Canadian Agricultural Income Stabilization (CAIS) Program

Handbook

A Canada-Ontario initiative

March 2007

This handbook provides details about the Canadian Agricultural Income Stabilization (CAIS) program. Agricorp administers the CAIS program in Ontario on behalf of the Ontario Ministry of Agriculture, Food and Rural Affairs. For more information or assistance, please contact:

- Agricorp's toll free number at **1-877-838-5144**
- Agricorp's fax line at 519-826-4334
- Agricorp's website at **www.agricorp.com**
- Agricorp's email services at **contact@agricorp.com**
- The myCAIS website at **www.mycais.on.ca** (for submitting forms and viewing your reports)

Table of Contents

1.0 Purpose

The purpose of the Canadian Agricultural Income Stabilization (CAIS) program is to provide Canadian agricultural producers with a long-term whole farm risk management tool that protects against both small and large declines in farm income.

2.0 General Description

The CAIS program is part of the Business Risk Management section of the Agricultural Policy Framework. CAIS combines income stabilization assistance and disaster assistance into one comprehensive program.

CAIS is built on the philosophy that governments and producers share in the cost of replacing lost income. Producers share the cost by paying an annual participation fee and by absorbing a portion of their lost income themselves. For smaller losses, governments and producers shoulder the loss equally. As losses deepen, the percentage of government share increases to four times the producer share.

CAIS measures lost income by comparing the current or program year income of a farm to its historic income. Program year income is measured using a production margin, which is the result of deducting direct production expenses from farm sales. Historic income, known as the reference margin, is based on the previous five-year production margin history. When a producer's program year income falls below his/her historic income, benefits are triggered.

Benefits are based on the magnitude of the margin decline and the producer's selected coverage level.

3.0 Definitions

Accounts Payable: An amount owing to another business at the end of the fiscal year arising from allowable expenditures that are due to be paid the following year.

Accounts Receivable: An amount owed to the business at the end of the fiscal year arising from the sale of allowable commodities due to be received the following year.

Accrual Method of Accounting: Method of accounting/reporting whereby revenue and expenses are recorded in the period when they are earned or incurred, regardless of when the cash transaction took place.

Administrative Cost Share (ACS): Annual charge of $55 to cover a portion of the CAIS program's administrative costs.

Arm's Length Salaries: Salaries paid to employees who are not related persons.

Beginning Farmer: A participant who has been farming for less than three of the five reference years.

Benchmark per Unit (BPU): An expected production margin from a single unit of production of a given commodity for a given year.

Calculation of Program Benefits (CPB): A report detailing a CAIS participant's benefit calculations.

Cash Method of Accounting: Method of accounting whereby revenues and expenses are reported when cash is actually received or paid, regardless of when the agreement to sell or purchase may have taken place.

CRA: Canada Revenue Agency.

Coverage Level: The percentage of reference margin covered in the event that the program year margin declines to zero.

Disaster Circumstances: Circumstances or events beyond a producer's control, including weather-related natural disasters, fire, and pestilence or disease.

Fair Market Value (FMV): The weighted average Ontario market price for a particular commodity.

Fee Option Notice (FON): A notice providing program year coverage selection options.

Fee Reference Margin: The reference margin used to calculate the annual fee.

Interim Payment: An advance payment based on an estimated program year margin decline prior to the end of the program year.

Margin Decline: The amount that a participant's program year margin falls below his/her reference margin.

Non-Arm's Length Salaries: Salaries paid to related persons.

Olympic Average: Average production margin for three of the five years immediately preceding the program year, where the years with the highest and lowest production margins have been removed.

OMAFRA: Ontario Ministry of Agriculture, Food and Rural Affairs.

Participant: An individual or entity who secures CAIS coverage.

Production Cycle: Includes one or more of the following activities:

- the growing and harvesting of a crop;
- the process of rearing livestock, such as the calving of cows or farrowing of sows; and/or
- the purchase and sale of livestock in the case of feeding and finishing enterprises.

Production Insurance Premium Adjustment (PIPA): A benefit paid to some participants who receive a lower CAIS benefit due to participation in Production Insurance.

Production Margin: Allowable income less allowable expenses.

Program Benefits: Government funds paid to a CAIS participant because of a margin decline.

Program Year: The taxation year for which program forms are being submitted.

Program Year Margin: The production margin for the program year with adjustments made for allowable receivables, payables, inventories, and purchased inputs.

Province of Main Farmstead: Province where the majority of gross farming income is earned over the reference period.

Reference Margin: An Olympic average of the historical five-year production margins preceding the program year.

Reference Period: The period, to a maximum of five years, spanning all taxation periods considered for the calculation of the reference margin.

Reference Year: Any of the taxation years falling within the reference period.

Related Persons: Individuals connected by blood relationship, marriage, common-law partnership, or adoption.

Related Parties: The following are considered related parties:

1. Related Persons.
2. A corporation and:
   a. an individual, group of related persons, or entity that controls the corporation;
   b. an individual, group of related persons, or entity of a related group that controls the corporation;
   c. any individual considered a related person to the individual, group of persons, or entity that controls the corporation.
3. Two or more corporations if:
   a. they are controlled by the same individual, group of persons, or entity;
   b. an individual or any member of a group of persons or entity that controls one corporation is a related person to the individual or any member of a group of persons or entity that controls the other corporation.

Selected Coverage: Coverage that is chosen or rolled over from the previous program year for which a fee is payable.

Secured Coverage: Coverage that is secured once the fee has been paid.

Supply Management Adjustment: Sales of non-supply managed commodities as a percent of total sales for the years used to calculate the reference margin multiplied by program benefits.

Stub Period: A taxation year that consists of less than 12 months.

Structural Change: A change in ownership, business structure, size of operation, farming practice, type of farming activity, accounting methods, or any other practice that may alter a participant's production margin.

Tier 1: The range from 85% to 100% of a reference margin.

Tier 2: The range from 70% to less than 85% of a reference margin.

Tier 3: The range from 0% to less than 70% of a reference margin.

Tier 4: The negative portion of a participant's program year margin.

Whole Farm: Farming income derived from all production sources, regardless of the physical location and structure of the farming operation(s).

4.0 Eligible Participants

To be eligible for program benefits the participant must have, in the program year:

- carried on the business of farming in Canada;
- conducted a minimum of six consecutive months of farming activity;
- completed a production cycle;
- reported farming income (or loss) for income tax purposes to the CRA, unless exempt under the federal *Indian Act*; and
- met all program requirements.

Eligible participants are taxable entities, such as individuals farming as sole proprietors or within partnerships, corporations, trusts, cooperatives, and communal organizations.

The eligibility requirement of six consecutive months of farming activity and a completed production cycle in the program year may be waived if it is determined these requirements could not be completed due to disaster circumstances.

4.1 Limited Partnerships

A limited partnership is an eligible participant.

4.2 Partnerships

Each partner in a partnership must submit program forms reporting 100 percent of the partnership's income and expenses. Agricorp will calculate the program year benefits based on each partner's percentage share of the operation. Each partner must submit his/her own forms.

4.3 Estates

Estates can be considered a participant through a combination of activities performed by the deceased participant and his/her estate.

4.4 Status Indians

Status Indians, who carry on the business of farming on a reserve in Canada and who do not file income tax returns, are eligible to participate provided they submit information that would have otherwise been reported for income tax purposes for program and reference years, based on the requirements of the *Income Tax Act*. Status Indians will be deemed to have a December 31 fiscal year-end.

4.5 Bankruptcy

A participant under the administration of a trustee in bankruptcy must participate through the trustee in bankruptcy. The trustee will assume the information and account of the bankrupt participant.

4.6 Multi-Jurisdiction Farms

A participant must apply in the province of his/her main farmstead.

4.7 Government-Funded Institutions

Research stations, universities, colleges, and other government-funded institutions are not eligible to participate in the CAIS program.

5.0 Participation Process

5.1 Securing CAIS Program Coverage

The participation process for each program year starts with a Fee Option Notice (FON) (see Section 5.5). The FON explains the steps required to secure coverage for the program year.

To secure coverage:

- Review the Fee Option Notice.
- Contact Agricorp by the coverage deadline only to change or cancel the coverage.
- Pay the fee by the fee deadline.

Participation in the preceding year results in automatic enrolment in the following program year, unless Agricorp is contacted to cancel coverage by the specified coverage deadline.

5.2 New Participants

New Participants must submit the New Participant Forms by the coverage deadline. The New Participant Forms are available online at **www.agricorp.com** or by contacting Agricorp.

5.3 Submitting Program Forms and Information

Complete and submit the following forms by the program deadline:

- Program Year CAIS Information Form
- Schedule 1 – Production Summary
- Schedule 2 – Inventory, Receivables, and Payables.

Submit farming income (or loss) for income tax purposes on a **T1163** for individuals, or on a **Statement A** for corporations.

Further information and assistance is available from Agricorp at **1-877-838-5144** and also on the Agricorp website at **www.agricorp.com**.

For participants who have completed the above steps, a Calculation of Program Benefits (CPB) statement will be issued, along with program benefits if a margin decline has occurred.

Submitted forms will not be processed until the program year fee is paid.

5.4 Deadlines

2006 Program Year Deadlines

The coverage selection deadline for the 2006 program year is **September 30, 2006** or 30 days after receiving your 2006 Fee Option Notice, whichever is later.

The fee payment deadline for the 2006 program year is **December 31, 2006** or 30 days after receiving your invoice, whichever is later.

The forms submission deadline for the 2006 program year is **June 30, 2007**.

Note: If a deadline date falls on a Saturday, Sunday, or statutory holiday, the deadline will be extended to the next business day.

Program forms postmarked after the deadline date will not be accepted.

Failure to meet any of the deadlines for the program year will make a participant ineligible for program benefits for that program year.

A missed deadline may be excused where a participant can demonstrate exceptional circumstances for missing the deadline. Exceptional circumstances can be cited where the failure to meet program deadlines could not have been avoided by the exercise of due care by the participant or a third party acting on behalf of the participant.

5.5 Fee Option Notice

A Fee Option Notice (FON) is sent to existing and new participants, showing the participant's fee reference margin and coverage level options.

The fee reference margin is the reference margin used in the previous year's benefit calculation (if applicable).

Where there is insufficient information to calculate the fee reference margin, additional information may be requested.

5.6 Coverage Selection

Participants will have their coverage level rolled forward from the previous year unless the participant indicates otherwise by the coverage selection deadline. New participants must select a coverage level by the coverage selection deadline to participate in the current program year.

The coverage level selected determines the potential CAIS program benefit.

There are three coverage options:

Maximum: Secures up to 70 percent of a total margin decline in your program year.

Medium: Secures up to 66.5 percent of a total margin decline in your program year.

Minimum: Secures up to 56 percent of a total margin decline in your program year.

5.7 Fee Payment

The program year fee is based on the participant's reference margin and selected coverage level as follows:

Maximum Coverage Fee =
(100% x fee reference margin x 0.45%)

Medium Coverage Fee =
(85% x fee reference margin x 0.45%)

Minimum Coverage Fee =
(70% x fee reference margin x 0.45%)

The fee payment is due by the coverage selection deadline. If the fee (excluding the ACS) is not paid by the due date, a 20 percent penalty will be assessed based on the fee stated on the invoice.

Administrative Cost Share (ACS)

The ACS is $55 per participant for each year that coverage is selected. The ACS will be included in the Total Amount Due shown on the fee invoice and is payable by the annual due date.

5.8 Coverage Transfer due to Incorporation

If a participant incorporates his/her farming operation, the participant can transfer his/her individual CAIS coverage to the corporation. The corporation will be assigned a new CAIS PIN.

5.9 Withdrawing from the CAIS Program

Cancelling Coverage: A participant may withdraw from the CAIS program by cancelling coverage before the coverage selection deadline. Coverage for a program year cannot be cancelled once that program year's coverage selection deadline has passed.

After cancelling coverage, a participant may re-enrol the following program year by contacting Agricorp prior to the following year's coverage selection deadline.

If a participant cancels coverage for two consecutive program years, the participant is then ineligible for the next two program years as well.

Opting Out: Participants may voluntarily opt out of the CAIS program by completing and submitting the Opt Out Form. Participants who choose to opt out, are not eligible to participate in the program year in which the opt out occurs, and cannot rejoin the program for the next two program years following the program year in which the opt out occurs.

Once the processing of an opt-out request has started, the request cannot be reversed.

Agricorp may choose to opt out a participant for reasons including—but not limited to—failure to meet program and/or administrative requirements, or if a participant's farm has ceased to operate.

Once a participant has opted out, it will be the producer's responsibility to contact Agricorp if he/she wishes to participate again in the future.

6.0 Production Margin Calculations

6.1 Source Documents and Method of Accounting

Source Documents

The following records are used to calculate program and reference year margins:

- CAIS and NISA records for any year in which the participant participated in these programs.
- Income tax records if the participant has changed the method of accounting used for CAIS and/or NISA in any reference year.
- Income tax records for years where the participant did not participate in NISA or CAIS.

Method of Accounting: Reference Years

For the 2006 program year, participants who filed income tax to CRA using the cash method in the reference years will have their reference margins based on the cash method. These participants can choose to make a modified accrual adjustment to the historical cash information by completing and submitting a Schedule 4. If a Schedule 4 had been applied in previous program years, it will continue to be applied for the 2006 program year.

Beginning with the 2007 program year, a hybrid inventory adjustment (see Section 7.3) will be applied to each reference year for which the required inventory information is available. If the required inventory information is not available for a reference year, that reference year margin will not be adjusted for changes in inventory, unless the information is provided.

Where the hybrid inventory adjustments are applied to a reference year reported on a cash basis, accrual adjustments for changes in accounts payable and receivable, and purchased inputs will also be applied.

Method of Accounting: Program Year

The same method of accounting (cash or accrual) that is used to report financial information to CRA for income tax purposes, must be used for the CAIS program.

One of the following methods of accounting will be used to calculate the program year margin:

- The **cash method**, if the participant files income tax to CRA using the cash method. In this case, the program year margin will be adjusted for changes in inventory quantities, purchased inputs, accounts receivable, and accounts payable; or
- The **accrual method**, if the participant files income tax to CRA using the accrual method.

Agricorp reserves the right to apply adjustments necessary to more accurately reflect the farming activity of a participant.

6.2 Production Margin

A production margin is calculated by subtracting direct production expenses from farm revenue. Only revenue and expenses directly related to the production of a commodity are allowable, such as fuel, fertilizer, pesticide, or feed costs.

Farm Revenue includes:

- farm sales
- Production Insurance claim payments

Production Expenses include:

- feed
- livestock
- hired labour
- seed
- Production Insurance premiums
- fertilizer and pesticides
- containers and twine
- fuel/electricity
- trucking
- storage and drying
- custom feeding

Allowable Income and Expenses

Please refer to the CRA Publication *RC4060, Farming Income and the CAIS Program – Joint Forms and Guide* for information on reporting farm income and expenses.

The following tables list the allowable and non-allowable income and expense items.

Allowable and Non-Allowable Income

Code	Allowable Income	Code	Non-Allowable Income
xxxx	Agricultural Commodity Sales	9601	Agricultural Contract Work
9574	Rebates for Allowable Expenses	9605	Patronage Dividends
401	Crop/Production Insurance – grains, oilseeds	9607	Interest
402	Crop/Production Insurance – edible horticulture	9612	Resales of Commodities Purchased
470	Crop/Production Insurance – non-edible horticulture	9614	Machinery Rental
463	Crop/Production Insurance – other including livestock	9575	Rebates for Non-Allowable Expenses
406	Insurance Proceeds for Allowable Income and Expense Items	9544	Risk Management and Disaster Assistance Payments
499	Production Insurance Premium Adjustment Payments (reference years only)	9540	Other Government Program Payments
468	BSE Recovery Payments (program year only)	9610	Gravel
418	Wildlife Damage Compensation	9611	Trucking
469	CFIA compensation (program year only)	9613	Leases
486	Grain and Oilseeds Payment Program (program year only)	471	Ontario Grain and Oilseed Program
9617	Custom Feeding Income	9600	Other

Allowable and Non-Allowable Expenses

Code	Allowable Expenses	Code	Non-Allowable Expenses
xxxx	Commodity Purchases	9760	Machinery (repairs, licenses, insurance)
9661	Containers and Twine	9798	Agricultural Contract Work
9662	Fertilizer and Soil Supplements	9792	Advertising and Promotion Costs
9663	Pesticides and Chemical Treatments	9795	Building and Fence repairs
9665	Insurance Premiums (crop or production)	9804	Other Insurance Premiums
9713	Veterinary Fees, Medicine, and Breeding Fees	9807	Memberships/Subscription Fees
9714	Minerals and Salts	9809	Legal and Accounting Fees
9764	Machinery (gasoline, diesel fuel, oil)	9816	Non-Arm's Length Salaries
9799	Electricity	9808	Office Expenses
9801	Freight and Shipping	9819	Motor Vehicle Expenses
9802	Heating Fuel	9820	Small Tools
9815	Arm's Length Salaries	9821	Soil Testing
9822	Storage/Drying	9823	Licenses/Permits
9830	Prepared Feed	9824	Telephone
9831	Custom Feeding	9765	Machinery Lease/Rental
9836	Futures Transaction Fees	9796	Land Clearing and Draining
9836	Commissions and Levies	9805	Interest (real estate, mortgage, other)
		9810	Property Taxes
		9811	Rent (land, buildings, pastures)
		9825	Quota Rental (tobacco, dairy)
		9826	Gravel
		9827	Purchases of Commodities Resold
		9829	Motor Vehicle Interest and Leasing Costs
		9935	Allowance on Eligible Capital Property
		9936	Capital Cost Allowance
		9937	Mandatory Inventory Adjustments (prior year)
		9938	Optional Inventory Adjustments (prior year)

Plum Pox Payments

Plum Pox Virus (PPV) payments to compensate for asset (production/income) loss are non-allowable income in the reference years. PPV payments are allowable income in the program year.

PPV payments will be spread out over several program years, depending on the type of fruit, to reflect the multiple years this payment was meant to cover. Participants who have reduced production because of the Plum Pox Virus will have the structural change adjustments waived.

Crop/Livestock Share

Landlord income, whether cash, rent, or payments-in-kind, that is earned through a crop or livestock share or lease arrangement, must be reported as rental income for income tax purposes. As such, landlord income is considered non-allowable under the CAIS program.

If a tenant has included the landlord's share within his reported farm sales, then the tenant must also report the cash, rent, or payments-in-kind made to the landlord as a commodity purchase, which is an allowable expense.

Custom Work and Trucking Income

Custom work and trucking income is non-allowable. An amount equal to 30 percent of reported custom work and trucking income in a given reference or program year will be deducted from allowable expenses. Where the participant can substantiate that the 30 percent ratio is inappropriate for his/her operation, a different expense ratio may be used.

Custom Work Expense

Custom work expenses are non-allowable. To the extent that a participant can itemize the custom work expense, between allowable and non-allowable expenses, a breakdown will be accepted. In this case, a participant may be required to provide a similar breakdown for all reference years.

Custom Feeding Operations

Custom feeding income is allowable if the participant grows or purchases the feed used in the operation. The allowable income that a custom feeding operation would report for CAIS is the value of the feed, purchased or grown and fed to the livestock. The yardage portion of the fee charged by the custom feeding operation is non-allowable.

If a participant generates custom feeding income that is considered allowable, but is unable to break out the feed portion of this income, it will be assumed that five percent of the total custom feeding income is yardage and the remainder is feed.

Commodity Futures

Futures market transactions (including options and forward contracts) are allowable income and/or expenses to the extent that these transactions are part of a hedging strategy.

To demonstrate that the futures market transactions are a hedging strategy, the participant may be required to substantiate the following through a written hedging strategy:

- The futures transactions are for hedging and not speculation purposes;

- The futures transactions were undertaken in commodities produced and/or consumed on a participant's farm (e.g., a participant who does not grow or feed grain could not include wheat futures transactions as an eligible income and/or expense); and that
- The futures transactions represent a volume of product that could either be reasonably produced and/or consumed on the farm, or would be considered a proxy for that commodity (e.g., a participant who grows 500 acres of corn, but undertook futures transactions equivalent to 1,000 acres of corn, could not include those transactions in excess of what was produced on the farm).

Stub Periods

If the program or reference year is a stub period, the income statement for the stub period will be combined with information from preceding statements until a minimum period of 12 months is available. The combined income and expenses will be prorated to reflect a 12-month period. Agricorp reserves the right to apply adjustments necessary to more accurately reflect the farming activity of the participant.

Other Income and Expense Items

Income and expenses generated in the production or harvesting of trees for use as firewood, construction material, poles or posts, fibre, pulp and paper, or for use in reforestation are considered non-allowable.

Income and expenses generated from farming activities outside of Canada are non-allowable.

Allowable income and/or allowable expense amounts will be accepted to the extent that the participant can substantiate these amounts if requested.

6.3 Reference Margin

Calculation of the reference margin is based on an Olympic average of the preceding five years' of production margins. For participants without production margins for all of the five reference years preceding the program year, calculation of the reference margin is the average production margin of the three years immediately preceding the program year.

For participants without their own production margin for any of the three years immediately preceding the program year, Agricorp creates margins for the missing years based on the appropriate Benchmark per Unit (BPU) for the commodity produced.

Negative Margins

Negative production margins in the reference period will remain negative when calculating the reference margin.

A participant with a negative reference margin must have three positive reference years within the five reference years used to calculate the Olympic average to be eligible for program benefits.

6.4 Structural Change

Structural change includes a change in ownership, business structure, size of operation, farming practices, type of farming activity, method of accounting, or any other practice that may alter a participant's production margin in the reference years and/or the program year.

CAIS is not intended to provide assistance to participants who have had a margin decline because of a structural change.

Structural change adjustments will be applied to program benefit calculations to reflect any changes in the farming activity of the participant.

A structural change adjustment may be waived if the structural change was the result of an event beyond a participant's control.

6.5 Whole Farm Combining

The income and expense information of two or more related parties may be combined if the farming operations of the related parties are part of a whole farm. Related parties may be combined even if not all the related parties are CAIS participants.

In determining when operations of related parties are part of the same whole farm, Agricorp may evaluate each operation's respective degree of legal, financial, and operational independence. The evaluation includes, but is not limited to, the following criteria.

Financial independence:

- Separate bank accounts
- Separate bookkeeping and accounting
- Separate income tax filings
- Separate accounts with vendors
- Separate accounts with customers
- Lack of indebtedness with a related person or party and its shareholders
- Absence of loans or loan guarantees to a related person or party.

Operational independence:

- Different people providing daily management
- Separate decision makers
- No individuals in common as directors or shareholders
- All transactions with related persons or parties are at Fair Market Value.

Margin Calculation for Whole Farm Combining

The margin and benefit calculations for combined participants are performed as follows:

- For each reference year, the allowable income and expenses of all operations are combined to arrive at a production margin for that year.
- Based on the combined production margin for each reference year, a reference margin for the combined operation is calculated.
- For the program year, the allowable income and expenses (including all adjustments for inventories, payables, and receivables) for all operations are combined to arrive at a combined program year margin.
- Each participant is allocated a percentage of the combined reference and program year margin based on his or her share of the combined operation's benchmark margin.
    - The benchmark margin for the combined operation is calculated by multiplying the combined operation's production units in the program year by the BPU of each production unit over the previous five reference years.

- Each participant's program benefits are calculated based on his/her share of the combined reference and program year margin.

Non-Fair Market Value Transactions

Transactions must be at fair market value to be allowable for inclusion in calculating the production margin. Transactions above or below fair market value may be excluded, in whole or in part, from the margin calculations. Where these transactions cannot be clearly defined, Agricorp may combine the income and expenses of the operations involved in these transactions.

Agricorp reserves the right to apply adjustments necessary to more accurately reflect the farming activity of the participant.

7.0 Inventory Adjustments

7.1 Program Year Margin Inventory Adjustments

For participants who report program year information on a cash basis, Agricorp will adjust the program year margin for changes in inventories using the hybrid inventory adjustment (see Section 7.3), which will include adjustments for changes in accounts payable and receivable, and purchased inputs.

For participants who report program year information on an accrual basis, Agricorp will adjust the program year margin for changes in inventories using the hybrid inventory adjustment.

7.2 Reference Period Margin Inventory Adjustments

For 2006, participants who reported reference year margins on a cash basis and who wish to make adjustments for changes in inventory, accounts payable and receivable, and purchased inputs, may do so by submitting a Schedule 4 along with the CAIS information forms.

Beginning with the 2007 program year, reference years that were reported on a cash basis will be adjusted for changes in inventories using the hybrid inventory adjustment, and also will be adjusted for changes in accounts payable and receivable, and purchased inputs.

Beginning with the 2007 program year, reference years that were reported on an accrual basis will be adjusted for changes in inventories using the hybrid inventory adjustment. This adjustment shall not be applied to reference years prior to 2006. Any adjustments to reference period information will be applied prior to calculating the Olympic average reference margin.

7.3 Hybrid Inventory Adjustment

The hybrid inventory adjustment refers to the method of valuing market versus non-market inventories.

Market inventory will be valued based on a price at the beginning of the year and a price at the end of the year. Commodities considered market inventory include all crops, market livestock, beef/dairy heifers (open and bred), and gilts.

Market inventory adjustments will be made by calculating the difference between the year-end quantity multiplied by the year-end price; and the year-beginning quantity multiplied by the year-beginning price.

Non-market inventory will be valued based on the price at the end of the fiscal year only. Commodities considered non-market inventory include beef and dairy cows, bulls, sows, boars, ewes, rams, does, bucks, all culled breeding stock, and laying poultry.

Non-market inventory adjustments will be made by calculating the difference between the year-end quantity multiplied by the year-end price; and the year-beginning quantity multiplied by the year-end price.

For participants who report income tax on an accrual basis, the hybrid inventory adjustment will be applied to all non-market inventories.

8.0 Triggered Program Benefits

8.1 Benefit Calculation

When a program year margin drops below the reference margin, a benefit is calculated based on the amount of margin decline and the coverage level. The program year margin decline falls into one or several tiers:

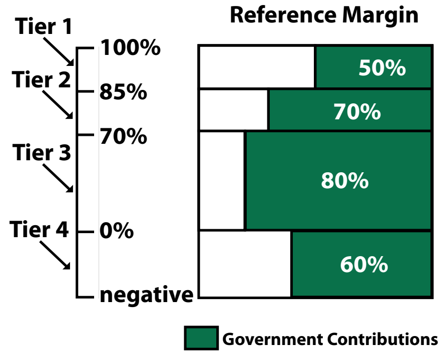
Tier 1: Program year margin decline is 15 percent or less of the reference margin. Government contributes 50 percent of the margin decline within Tier 1.

Tier 2: Program year margin decline is greater than 15 percent and up to 30 percent of the reference margin. Government contributes 70 percent of the margin decline within Tier 2.

Tier 3: Program year margin decline is greater than 30 percent of the reference margin. Government contributes 80 percent of the margin decline within Tier 3.

Tier 4: Program year margin is negative. Government contributes 60 percent of the negative portion of the program year margin decline.

Diagram A – Reference Margin



Calculation of program benefits starts at the lowest tier of the margin decline and will progress through higher tiers (i.e., Tier 3, then Tier 2, then Tier 1, and lastly Tier 4 – see Section 6.3) until one of the following occurs:

- 100 percent of the reference margin is achieved;
- the maximum program benefit is achieved;
- the participant's secured coverage level is reached.

Once a participant's information has been processed, and a margin decline has been determined, the participant will receive a Calculation of Program Benefits statement detailing his/her program year margin and reference margin.

Maximum Program Benefit

Benefits cannot exceed 70 percent of the total margin decline. The maximum program benefit that an eligible participant, including operations combined for whole farm purposes, can receive for a given program year is $3,000,000.

Minimum Program Benefit

Benefits of less than $10 will not be issued.

Program Benefits to Farms with Supply-Managed Commodities

Benefits payable to participants with supply-managed commodities are subject to the following:

1. If the margin decline is less than 30 percent of the reference margin (Tiers 1 and 2), the supply-management adjustment is applied.
2. If the margin decline is greater than 30 percent of the reference margin (Tier 3), the supply-management adjustment is not applied.

Debts Due to the Crown

Debts due to the Crown may be deducted from program benefits.

Treatment of CAIS Program Benefits

Program benefits are taxable in the year the cheque is dated. Program benefits must be reported as farming income for tax purposes.

An *AGR-1 Supplementary – Statement of Farm Support Payments* tax information slip will be issued for taxable benefits of $100 and over.

8.2 Negative Margins

If a participant's program year margin is less than zero (negative margin), the participant may be eligible to receive benefits providing that, in the program year, the participant has met all of the following:

1. Incurred a negative margin resulting from any peril beyond the participant's control;
2. Followed sound management practices;
3. Had a production margin greater than zero in at least two of the three program years used in calculating the reference margin;
4. Participated in a Production Insurance program if available. If a participant produces commodities that are covered by Production Insurance but have not been insured, any potential insurance benefits will be imputed relating to the program year. Please refer to the following list of crops included for imputing deemed insurance benefits. In this case, the participant will have his/her negative margin benefit reduced by 60 percent of the imputed Deemed Production Insurance Benefit.

Crops Included for Imputing Deemed Insurance Benefits

- Grains and Oilseeds (Corn, Soybeans, Winter Wheat, White Beans, Coloured Beans, Spring Grain, Canola, Peanuts, Popping Corn, Sunflowers, Red Spring Wheat, Seed Corn)

- Processing Crops (Green and Wax Beans, Green Peas, Sweet Corn, Sugar Beets, Tomatoes (including greenhouse), Cucumbers (including greenhouse), Hemp, Lima Beans, Red Beets, Butternut Squash, Carrots)
- Fruit (Apples, Grapes, Peaches, Pears, Sour Cherries)
- Tobacco (Flue-cured, Burley, Black)

Program benefits will be calculated based on 60 percent of that part of the program year margin decline that falls within the negative margin, less any amounts adjusted for Deemed Production Insurance Benefits.

If the reference margin is negative, the participant will receive up to 60 percent of their program year margin, which falls below the negative reference margin.

8.3 Production Insurance Premium Adjustment (PIPA)

Participation in both CAIS and Production Insurance (PI) is not mandatory, but does have benefits.

Participants who have a Production Insurance claim within a program year are eligible for a Production Insurance Premium Adjustment (PIPA) if having participated in Production Insurance had the effect of reducing their CAIS benefits.

Calculating the Premium Adjustment

1. The CAIS benefit calculation is re-calculated with Production Insurance premiums and claims treated as non-allowable in determining the production margin for all years.
2. The result from Step 1 (benefit 1) is compared to the actual CAIS benefit (benefit 2). If (benefit 1) is greater than (benefit 2), the participant may qualify for a PIPA payment.
3. If the difference between (benefit 1) and (benefit 2) is greater than or equal to the PI premiums relating to the program year, the PIPA payment is equal to the premiums.
4. If the difference between (benefit 1) and (benefit 2) is less than the PI premiums, the PIPA payment is equal to the difference between benefits 1 and 2.

The amount of the PIPA payment can equal up to 100 percent of the Production Insurance premium paid in the program year.

The PIPA payment is non-allowable income in the program year and allowable in the reference years.

9.0 Amendments and Appeals

A participant may submit a written request to amend information pertaining to the program year and its related program benefits within 90 days of a Calculation of Program Benefits statement being issued.

After 90 days, participants may still request an amendment, but this will not result in changes to program benefits for the program year. A participant may also request, in writing, amendments that affect the calculation of the reference margin in future program years within three years after the end of the program year for which the amendment is being requested.

All amendments require supporting documentation and are subject to verification, audit, and/or inspection. Amendments, which have not been accepted, may be appealed, in writing, to the National CAIS Committee – Ontario Appeals Sub-Committee.

The participant must inform Agricorp within 30 days of discovering any changes or errors in the information provided, including amendments or reassessments by CRA of income tax information.

Agricorp is not responsible for notifying participants or CRA of incorrect income tax reporting.

Benefits may be reassessed if information originally received is later found to be in error.

10.0 Audits, Verification, and Accuracy of Information

Participants must ensure that the information provided is correct and complete. They must inform Agricorp of any changes or corrections to information submitted.

The information provided may be subject to audit on a pre-payment or post-payment basis. For the purpose of audits, farming operations must provide, upon request, any information making it possible to calculate payment amounts, and in particular, any documents relating to income tax returns and to the different federal or provincial agricultural programs.

Participants who provide false information or who fail to meet any of the program's eligibility conditions may be refused payment or have their right to program benefits withdrawn.

11.0 CAIS Program Forms

Forms include the following:

1. CAIS Information Form – must be completed annually.
2. Schedule 1 – must be completed annually.
3. Schedule 2 – must be completed annually.
4. Schedule 3 – is optional if adjustments to historical allowable income or expense information are requested. Schedule 3 should be submitted with the forms.
5. Schedule 4 – is optional if participants have historically filed their farm income statements to CRA using the cash method of accounting and would like to have an accrual adjustment made to their reference margin. Schedule 4 should be submitted with the forms.

11.1 Completing the Forms

There are three basic steps to completing the CAIS forms.

STEP 1: Information Form

Page 1 and 2 – Please make any necessary corrections or changes (if applicable). Please note that the Civic (Emergency) Number refers to your fire route number.

Page 3 – Please carefully answer each question and provide as much detail as possible. The more detailed information you provide, the more efficiently your file can be processed.

Page 4 – Please read and sign the declaration. Your file cannot be processed without your signature.

You may authorize any third party contact (e.g., accountant), to contact Agricorp on your behalf. Otherwise, Agricorp cannot discuss your file with anyone other than the participant.

STEP 2: Schedule 1 – Production Summary

Fiscal Period – Enter the fiscal period for each business year for which you have filed farm income tax.

Method of Accounting – Complete the financial summary for each year on the form that is blank.

Production Summary – Complete the production summary for each year on the form that is blank.

STEP 3: Schedule 2 – Inventory and Accounts Receivable/Payable

Carefully complete the following (provide any year-beginning values that have not already been pre-completed on your form):

Crop and Livestock Records – Report all crops produced, fed, sold, and stored at year-end. This should include estimates of crop yields of any crop in ground that is mature at year-end (e.g., corn left in the field to dry). Report all breeding livestock as well as livestock births, purchases, sales, and deaths.

Purchased Input and Crops-in-Ground – Report all input inventories at year-end, such as seed, fertilizer, feed, fuel, and any prepaid purchases. Report the value of crop inputs related to any crops-in-ground that are not mature at year-end (e.g., winter wheat).

Accounts Receivable – Report all receivables for commodities sold that were still owing at year-end. Report any Production Insurance claims still outstanding at year-end.

Accounts Payable – Report invoices for allowable expenses such as crop inputs, feed, and fuel that were still unpaid at year-end.

Please note: If you are part of a partnership, you must complete Schedule 1 and 2 based on 100 percent of the partnership's farming activity.