# Thank you



How to contact us

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