Understanding

AgriStability

Understanding AgriStability **is an information series aimed at answering our customers' most common questions about the program.**

AgriStability for livestock producers

AgriStability is one of the risk management programs offered under the national Growing Forward agreement on agricultural policy. The costs of AgriStability are shared between the federal and provincial governments on a 60:40 basis.

AgriStability covers margin declines caused by any combination of production losses, adverse market conditions or increased costs. If your margin falls below 85 per cent of your historical average, AgriStability helps to offset the difference. It won't increase your profits, but it will protect your income if you have a bad year.

AgriStability has specific rules for calculating adjustments for farms that produce livestock. This information sheet will help you understand how livestock production impacts your AgriStability coverage and will outline:

- How AgriStability determines your production margin
- Inventory adjustments for livestock producers
- Structural change adjustments on crops grown for feed
- Adjustments for supply-managed commodities.

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Determining your production margin

AgriStability compares your **production margin** (allowable income minus allowable expenses) with your **reference margin** (historical average of production margins). Inventory adjustments are included in your production margin to ensure that changes in the value of your inventory are reflected in your production margin. (See Inventory adjustments for livestock producers on page 2.)

Allowable income and expenses

Allowable income and expenses are those that are directly related to producing and selling agricultural commodities. For example, money you receive from the sale of your livestock is allowable income. Similarly, costs associated with breeding livestock or adding weight to animals for market are allowable expenses. These expenses can include costs for feed, veterinarian services and medication, and other expenses that you incur to add value to your animals.

On the other hand, if you transport livestock without adding value to the animals themselves, the related costs are not considered allowable expenses.

Livestock includes dairy and beef cattle, goats, hogs, sheep and poultry, along with less common species. For a complete list of eligible commodities see Canada Revenue Agency's *Farming Income and the AgriStability and AgriInvest Programs Guide* available at www.cra-arc.gc.ca.

Risk Management Program for livestock producers

Ontario's new Risk Management Program (RMP) helps producers manage risks beyond their control, like fluctuating costs and market prices. The program is available for the cattle, edible horticulture, grain and oilseed, hog, sheep and veal sectors. By participating in RMP and AgriStability you can take full advantage of the protection available from government risk management programs. Beginning in 2012, enrolment in AgriStability is a requirement for RMP.

You may receive both an AgriStability payment and an RMP payment in a given year. However, any RMP payment is counted as an advance on the provincial portion of your AgriStability payment for the corresponding program year. You keep the greater of either the RMP payment or the provincial portion of the AgriStability payment. RMP has no impact on the federal portion of AgriStability payments. If you participate in more than one plan under RMP, the sum of all your RMP payments are offset against AgriStability.

Inventory adjustments for livestock producers

Inventory adjustments ensure that changes in the value of your inventory are reflected in your production margin (allowable income minus allowable expenses). Inventory adjustments measure changes in the value of your inventory, accounts receivable and accounts payable.

AgriStability uses fair market values to assign a dollar value to inventory changes at year-end. Essentially, if the value of your inventory increases, it counts as income; if the value decreases, it counts as an expense.

There are special rules for calculating inventory adjustments for livestock producers. These rules vary according to the type of production or method of accounting.

Marketed livestock

Under AgriStability, marketed livestock is valued on an accrual basis – using opening and ending fair market values. For marketed livestock, these values are based on an animal's weight category. As your animals gain weight, their value increases. This is why AgriStability asks you to report your livestock inventory in weight categories, not just by breed.

Definitions

Allowable income and expenses – Income and expenses that are included in the calculation of your production margin.

Accrual accounting – Method of accounting that reports revenue and expenses in the period when they are earned or incurred, regardless of when the cash or payment is received.

Cash accounting – Method of accounting that reports revenues and expenses when cash is actually received or paid, regardless of when the agreement to sell or purchase may have taken place.

Fair market values – Average prices received for most Ontario commodities (usually expressed in $/cwt, $/head or $/kilogram for livestock).

Inventory – Includes commodities you produce, commodities you purchase for further production (e.g., livestock), purchased inputs, crops in ground at year-end (e.g., winter wheat), and accounts payable and receivable.

Inventory adjustments – The adjustments AgriStability makes to measure changes in the dollar value of your inventory at year-end.

Non-allowable income and expenses – Income and expenses that are excluded from the calculation of your production margin.

Production margin – Your current year's net farming income (based on your allowable income and expenses).

Reference margin – Your historical average of net farming income. It considers your production margins from the previous five years, dropping the highest and lowest margins. Your reference margin is the average of the remaining three years.

Your **opening value** is the total number of units (pounds, head or kilograms) in each weight category, multiplied by the opening fair market value. Your **ending value** is the total number of units in each weight category, multiplied by the fair market value at year-end.

At any one time, you may have animals in more than one weight category, with a constant flow of animals into and out of different categories. However, the total number of animals usually stays constant, unless you expand or downsize your operation.

If you use the accrual method of accounting, changes in the value of your inventory are already reflected in your tax data. No further inventory adjustments are needed.

If you use the cash method of accounting, changes in the value of your inventory are not reflected in your tax data. AgriStability needs to calculate inventory adjustments to reflect the difference in the value of your opening and ending inventory. (See Example 1.)

Example 1: Inventory adjustment for marketed livestock (cash accounting)

At the beginning of the year a producer using the cash method of accounting has 10 feeder cattle weighing 500 lb. each, valued at $100/cwt (fair market value):

= 5,000 lb. × $1.00/lb. ($100/cwt)

= $5,000 of opening inventory

At the end of the year, the producer has 15 feeder cattle weighing 500 lb. each, valued at $130/cwt (fair market value):

= 7,500 lb. × $1.30/lb. ($130/cwt)

= $9,750 of ending inventory

The larger number of animals, combined with the higher market price, causes the value to increase from $5,000 to $9,750. The inventory adjustment for this weight category is the increase of $4,750. AgriStability repeats this calculation for each weight category and shows the result on the accrual adjustment report.

Breeding livestock

Breeding livestock is valued on a cash basis, using fair market values at year-end. This is because breeding livestock represent a longer-term investment than marketed livestock. Since you don't sell all of your breeding stock each year, price fluctuations should not affect your production margin.

If you use the cash method of accounting, AgriStability uses fair market values at your year-end to assess changes in your breeding livestock inventory. (See Example 2.)

Example 2: Inventory adjustment for breeding livestock (cash accounting)

At the beginning of the year a producer using the cash method of accounting has 10 boars. At the end of the year, the producer has 5 boars, a reduction of 5 boars.

If the fair market value at the end of the year is $500/head, the value of their inventory dropped by $2,500 (5 boars × $500).

An inventory adjustment of –$2,500 would be added to the producer's production margin.

If you use the accrual method of accounting, the value of your inventory has already been assessed using opening and ending prices. AgriStability will replace this valuation with an amount that uses ending prices only. (See Example 3.)

Example 3: Inventory adjustment for breeding livestock (accrual accounting)

At the beginning of the year a producer using the accrual method of accounting has 10 boars with a market value of $450 each. At the end of the year the producer has 5 boars with a market value of $500 each.

The producer's tax data shows a change in inventory from an opening value of $4,500 (10 boars × $450) to an ending value of $2,500 (5 boars × $500). The value of their inventory has decreased by $2,000.

AgriStability replaces this $2,000 value with an amount calculated using the cash method of accounting. Using cash accounting, a reduction of 5 boars, valued at the year-end price of $500, is worth $2,500.

The inventory adjustment replaces the decrease of $2,000 with $2,500, resulting in a net change of $500.

Structural change adjustments on crops grown for feed

Structural change adjustments ensure that your reference margin is based on the same size and commodities as your current production margin. For example, if you decide to grow a different crop, expand your herd or downsize your operation, your reference margin is adjusted to match your new production. In other words, the adjustment is made to ensure AgriStability is comparing apples to apples.

In assessing the need for a structural change adjustment, AgriStability considers the type and number of head of any livestock you produce, along with the number of acres of crops grown for sale. AgriStability does not count the crops you grow to feed your livestock. This is because any change in acres dedicated to feeding livestock may be offset by a change in feed purchases.

If you increase your herd or flock, any structural change is based on the number of animals – not the additional acres required to feed them. This way, AgriStability avoids calculating your structural change adjustment twice – once for the extra animals, and once for the extra feed that you need to produce.

Adjustments for supply-managed commodities

Supply management helps protect producers against price fluctuations, and AgriStability is not intended to duplicate this protection.

Margin declines to between 70 per cent and 85 per cent of the reference margin are typically due to price fluctuations. To avoid duplicating the protection afforded by supply management, AgriStability calculates the percentage of income in your reference margin that comes from supply-managed commodities and reduces any payment by this percentage.

By contrast, margin declines to below 70 per cent of your reference margin are typically due to major factors other than price fluctuations. Under these circumstances, no supply management adjustment is applied to any portion of your AgriStability payment.

Understanding AgriStability is an information series produced by Agricorp:

- *AgriStability in plain language*
- *Structural change explained*
- *AgriStability for livestock producers*

If you have feedback on this information series, please contact us through the contact information below.

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2012-02-15