

# Understanding AgriStability

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

## AgriStability in plain language

***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 (the standard AgriStability coverage level) 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.

The program is built on the idea that farmers carry some responsibility for managing risks. For those risks that simply can't be managed, AgriStability will help keep you going while you adapt to a changing world.

### How the program works

AgriStability compares your **production margin** (allowable income minus allowable expenses) to your **reference margin** (historical average of production margins). If your production margin falls below 85 per cent of your reference margin, AgriStability will help cover the difference.

#### Production margin

The current year's net farming income is called your production margin, and is based only on the income and expenses directly related to your production. Allowable

income and expenses include items like commodity sales, seed costs, fertilizer, pesticides and livestock feed. (See the box below for information about non-allowable income and expenses.) Allowable income and expenses ensure that AgriStability coverage is restricted to production or price declines, rising input costs and market losses.

The program considers your whole farm and not just one commodity. Payments can be triggered by the combined effects of several factors that on their own might not trigger a payment. On the other hand, one situation might offset another. For example, a bumper crop year could offset the effects of poor commodity prices.

Your production margin also includes inventory adjustments which measure changes in the value of your accounts receivable, accounts payable and commodity inventories. Inventory changes are valued using fair market values set by the Ontario Ministry of Agriculture, Food and Rural Affairs. Essentially, if your inventory value increases, it counts as income; if it decreases, it counts as an expense.

**AgriStability will help keep you going while you adapt to a changing world.**

**Non-allowable income and expenses** include items that are not directly related to your production, like capital costs, salaries to family members, property taxes, interest and rent. For complete details of what's allowable or non-allowable, see the Canada Revenue Agency's *RC4060: Farming Income and the AgriStability and AgriInvest Programs Guide*, available through **agricorp.com**.



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## Reference margin

Your historical average is called your reference margin. The reference margin considers your production margins from the previous five years. To minimize the effect of unusual years, the highest and lowest margins are removed from the calculation. Your reference margin is the average of the margins from the remaining three years. If you have fewer than five years of production, AgriStability averages your margins from the most recent three years. If you've been farming less than three years, AgriStability uses industry averages.

If your production margin falls below 85 per cent of your reference margin, AgriStability will help cover the difference. Your production and reference margins are based on your income tax information. AgriStability payments are made after your tax year is complete and you have submitted your tax and AgriStability forms. (See back page for deadlines.)

## Definitions

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

**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. For example, the 2012 reference margin uses the margin from 2007 to 2011, dropping the highest and lowest margins.

**Fee reference margin** – Used to calculate your annual program fee. It is like your reference margin, except it uses the five years from two years ago (the most recent data available). For example, the 2012 fee reference margin uses the margins from 2006 to 2010, dropping the highest and lowest margins.

### Example 1: Calculating the 2012 reference margin

Smyth Fields is a mixed operation of cash crops and livestock. In 2011, they grew 200 acres of soybeans and 200 acres of corn, with 50 breeding cows. From 2007 to 2011, Smyth Fields stayed the same in size and production. Its historical margins ranged from \$60,000 to \$130,000.

	2006	2007	2008	2009	2010	2011	2012
<b>Production margin</b>	\$80,000	\$60,000	\$90,000	\$100,000	\$130,000	\$110,000	\$55,000
		Lowest	Used	Used	Highest	Used	
		X	✓	✓	X	✓	
		Average used for reference margin					
<b>2012 reference margin</b>				\$100,000			
	\$80,000	\$60,000	\$90,000	\$100,000	\$130,000		
	Used	Lowest	Used	Used	Highest		
	✓	X	✓	✓	X		
	Average used for fee reference margin						
<b>2012 fee reference margin</b>				\$90,000			

## Low annual fee

Participating in AgriStability is affordable. The fee is about \$38.25 for every \$10,000 in your reference margin, or 0.45 per cent of 85 per cent of the **fee reference margin**, plus \$55 to help cover administrative costs.

### Example 2: Calculating the 2012 fee

For 2012, the fee reference margin uses the years 2006 to 2010. (See Example 1.)

Assuming Smyth Fields' fee reference margin was \$90,000, the fee would be calculated as follows:

$$\begin{aligned} \text{AgriStability fee} &= (\text{fee reference margin} \times \text{coverage level} \times \text{fee rate}) + \text{administrative cost share} \\ &= (\$90,000 \times 0.85 \times 0.0045) + \$55 \\ &= \$344.25 + \$55 \\ &= \$399.25 \end{aligned}$$

Smyth Fields would need to pay \$399.25 to participate in 2012.

## AgriStability payments

The amount of an AgriStability payment depends on the severity of the margin decline. AgriStability is built on the idea that farmers carry some responsibility for managing risks, so AgriStability pays a portion of the amount required to increase your income to 85 per cent of your reference margin. AgriStability pays a bigger portion for more severe losses than for less severe losses.

Smaller income declines may be covered through **AgriInvest**, which is a savings account with matching government contributions. You can withdraw funds at any time to alleviate risk or make other investments. In Ontario, AgriInvest is delivered by Agriculture and Agri-Food Canada (AAFC). For more information on AgriInvest, visit [agricorp.com](http://agricorp.com).

### Example 3: Calculating a payment

In 2012, Smyth Fields has \$175,000 in allowable income and \$120,000 in allowable expenses, for a 2012 production margin of \$55,000, or 55 per cent of the reference margin. The AgriStability payment is calculated as follows:

#### Top up to 70 per cent

AgriStability will pay 80 per cent of the difference between the production margin and 70 per cent of the reference margin. The remaining 20 per cent is the producer's responsibility.

The diagram below shows Smyth Fields' reference margin of \$100,000. Seventy per cent of that is \$70,000. Smyth Fields requires \$15,000 to reach the 70 per cent level. AgriStability pays 80 per cent of \$15,000, which equals \$12,000.

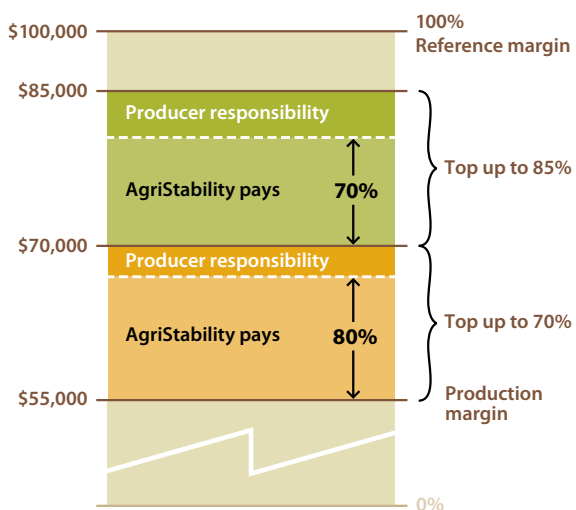
#### Top up to 85 per cent

AgriStability will pay 70 per cent of the amount required to reach 85 per cent. The remaining 30 per cent is the producer's responsibility.

The diagram below shows that 85 per cent of Smyth Fields' reference margin is \$85,000. The farm has been topped up to 70 per cent of its reference margin, which is \$70,000. It now requires an additional \$15,000 to reach 85 per cent. AgriStability pays 70 per cent of \$15,000, which equals \$10,500.

Based on the payment calculation illustrated below, Smyth Fields would receive a 2012 AgriStability payment of \$22,500 (\$12,000 plus \$10,500).

#### Smyth Fields



## How to participate

To participate in AgriStability, you must meet the eligibility requirements and deadlines and adhere to the program guidelines. If you haven't participated in AgriStability before, complete and submit a *New participant form* by April 30 of the program year. The *New participant form* can be found on **agricorp.com**. The annual program cycle for AgriStability is about 18 months from start to finish.

### Annual program cycle

You pay your fee by April 30, before the production year begins, like insurance. Then you farm, making decisions that are best for your farm, knowing that AgriStability will help you if something goes wrong. After your tax year ends, submit your tax and AgriStability forms. The deadline is June 30 of the following calendar year. The earlier you submit your forms, the sooner Agricorp can process them and make a payment, if applicable.

If you experience financial distress in the middle of the year, you can apply for an interim payment based on the first six months of your fiscal year. Agricorp usually processes interim payments within 10 business days.

### Automatic renewal each year

Once you are enrolled, your coverage is automatically renewed each year. You just need to pay your fee and submit your tax and AgriStability forms. If you want to cancel your coverage, please notify Agricorp by the cancellation deadline.

## Eligibility

To participate in AgriStability, you must:

- Farm in Canada
- Complete a production cycle and at least six consecutive months of farming activity in the program year
- Report farming income or loss to the Canada Revenue Agency unless exempt under the federal *Indian Act*.

### AgriStability deadlines

These deadlines are intended to show the annual program cycle of AgriStability using the 2012 program year.

April 30, 2012	Submit 2012 <i>New participant form</i> (if applicable)
April 30, 2012	Pay 2012 fee
April 30, 2012	Cancel 2012 coverage
December 31, 2012	Apply for 2012 interim payment
June 15, 2013	Submit 2012 T1163 (individuals) to the Canada Revenue Agency
June 30, 2013	Submit 2012 Statement A (corporations, trusts and special individuals) to Agricorp
June 30, 2013	Submit 2012 forms to Agricorp

For other program years, please visit **agricorp.com**.

*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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