Ontario

# AgriStability

## Technical Information Circulars

These Technical Information Circulars (TICs) are to provide more detailed information related to AgriStability Program Guidelines to reflect the application of the Program rules in Ontario.  Where there is any conflict between these TICs and the AgriStability Program Guidelines, the Guidelines take precedence.

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# Technical Information Circulars

## 1. Production Margin

### 1.1. Allowable income

Allowable farm income for AgriStability is all farming income reported to the Canada Revenue Agency, EXCLUDING BUT NOT LIMITED to the following:

- Recapture of capital cost allowance
- Optional inventory adjustment
- Mandatory inventory adjustment
- Payments under the Crop Advance Payment program
- All rental income (e.g. land rental, barn rental, equipment rental/lease etc.)
- Crop Share income
- Custom work and trucking
- Non-agricultural income (includes consulting income, dividend income, employment income including off farm income, royalty income, per diems, resource sales such as sand/soil/gravel/water/oil/peat moss sales/leases, trapping income, standing timber, wood sales, pet sales, gathering of earthworms or berries)
- Interest income
- Per diem payments (boards)
- Rebates for other non-allowable expenses
- Gains due to speculation on the futures market
- Property tax rebates
- AgriStability benefits
- Risk Management Program payments
- Patronage Dividends
- Resale of commodities purchased
- Income related to the retrofit and/or conversion of tobacco kilns
- Cannabis (except for industrial hemp)

### 1.2. Allowable expenses

Allowable expenses for AgriStability are farming expenses directly related to production of an allowable commodity as reported to the Canada Revenue Agency, EXCLUDING BUT NOT LIMITED to the following:

- Machinery (repairs, licences, and insurance)
- Advertising and promotion costs
- Building and fence repairs
- Contract work (unless itemized to identify allowable expenses such as fuel or labour)
- Contract feeding of livestock (unless the contract specifically itemizes allowable and non-allowable expenses such as labour, electricity or overhead)
- Lease or rent payments for livestock
- Expenses associated with the retrofitting and conversion of tobacco kilns
- All insurance premiums other than Production Insurance
- Memberships/subscriptions
- Office expenses
- Legal and accounting fees
- Non Arm's Length Salaries
- Motor vehicle expenses
- Small tools
- Soil testing
- Licences/permits
- Telephone
- Clearing, leveling and draining land
- Interest (operating and term)
- Property taxes
- Rent and/or lease payments for land, buildings, machinery, pasture
- Insurance program overpayment recapture
- Losses incurred due to speculation on the futures market
- Optional inventory adjustments
- Mandatory inventory adjustments
- Capital expenditures and capital cost allowance
- Allowance on allowable capital property
- Expenses for non-agricultural custom work and off-farm business income
- Life insurance premiums
- Expenses related to the retrofit and/or conversion of tobacco kilns
- Other expenses not directly related to production
- Well drilling
- Risk Management Program Premiums
- AgriStability Fees

### 1.3. Agricultural custom work

All custom work/machine rental income and expenses are considered non-allowable under AgriStability with the exception of expenses for trucking that is used to transport allowable commodities to market or allowable inputs to the farm.

Income: Custom work and trucking income is excluded from the calculation of production margin. In addition, an amount equal to 30% of reported custom work and trucking income will be deducted from allowable expenses. Where the 30% ratio is inappropriate for the operation, the program may use a different expense ratio, and where required, request supporting documentation from the participant.

Expense: Custom/contract work expenses must be itemized in order to be considered allowable and be reasonable. The Administrator may adjust any breakdown of expenses not deemed reasonable. If contract work expense amounts for arm's length labour or production input costs are to be considered allowable, these amounts must be itemized separately on supporting documentation such as the participant's financial statements submitted with their income tax return. Where there is a discrepancy in the method used to itemize expenses in the program year and the reference period, the reference period expenses shall be adjusted according to the method used in the program year.

### 1.4. Non-arm's length salaries or family labour

Non-arm's length salaries are a non-allowable expense.

Canada Revenue Agency defines non-arm's length salaries or salaries for family labour as income paid to the following relatives:

- Children, grandchildren, great-grandchildren (natural and adopted), including in-laws
- Mothers, fathers, grandparents, including in-laws
- Brothers, sisters, including in-laws
- Husbands, wives, including common law spouses

Salaries and/or management fees paid to shareholders or the person who controls the corporation are also considered non-arm's length salaries.

Payments in kind for labour often referred to as commodity share (e.g. % of farm revenue), if expensed or netted out of farm income, are considered non-arm's length salaries. In this case, the commodity share will be added back to farm income. To verify commodity shares, the participant may be required to submit further tax statements including the recipient's tax statements.

After-tax dividends are not considered non-arm's length salaries.

## 1.5. Source Documents and Method of Accounting for 2007 Program Year Forward

The following records are used to calculate a participant's reference margin:

- AgriStability records for any year in which the participant participated in AgriStability.
- Income tax records for any year the participant did not participate in AgriStability
  - Participants who have filed an accrual financial statement to Canada Revenue Agency (CRA) and then converted to the cash method for tax will have their reference margin calculated using the accrual method. These producers simply need to submit a copy of the accrual statement provided to CRA to the AgriStability program for each of the reference years they did not participate in AgriStability.

Participants must use the following method of accounting to calculate their program year margin:

- The cash method, if the participant files income tax using the cash method. In this case, the program year margin will be adjusted for changes in inventory values using the hybrid method, purchased inputs, accounts receivable and accounts payable; or
- The accrual method, if the participant files income tax using the accrual method, with adjustments to the hybrid method for any non-marketable commodities held as inventory.

The administrator can exercise its discretion to apply adjustments necessary to more accurately reflect the farming activity of the participant.

## 1.6. Crop/Livestock Share

For income tax purposes, share cropping is normally considered land rent, and thus for AgriStability is a non-allowable income and/or expense. 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. Therefore, landlord income is non-allowable income.

The tenant must report the cash rent or payments-in-kind made to the landlord as a rent expense.

The following examples illustrate the recording of crop share income and expense on the T1163 when the landlord share is non-allowable:

**Example 1 – Income Splitting**

A producer grows 100 ac of corn on a neighbour's farm. The share arrangement is a 60:40 split of the income. The producer harvests 100 bu/ac and sells it for $3/bu. (total sales: 100 ac x 100 bu/ac x $3/bu = $30,000). The producer's share is 60% or $18,000. The neighbour's share is $12,000.

**Landlord (neighbour) – Recording sharecropping income**

Landlord income, whether cash, rent or payments in kind, earned through a crop or livestock share or lease arrangement, is to be reported as rental income (not farming income), both for income tax and AgriStability purposes – AgriStability non-allowable. The landlord will report $12,000 as rental income (not farming income) for income tax purposes – AgriStability non-allowable

**Tenant (farmer) – Recording sharecropping income and expenses**

The tenant's income must include all the commodity sales from the sharecrop agreement. It will include both the landlord's and tenant's share (gross income). The tenant will also record land rent corresponding to the share of the income given to the landlord.

**Tenant (farmer) - T1163**

The corn sale income of $30,000 is recorded as income on line 011 corn – AgriStability allowable. The $12,000 given to the landlord is recorded as land rent on line 9811 – AgriStability non-allowable

**Tenant (farmer) – Crop Report**

Record the total acres for sale in the sharecrop agreement.

**Tenant (farmer) – Crop Report; Year-end inventories**

Record the total acres and total yield for the crop in the total produced column. If the crop is sold before fiscal year-end include total yield in quantity sold column. If the crop is sold after fiscal year-end, include total production in ending inventory.

**Example 2 – Production Splitting**

A producer grows 100 ac of corn on a neighbour's farm. The share arrangement is a 60:40 split of the crop (yield). The producer harvests 100 bu/ac for a total yield of 10,000 bushels. The producer keeps 6,000 bushels and gives the neighbour 4,000 bushels.

**Landlord (neighbour) – Recording sharecropping income**

Landlord income, whether cash, rent or payments in kind, earned through a crop or livestock share or lease arrangement, is to be reported as rental income (not farming income), both for income tax and AgriStability purposes – AgriStability non-allowable. When the landlord sells the 4,000 bushels, the income is recorded as rental income (not farming income) for income tax purposes – AgriStability non-allowable

**Tenant (farmer) – Recording sharecropping income and expenses**

The tenant's income must include all the commodity sales from the sharecrop agreement. It will include both the landlord’s and tenant’s share (gross income). The tenant will use the FMV for the month of harvest where the payment in kind (grain) was transferred to the landlord, if the sales figure of the payment in kind is not known. The tenant will also record land rent corresponding to the share of the production given to the landlord.

**Tenant (farmer) - T1163**

The total corn sale income is recorded as income on line 011 Corn – AgriStability allowable. The 4,000 bushels given to the landlord is recorded as land rent on line 9811 – AgriStability non-allowable

**Tenant (farmer) – Crop Report**

Record the total acres in the sharecrop agreement.

**Tenant (farmer) – Crop Report; Year-end inventories**

Record the total acres (100) and total yield (10,000 bu.) for the crop in the production columns. Also record 4,000 bu. under quantity sold column.

### 1.6.1. Joint Venture

Where an arrangement constitutes a joint venture, such that the land owner's share in the allowable expenses reasonably approximates their share in the allowable related income, those income and expenses may be considered allowable.

The following examples illustrate the recording of joint venture income and expense on the T1163/Statement A when the land owner's share is allowable:

**Example 1 – Income Splitting**

A producer grows 100 ac of corn on a neighbour's farm. The arrangement is a 80:20 split of the income, based on a similar 80:20 split of allowable expenses, such as seed, fertilizer and pesticides. The producer harvests 100 bu/ac and sells it for $3/bu. (total sales: 100 ac x 100 bu/ac x $3/bu = $30,000). The producer's share is 80% or $24,000. The land owner's share is $6,000.

**Land owner (partner A) – Recording income and expense**

The land owner will report $6,000 as corn income (line code 011) for income tax purposes – AgriStability allowable. The land owner will report will report their share of the allowable expenses.

**Land owner (partner A) – Crop Report** The land owner will record 20 acres on the production summary, based on their share of the allowable expenses.

**Land owner (partner A) – Crop Report; Year end inventories.** The land owner will record production from 20 acres on Crop report. The land owner will also indicate sold crop.

**Tenant (partner B) – Recording income and expenses**

The tenant will report $24,000 as corn income (line code 011) for income tax purposes – AgriStability allowable. The tenant will report their share of the allowable expenses.

**Tenant (partner B) – Crop Report**

The tenant will record 80 acres on the production summary, based on their share of the allowable expenses.

**Tenant (partner B) – Crop Report**

The tenant will record production from 80 acres on Crop Report. The tenant will also indicate sold crop.

**Example 2 – Production Splitting**

A producer grows 100 ac of corn on a neighbour's farm. The arrangement is a 80:20 split of the crop (yield), based on a similar 80:20 split of allowable expenses, such as seed, fertilizer and pesticides. The producer harvests100 bu/ac for a total yield of 10,000 bushels. The producer keeps 8,000 bushels and gives the neighbour 2,000 bushels.

**Land owner (partner A) – Recording income and expense**

The land owner will report corn income if the crop was sold by fiscal year-end. The landlord will report their share of the allowable expenses.

**Land owner (partner A) – Crop Report**

The land owner will record 20 acres on the Crop report, based on their share of the allowable expenses.

**Land owner (partner A) – Crop Report**

The land owner will record production from 20 acres. The land owner will indicate sold crop on Crop Report if the crop has been sold by fiscal year-end. The land owner will indicate ending inventory on Year end Inventories if the crop has not been sold by fiscal year-end.

**Tenant (partner B) – Recording income and expense**

The tenant will report corn income if the crop was sold by fiscal year-end. The tenant will report their share of the allowable expenses.

**Tenant (partner B) – Crop Report**

The tenant will record 80 acres, based on their share of the allowable expenses.

**Tenant (partner B) – Crop Report**

The tenant will record production from 80 acres. The tenant will indicate sold crop on Crop Report if the crop has been sold by fiscal year-end. The tenant will indicate ending inventory on Year end Inventories if the crop has not been sold by fiscal year-end.

## 1.7. Custom feeding

**Income:** 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 AgriStability 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.

In the event that a participant generates custom feeding income that is considered allowable but is unable to break out the feed portion of this income, the program will assume that 5% of the total custom feeding income is yardage and the remainder is feed. Where the 5% is inappropriate for the operation, Agricorp may use a different percentage, and where required, request supporting documentation from the participant.

**Expense**: The balance of the cost incurred to have livestock custom fed is an allowable expense.

The following examples illustrate the recording of custom feeding income and expense on the AgriStability T1163:

**Farmer feeding the livestock (custom feeder):**

The allowable income that the custom feeder reports for AgriStability is the value of the feed, purchased or grown and fed to the livestock. The yardage portion of the custom feeding income is non-allowable. Record the value of the feed, fed to the livestock using commodity code 046 – Prepared feed and protein supplement (income). Record the yardage portion of the income using line code 9600 – Other (specify).

**Farmer who owns the livestock (livestock owner):**

Record the total amount charged by the custom feedlot operator to feed the livestock on line 573 for AgriStability.

## 1.8. Futures market transactions

AgriStability will allow normal hedging transactions to be included as allowable income and allowable expenses. The AgriStability will not accept the gains and/or losses due to speculation.

A futures market hedge is defined as an equal but opposite position to the farmer’s position in the cash market. The purpose of a hedge is to provide protection from price declines if the producer is selling a commodity or from price increases if the producer is buying a commodity.

For example, a corn producer with corn in storage may take a short futures position, since he/she is long in the cash market, for a volume of corn no greater than what is in storage. This short hedge would ensure a minimum price that the producer would receive for his/her stored corn.

A feedlot operator planning to buy feeder cattle, may go long feeder cattle futures, since he/she is short in the cash market. This long hedge would ensure a maximum price that the operator would have to pay for purchased cattle.

The above, are two very basic examples of what is a futures market hedge. In practice, hedging can be much more sophisticated and complex. However, one aspect of hedging that is always present regardless of how complex the strategy, is that a hedge is intended to offset the risk held in the cash market. If no cash market position is held, there is no risk to offset. Futures market transactions that do not meet the definition of a hedge are considered speculation for the purposes of AgriStability.

All participants reporting futures market transactions may be required to complete the following for any futures market gains and losses to be considered allowable income and expenses, respectively:

- Demonstrate through a written summary of their futures market strategy and brokerage statements recording their futures transactions for the years in question that:
    - All futures transactions are hedging, not speculation.
    - All futures transactions were undertaken in commodities produced and/or consumed on the farm. For example, a producer that does not grow wheat could not include wheat futures transactions as allowable income and/or expense.
    - All futures transactions represented a volume of product that could either be reasonably produced and/or consumed on the farm. For example, a producer that 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.
    - Some of a participant’s futures transactions may be considered hedging while others may be of a speculative nature. In this circumstance, the participant must provide a detailed breakdown of the gains and/or losses associated with 1) all hedging activities and 2) all speculative activities for any hedging gains/losses to be considered allowable.

## 1.9. Resale of Commodities and Processing

The income and expense associated with the purchase and resale of a commodity without any further processing are non-allowable. An example is a producer that purchases grain and simply resells the grain without any processing.

Processing is defined as a changing of state. For example: milk to cheese, strawberries to jam, beeswax to candles, beef to beef jerky, grain to flour.

The income and expense associated with the processing of purchased commodities not produced on the participant’s operation are allowable if:

- The participant carries on a bona fide farming operation;
- Activities are related to the participant's other farming activities;
- Activities are undertaken on a small scale; and
- Income from these activities is incidental to the participant’s other farming income.

AgriStability will consider the above in determining whether processing income and expense should be considered allowable.

## 1.10. Standing crop purchases

The purchase of standing crops, such as hay is an allowable expense as long as the payment is not classified as rent and the contract does not represent an entire growing season. The key factor is that the producer is purchasing feed and does not have extended use of the land.

- A producer that buys hay from another farmer, simply cuts and bales the hay, and does not have extended use of the land (e.g. the producer if needed could use for pasture, apply fertilizer or manure, take 2nd or 3rd cuts) may include the purchase as an allowable expense.
- A producer that rents the land, takes off 1 or more cuts of hay and then pastures cattle on the land is renting and this is a non-allowable expense.

## 1.11. Other Insurance payments

For both income tax purposes and AgriStability, insurance payments for items that are considered allowable income and/or expense are allowable income. In cases where insurance payments are for non-allowable income and/or expense items such as capital items, this is non-allowable income.

Insurance payments received for damaged fruit trees, vines or other perennial crops are allowable income if the participant has treated the replant costs as an operating expense for tax purposes. If the participant has treated the replant costs as a capital cost for income tax purposes, the insurance payments are non-allowable income.

## 1.12. Horses

The following horse related income is allowable income/expense for AgriStability:

- Sale of horses produced by the participant
- Pregnant mare’s urine
- Sale of purchased horses that have been fed for meat purposes

The following horse related income is non-allowable income/expense for AgriStability:

- Sale of purchased horses that have not been fed for meat purposes
- Prize money or purses from racing
- Training or boarding of horses

**Example 1:** A producer breeds and raises thoroughbred horses and sells them to be used for the purpose of horse racing. The income from the sale of these animals and the related allowable expenses to produce these animals are allowable for AgriStability.

**Example 2:** A producer breeds and raises thoroughbred horses and also enters the animals in horse races. The income from the sale of these animals and the related expenses to producer these animals are allowable for AgriStability. The income (purses) and expenses associated with the racing of these animals are non-allowable for AgriStability.

**Example 3:** A producer buys thoroughbred horses and uses them as race horses and then sells the animals. The income (purses) and expenses associated with the purchase, racing and resale of these animals are non-allowable for AgriStability.

**Example 4:** A producer purchases horses feeds them for several months and sells them for meat purposes. The income from the sale of these animals and the related expenses to produce these animals are allowable for AgriStability.

## 1.13. Apple bin rental

Apple bin rental payments are an allowable expense.

If a farmer purchases apple bins it is included for income tax and AgriStability as containers and twine expense, which is an allowable expense for AgriStability. In order to treat this producer in the same manner if he/she decides to rent bins, bin rental payments are an allowable expense for AgriStability.

### 1.14. Milk quota rental and Over quota levy

According to Dairy Farmers of Ontario (DFO) Quota policy, milk quota cannot be rented.

Over quota levy is an allowable expense for AgriStability.

## 1.15. Farm transfer

When ownership of a farm operation has been transferred to a related person or party, the AgriStability reference period margins will also be transferred.

**<u>Example 1: Farm transfer at the start of the program year</u>**

A sole proprietor completes the fiscal period ending December 31 prior to selling the farm to his/her child who retains a December 31 year end

**Reference Margin Calculation**

Use actual historical tax or AgriStability data from the previous owner

**Program Year Margin Calculation**

Use actual AgriStability data from the current owner

**<u>Example 2: Farm transfer during the program year</u>**

A sole proprietor with a December 31 year end, retires and sells the farm to his/her child on May 31 who retains a December 31 year end

**Reference Margin Calculation**

Use actual historical tax AgriStability data from the previous owner

**Program Year Margin Calculation**

Combine the actual AgriStability data from both previous and current owner

## 1.16. Formation of a partnership

When an ongoing farm operation(s) becomes a partnership, the AgriStability reference period margins from the previous farm operation(s) will be used.

**Example:** A son joins his father's ongoing farm operation becoming a partner.

**Reference Margin Calculation**

Use actual historical tax or AgriStability data for 100% of the farming operation and apply the partnership share accordingly.

**Program Year Margin Calculation**

Use actual AgriStability data for the partnership

## 1.17. Farm partnership becomes a sole proprietor

When an ongoing farm partnership becomes a sole proprietorship, the AgriStability reference period margins for 100% of the partnership are transferred to the sole proprietorship.

**Example:** A farther and son, farm as a partnership until eventually the son takes over the operation, becoming a sole proprietor.

### Reference Margin Calculation

Use actual historical tax or AgriStability data from 100% of the farming operation. Do not take participant's previous share of the farm, but rather 100% of the allowable income and expenses.

### Program Year Margin Calculation

Use actual AgriStability data from 100% of the farming operation.

## 1.18. Farm incorporations

When an ongoing farm operation(s) (whether a sole proprietorship or partnership) incorporates, the AgriStability reference period margins from the previous farm operation(s) will be used

**Example 1: Farm incorporates during the program year**

A sole proprietor completes 7 months of the fiscal period ending December 31, prior to incorporating.  The corporate year end remains as December 31

**Reference Margin Calculation**

Use actual historical tax or AgriStability data from the previous business structure

**Program Year Margin Calculation**

Combine the actual AgriStability data from both sole proprietorship and the corporation

**Example 2: Farm incorporates at the start of the program year**

A sole proprietor completes the fiscal period of January 1, 2012 to December 31, 2012 prior to incorporating.  The corporate year end remains as December 31

**Reference Margin Calculation**

Use actual historical tax or AgriStability data from the previous business structure

**Program Year Margin Calculation**

Use actual AgriStability data

## 1.19. Countervail Duties

Countervail duties charged to individual participants when exporting agricultural commodities to the United States or other countries are an allowable expense. Participants should report countervail duties as an allowable expense, rather than report the net price received for the exported commodity. The countervail duty must be reported in Canadian dollars

Some participants may eventually receive compensation for these countervail duties. Any compensation received by a participant that in a previous program year had included countervail duties as an allowable expense, will be included as allowable income in the program year received.

## 1.20. Planting of Perennial Crops

The information in this TIC primarily refers to perennial crops such as tree fruits, grapes, berries and asparagus. There may be other crops that fit this category as well. Perennial crops are planted in one year, come into production a few years later and remain productive for many years.

When planting a perennial crop, in most instances the purchase of the trees (or vines, canes, bushes, crowns etc.) should be recorded as a capital expenditure. The trees are a capital asset that will produce over a number of years. If the tree purchase is a capital expenditure, it is a non-allowable expense for AgriStability.

When planting a perennial crop in some instances the purchase of the trees (or vines, canes, bushes, crowns etc.) can be recorded as an operating expense. If the tree purchase is an operating expense, it is an allowable expense for AgriStability.

CRA indicates that if you are an apple producer replacing damaged or dead trees, record apple tree purchases using the code for apples. If you are buying trees to expand an orchard, this amount would be a capital expenditure and would not be entered as a commodity purchase.

AgriStability will generally consider replacement of damaged perennial crops an allowable expense, while the planting of new perennial crops for expansion or initial establishment as a non-allowable expense.

**Example 1**: A producer has 30 acres of pear trees in production and plants 5 more acres of pear trees in the program year. The cost of purchasing the trees should be recorded as a capital expenditure, as the producer is expanding the operation. Therefore, it is a non-allowable expense. Associated expenses (e.g. fuel, fertilizer, labour, etc) for the 5 more acres are also non-allowable for the planting year. On the Crop Report record 30 acres of pears as bearing and then 5 acres as non-bearing.

**Example 2**: A producer has 30 acres of grapes in production. There is a very cold winter and 5 acres of grapes are killed. The producer replants the 5 acres. The cost of purchasing the vines and associated expenses for planting can be recorded as an operating expense, as the producer is replacing winterkilled vines. Therefore, it is an allowable expense for AgriStability. On the Crop Report record 25 acres of grapes as bearing and then 5 acres as non-bearing.

**Example 3:** A producer has 10 acres of apples. Every year a few dead or diseased trees are replaced. The cost of purchasing and associated expenses for planting the trees can be recorded as an operating expense, as the producer is replacing dead or diseased trees. Therefore, it is an allowable expense for AgriStability. On the Crop Report record 10 acres of apples as bearing.

## 1.21. Aquaculture

In Ontario, aquaculture is considered allowable income and for AgriStability.  Ontario will provide 100% of the government program benefits for AgriStability participants that have any amount of aquaculture income or expense in reference or program year.  As such, OMAFRA will be covering both the provincial and federal share of program benefits for these participants.

## 1.22. Expenses Related to the Nutrient Management Act

Some of the expenses related to compliance with the Nutrient Management Act are allowable expenses for AgriStability, to the extent that the participant properly categorizes these expenses for income tax purposes.

Some of the allowable expenses include hired labour, fuel and chemical purchases. Since most of the expenses related to compliance with the Nutrient Management Act are capital expenditures, the participant must be able to breakdown the expenses into AgriStability allowable and non-allowable items. For example, if the participant installs a new manure system, much of the costs are capital expenditures which are non-allowable for income tax and AgriStability purposes. However, the labour, fuel and electricity component of this cost can be treated as an allowable expense for AgriStability.

## 1.23. Inclusion of non-eligible Production Margin in Reference Margin

To be eligible for program benefits a 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;

In some instances, a participant may be farming but not be eligible for program benefits for a given program year because they do not meet the minimum six months and/or production cycle criteria.

Even though a participant is not eligible for program benefits for a given program year, the respective production margin may be included as a reference year when calculating the reference margin.

The inclusion of a reference year is based on the following:

- Did the participant report farm income/expense for that tax year?
- Did the participant report allowable AgriStability income/expenses for that tax year?
- Was a normal production cycle for the farm type in question completed during that tax year?

If the answer is yes to all of the above, then the year should be included as a reference year. If the answer is no to one or more of the above, then the program will determine whether or not the year should be included.

## 1.24. Purchase and Resale of Dairy Cattle

The purchase and resale of commodities without any further processing is considered non-allowable (see TIC on Allowable Income)

The TIC on Allowable Income does not apply to participants that purchase dairy cattle for resale provided that the majority of the participant's operation cannot be characterized as:

- Simply an agent or broker for the sale of livestock
  - An agent or broker is someone that acts as an intermediary between a cattle buyer and seller, usually charging a fee or commission for their service. An agent or broker does not actually purchase or take ownership of the cattle, rather they simply bring the cattle buyer and seller together.
- An auction yard where the cattle are simply brought for shipment
  - This does not include producers that in addition to other farming activity, purchase dairy heifers from several other producers and then co-ordinate, and manage the shipment of these heifers either domestically or internationally.

## 1.25. Beef Cattle Finishing Operations

The purchase and resale of commodities without any further processing is considered non-allowable (see TIC on Resale of Commodities and Processing)

For a beef cattle finishing operation, for there to have been an appreciable contribution to the growth and maturity of the livestock, the cattle must have been on feed for at least 60 days or an average gain of at least 90 kilograms.

Operations are not considered to have made a contribution to the growth and maturity of the beef cattle, and the corresponding income and expenses are therefore non-allowable, if the majority of the participant's operation can be characterized as:

- Acting as an agent or broker for the sale of beef cattle;
- Buying beef cattle for short-term resale; or
- Assembling and preparing beef cattle for shipment.

## 1.26. Farming Activities outside Canada

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

Income from commodities taken to a finished or marketable state within Canada, and subsequently sold outside Canada is allowable. For example, a producer ships finished hogs to the United States (US) for sale. This producer would include the income generated from the sale of these hogs; converted to Canadian dollars, as allowable income for AgriStability

When a commodity is produced in Canada and then shipped outside of Canada for further production, the income and expense generated once the commodity has left Canada is non-allowable.

- For example, a producer ships weaner pigs to the US for finishing and sale. Any income or expense generated from the further production or finishing of these hogs is non-allowable. In this case, the producer would include the fair market value of the weaner pigs as they left Canada as allowable income for AgriStability.

When a commodity is produced in Canada and then shipped outside of Canada for further production, the income and expense generated once the commodity has left Canada is non-allowable. However, it is possible that the commodity may return to Canada for further production or sale. In this case, the income and expense generated once the commodity re-enters Canada is allowable for AgriStability.

- For example, a producer ships weaner pigs to the US for finishing. Any income or expense generated from the further production or finishing of these hogs within the US is non-allowable. In this case, the producer would include the fair market value of the weaner pigs as they left Canada as allowable income for AgriStability. If the pigs re-enter Canada at a later date, the producer would include the fair market value of the pigs as they enter Canada as allowable expense/purchase for AgriStability, and as allowable income once sold.

## 1.27. Hybrid Method of Inventory Valuation

All participants will adjust the program year using the hybrid method of inventory valuation. The hybrid method of inventory valuation refers to the method of valuing market versus non-market inventories.

**Market Inventory**

Market inventory will be valued based on a price at the beginning of the year and a price at the end of the year. Examples of 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 inventory quantity multiplied by the year-end price; and the year-beginning inventory quantity multiplied by the year-beginning price.

**Non-Market Inventory**

Non-market inventory will be valued based on the price at the end of the fiscal year only. Examples of commodities considered non-market inventory include beef and dairy cows, bulls, sows, boars, ewes, rams, does, bucks, all culled breeding stock, and laying poultry. Any animal that could be considered part of the above list, even if it is solely intended for sale, is considered non-market inventory for the purposes of the hybrid method of inventory valuation.

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

## 1.28. Accrual Tax Filers- Hybrid Method of Inventory Valuation

For participants who report income tax on the accrual basis, the hybrid method of inventory valuation will be applied to all non-market inventory quantities. These participants will be required to provide the beginning and ending quantities of non-market inventory as well as the beginning and ending prices used to value that inventory for income tax purposes. The program will then revalue this non-market inventory using the hybrid method of inventory valuation.

## 1.29. Reference Margin - Hybrid Method of Inventory Valuation

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 method of inventory valuation 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.

## 1.30. Scientific Research and Experimental Development program payments

Some or all of Scientific Research and Experimental Development (SRED) program payments either in the form of a grant or a tax credit are allowable income in the program and reference years for AgriStability

The portion that is allowable is based on the percent of the total expenses covered by the SRED payment that could be attributed to allowable AgriStability expenses, and should be reported on line 9574 – Resales, rebates, GST/HST for allowable income. The portion that is non-allowable should be reported on line 9600 – Other (specify).

The SRED payment will be treated as allowable income in the program and reference years based on when the payment was received.

SRED applications are not treated as an accounts receivable in Year-end Inventories.

## 1.31. Crop Inventory at year-end

Include crop in ground at the end of the program year in the Crop Inventory at year-end section of the Year-end Inventories.

If the crop in ground is not mature at the end of the program year (e.g. a calendar year end with winter wheat planted in the fall months), use the cost of the inputs used to plant the crop as the value of this inventory.

If the crop in ground is mature at the end of the program year (e.g. unharvested corn with a calendar year end) an estimate of the crop yield (e.g. bu/acre or tonne/acre) and grade must be provided. If Agricorp production insurance records for the participant's crop in question are available, these will be used. This information will be used to estimate the volume and value of the mature crop still in the field at the end of the program year.

## 1.32. Outstanding crop insurance payments

### 2018 Crop Year Example (excluding tree and vine riders)

If a farmer's 2018 crop was insured under crop insurance and he/she received a crop insurance payment for this crop during the 2019 tax year, an ending 2018 accounts receivable for this amount must be included in the Accounts receivable section of the Year-end inventories. This treats the farmer the same as someone that received a 2018 crop insurance payment during the 2018 tax year and had to include this as allowable income.

### 2018 Tree and Vine Example

If a farmer's grape vines or fruit trees are damaged in 2018 he/she may receive a vine/tree insurance payment to assist with the purchase of replacement vines/trees. The insurance payment should be reported in the year of tree/vine purchase (normally the following year) to correspond with the purchase planting of new vines.

## 1.33. Recording crops by grade

In completing Year-end Inventories, please use the Fair Market Value List as a guide for the classes of crops and livestock inventory.

Please note that the Fair Market Value List includes various grades for corn and soybeans. Include each grade of crop as a separate line in the Homegrown Crop Record. For example, if you had Grade 2-4 corn in inventory at the start of the year and all the corn in inventory at the end of the year was sample grade, include two lines for corn in the homegrown crop record. The first line would record the amount of Grade 2-4 corn in inventory at the start of the year and zero Grade 2-4 corn in inventory at the end of the year. The second line would record zero sample grade corn in inventory at the start of the year, and the amount of sample grade corn in inventory at the end of the year.

Due to large variation across the province, AgriStability will not be providing a discount for Grade 5 and sample grade corn or soybeans from the Grade 2-4 price. Rather, by submitting invoices with your application, AgriStability will use the discount that you actually received or paid for Grade 5 or sample grade corn or soybeans. This discount will then be applied to the Grade 2-4 corn or soybean price corresponding to the last month of your year-end.

## 1.34. Liquidation/purchase of breeding stock

If the participant has liquidated/purchased breeding stock, the actual price received/paid per animal may be used to value either beginning or ending inventory quantities, which is applicable. This price will be determined either by obtaining sales/purchase documents from the participant or comparing the dollar sales/purchase amount to the number of animals sold/purchased.

## 1.35. Pre-paid expenses

Beginning and ending inventory quantities should ONLY include inventory (purchased inputs, crops and livestock) that has been paid for and expensed. On the Year-end inventory form include prepaid expenses as inventory but note that it is prepaid.

Example:

If you purchased fertilizer and applied it to your land after you harvested your crops, include the value of the fertilizer as an ending purchased input.

## 1.36. Ginseng

**Crop Report**

Your Crop Report will consist of 3 ginseng acreage numbers for each year.

**Total Ginseng Acres Growing**

Record the total acres of ginseng in the ground at the beginning of each fiscal period. For a calendar year fiscal period, this would include last fall's new planting plus all root in the ground.

**Total Ginseng Acres Planted**

Record the total acres of ginseng planted in each fiscal period.

**Total Ginseng Acres Harvested**

Record the total acres of ginseng harvested in each fiscal period.

Ginseng producers can complete Year –end-inventories - Purchase Input Record for their ginseng crop. The purpose of the Purchased Input Record (PIR) is to match production expenses with income in the program year. For ginseng, the production expenses would be carried forward to match the income at harvest. Completing the Purchased Input Record will be of benefit to many ginseng producers, especially producers who have varied their planting acres in previous or the program year.

When completing a Purchased Input Record, the dollar values must represent the actual expenses incurred by the participant. These expenses must be allowable expenses for the AgriStability program and be part of the production margin for a given reference or program year.

**Purchase Input Record**

Record each planting year on a separate line.

<u>Opening Inventory:</u> Total of AgriStability allowable expense incurred to grow the crop to the beginning of the program year.

<u>Purchases:</u> All allowable expenses incurred to grow the crop in the program year.

<u>Resold and Used:</u> Total of opening inventory plus purchases for harvested ginseng. Will be zero for unharvested ginseng.

<u>Ending Inventory:</u> Total of opening inventory plus purchases for unharvested ginseng. Will be zero for harvested ginseng.

## 1.37. Bad debt

Amounts owing are included in accounts receivable if outstanding at fiscal year-end. If a receivable is deemed uncollectible, it is removed from closing accounts receivable on a cash basis in the year it was deemed uncollectible.

For the amounts owing to be deemed uncollectible under AgriStability, there must be documented evidence of:

- Receivership;
- Bankruptcy; or
- Court action.

In addition, the participant will be required to certify in writing that they will re-submit their AgriStability application for the year in question if a settlement is received through the court proceedings.

## 1.38. Basis contracts

An inventory adjustment for a basis contract is only required if the basis contract has not been liquidated by the end of the farm's tax year.

For example, a farmer enters into a basis contract in July of 2018 for delivery in November of 2018. If the contract is liquidated in November of 2018, no inventory adjustment is required. If the contract was rolled to March 2019, and the farm's year end is December 31, 2018, an inventory adjustment is required.

If an inventory adjustment is required use the following steps:

1. Record the initial payment made to the farmer when entering the basis contract as income in the year received.

2. Include in year-end-inventories as an Accounts Receivable, an amount equal to the difference between the AgriStability fair market value for the crop in question and the initial payment received, times the volume contracted.

- If the basis contract was not liquidated by the start of the Program year (e.g. was not liquidated by the end of 2018), then the adjustment is an Opening 2019 Accounts Receivable
- If the basis contract was not liquidated by the end of the Program year (e.g. was not liquidated by the end of 2018), then the adjustment is an Ending 2018 Accounts Receivable

## 1.39. Commodity loans from the Agricultural Commodity Corporation (ACC)

ACC commodity loans provide operating funds for crop inputs and livestock. ACC commodity loans are repaid through commodity sales.

In obtaining an ACC commodity loan, a producer has two options:

1. Expense the input cost and obtain ACC commodity loan later

   - Producer will purchase inputs and expense these on financial statement
   - The ACC commodity loan would then be obtained later to finance the input purchase.
   - Since the input cost has been expensed, for the purposes of preparing financial statements and completing Year-end-inventories, the ACC commodity loan would not be considered an accounts payable.

2. Purchase the Input on credit and instruct ACC to forward all or part of the commodity loan to the input supplier

   - When obtaining an ACC commodity loan, the producer can choose to have all or part of the commodity loan forwarded to an input supplier, who the farmer owes the cost of purchased inputs.
   - If the farmer owes the supplier for purchased inputs, then the inputs will not have been expensed on a financial statement. In this case, the amount forwarded by the ACC to the input supplier, which has not been repaid to the ACC by the end of the farm's tax year, would be considered an accounts payable when completing Year-end-inventories

## 1.40. Seed Corn Contracts

All seed contracts in Ontario operate under the premise that the seed corn company owns the parent seed used to produce the crop as well as all parts of those plants produced from the parent seed supplied by the company. At no time does the grower have right or title to the crop. The contract is designed as a service contract and a grower is paid for his services in relationship to his productivity.

Since a seed corn grower does not own any part of the hybrid seed corn at any time during the production cycle, there is no opening or ending seed corn inventory to be recorded in Year-end-inventories. The number of acres and yield of seed corn grown should be recorded in Year-end-inventories. All production grown during the program year should be recorded as sold.

Most seed corn producers will not have received payment for all of the seed corn grown until after their tax year-end. This remaining amount must be recorded as an account receivable. Use the actual dollar amount if the price is known. Use an estimated amount if it not yet priced.

## 1.41. Feeder Finance Co-op Cattle

Under the Ontario Feeder Cattle Co-op Program:

- The producer/member must obtain a purchase order from the Co-op before they buy the cattle in the name of the co-op
- When obtaining a purchase order, the producer must deposit using their own funds, 5% of the purchase amount into an assurance account
- The producer must sign a feeder agreement and promissory note to cover the value of the purchase cattle
- The Co-op retains title to the cattle, makes payment for the producer's cattle and the cattle are sold and bought in the name of the Co-op
- The cattle must be sold and the loan repaid within 365 days of the purchase
- All proceeds of the sale of cattle first go towards repayment to the Co-op and the remaining proceeds will be provided to the producer
- If the proceeds from the sale of the producer's cattle do not cover the purchase value, the shortfall is first taken from the assurance account

Feeder finance cattle should be recorded in the Livestock Report and Year-end-inventories , because the cattle are registered to the producer under the name of the Co-op. These cattle should be recorded in a similar manner to other cattle, based on weight range at year end.

The purchase of the cattle should not be expensed on the cash basis until the cattle are sold and the Co-op repaid. However, because the cattle are recorded as inventory in year-end-inventories, the purchase value of the cattle should be recorded in Year-end-inventories as an accounts payable if still outstanding to the Co-op at year end.

When the cattle are sold, the producer should report, the full allowable income and purchase from these cattle, rather than the net amount received from the Co-op.

## 1.42. Fair Market Values (FMVs)

The Administration uses fair market values (FMV) to value changes in inventory for crop and livestock production. FMVs are established for each month and are used to value inventory for any day within that month. For example, the ending inventory value for an individual with a tax year end of March 31 will use the March FMV.

A set of industry-standard FMV's are published for high volume, openly traded commodities. When available, these values are used to process a file as long as the values are reasonable for the specific farming operation.

A program participant producing commodities without a published FMV (or who wishes to use an FMV with a different value than the published FMV) must provide a receipt for sales or purchases that occurred within 30 days of their year-end. Purchased input inventory (e.g. seed, purchased feed, fertilizer), will be valued using the actual purchase cost of that inventory.

For commodities with a published FMV, the applicant must explain and substantiate why the published FMV is not reasonable for their operation (e.g., the FMV category does not reflect the nature of their inventory, marketing channel or production method), and that they are operating in an open market. They must also provide arms-length documentation.

The Administration will make best efforts to ensure that the FMVs used to value opening and closing inventory within an operation are from the same data source (for example, that a published FMV is not used for the opening while a personal FMV is used for the closing.)

## 2. Income & Expense Adjustment Form Completion

Income & Expense Adjustment Form is a reconciliation worksheet that can be used when the participant requests changes to the source document information available to the AgriStability. The program will accept adjustments to historically filed AgriStability and/or Income Tax information for benefit purposes. For benefit purposes, changes to historically filed AgriStability and/or Income Tax information will be accepted as long as there is no change in total farm income or expenses in any given year. This means that changes will be accepted that move income or expense items from one T1163 code to another. The total increase and decrease in income and expense items must balance in any year to be accepted.

## 3. Reference Period Inventory Form

The Reference Period Inventory Form requires opening and ending; quantities of crop and livestock inventory, dollar amounts of purchased input inventory, accounts receivable and accounts payable.  The form adjusts each reference year for changes in inventory quantities, purchased inputs, accounts receivable and accounts payable.

If a participant submits a Reference Period Inventory Form for; and has not had their program benefits in a previous program year determined using the form, the program will not apply  the Reference Period Inventory Form if its application reduces the benefits for that program year.

# 4. AgriStability Application Form

## 4.1. Farm Business Registration (FBR) number

A Farm Business Registration (FBR) number is not required to be an eligible AgriStability participant.

## 4.2. Partnership application

Farm partnerships cannot make a single joint AgriStability application.

## 4.3. Farm partnerships

If a participant's partner decides not to apply, it will not affect their AgriStability eligibility, however the partner that applied will only receive his/her portion of any benefit calculated. The AgriStability Administration reserves the right to combine the farm statements of individuals and/or partners if there are concerns with the application such as transactions between businesses at other than fair market value.

## 4.4. Share of ownership in a corporation

Share of ownership in a corporation is determined by the percent of common shares held. In addition, the AgriStability application requires the % of voting shares associated with the common shares held by a shareholder. Where the % of voting shares held by a shareholder is less than the common shares held, AgriStability may instead use voting shares to determine the participant's share of ownership in the corporation.

## 4.5. Corporations farming as a partnership

If two or more corporations are involved in a partnership, they would apply to the AgriStability Program in the same manner used to report farm income to the Canada Revenue Agency (CRA)

A corporation that is involved in a partnership will typically report its share of the partnership on a consolidated financial statement for the two businesses, which is submitted to the CRA and AgriStability. The information submitted to CRA and AgriStability will be used to determine eligibility for the AgriStability.

In some cases, the year end for which the corporation is filing farm tax differs from the year end of the partnership. For example, the corporation may file farm tax with an April 30, 2013 year end. Included in the corporation's April 30, 2013 financial statements is its share of the partnership for the year ending December 31st 2012. In such cases, AgriStability uses the financial statements submitted to CRA by the corporation. No adjustments are made because the corporation's year end differs from the partnership's year end.

## 4.6. Deceased participants

AgriStability eligibility may be met through a combination of activities performed by the deceased participant and their estate. If coverage was selected by the deceased participant prior to their death, this level will be assumed by the estate.

The executor/executrix must notify the program of the participant's death and submit a letter to the program outlining:

Application Details:

- who the executor/executrix is
- when the participant passed away
- number and type of tax filing for the program year (more details below)
- if the estate is still operating or has it has been closed/probated
- if the estate is closed/probated, who the beneficiaries are (who has taken over the farming operation)

Banking Details:

- new name
- example - new name needed for the AgriStability account (i.e. "John Smith" to "estate of John Smith" or "John Smith" to "Mary Smith")
- new SIN, BN, PIN, Address

If the program has questions or concerns with regards to the estate after receiving a letter from the executor/executrix, we may request more information, including but not limited to:

- a copy of the death certificate
- a copy of the will
- letter of probate
- if there was no will, a Letter of Program, naming the executor/executrix of the estate

In the case of deceased participants, the filing of more than one income tax return may be involved. The program year margin for deceased participants will be based on their final tax return (start of program year to the date of death), plus any return filed from the date of death to the end of the Program Year. Any inventory, deferred income or accounts receivable, and accounts payable existing at the date of death (or at the end of the fiscal period if more than one return is filed) shall be accrued to the final return.

If, in addition to the final return, an optional return for the year of death for a deceased participant is filed (such as a return of rights and things), this information must be submitted to the program. Where the death of a participant results in less than 12 months of income and expenses being reported in the Program Year, the Program Year will be treated as a stub period.

In the case of a beneficiary whose farming operation consists of all or most of the deceased participant's farming operation will be considered as continuing to operate the same farming operation as the deceased. If there is more than one beneficiary, a common business arrangement must be created to carry on the same farming operation as the deceased participant in order to retain the reference history.

## 4.7. Jointly held common shares

Where common shares are jointly held, such that each individual is named on the share certificate, the joint shareholders are treated as a single shareholder when determining AgriStability eligibility.

## 4.8. Ownership for Program Purposes

The AgriStability guidelines define a production cycle to include one or more of the following activities:

- the growing and harvesting of a crop;
- the process of rearing livestock;
- the purchase and/or sale of livestock within a Program Year in the case of feeding or finishing enterprises.

AgriStability is designed to cover production risk and directly supports producers who contribute to the growing/raising of, and incur the production and marketing risk for, their commodities produced.

While the producer who bears the production risk will normally be the legal owner of the commodity, this is not the case in all situations. When this occurs, the producer who bears the production risk should receive the support as opposed to the legal owner of the commodity.

Ownership for AgriStability Program purposes means the right of possession of a commodity and their associated risks and must be demonstrated by Participants upon request in order to be eligible for AgriStability coverage.

AgriStability considers legal ownership, price risk and production risk in determining eligibility for program purposes.

# 5. Calculation of Program Benefits

## 5.1. Reference margin

Calculation of the reference margin is based on an Olympic average.  This method calculates a production margin for each of the five years preceding the program year, drops the highest and lowest valued production margins and averages the three remaining production margins.

For participants without production margins for all of the five reference years preceding the program year, the 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, the program creates margins for the missing years based on the appropriate Benchmark-Per-Unit margin for the commodity produced. The program does not create production margins for any reference year in which the producer reported, or should have reported, farming income to CRA.

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

## 5.2. Negative Program year margin

If a participant has a negative program year margin, they will be eligible for government program benefits for that negative margin providing that the participant has (in the program year):

- Incurred a negative margin resulting from a peril beyond the participant's control;
- Had a production margin that is greater than zero in at least two of the three years used to calculate the reference margin; and
- Followed sound management practices.

Beginning with the 2013 Program Year participants who did not participate in a Production Insurance program at the minimum level will have their negative margin benefit reduced by seventy per cent of the Deemed Production Insurance Benefit (see TIC on Deemed Production Insurance Benefit) as calculated by the program.

Beginning with the 2013 Program Year, benefits will be paid at 70% of the negative margin, less 70% of any amounts resulting from deemed production insurance benefits.

## 5.3. Negative reference margin

Starting with the 2005 program year, participant's that have a production margin that is greater than zero in at least two of the three years used to calculate the reference margin are eligible for program benefits.

### 5.4. Maximum Government Program Benefits

The maximum total government program benefits that can be provided to a participant is the lesser of $3 million or 70% of the program year margin decline compared to the reference margin. For this purpose, any negative portion of the program year margin will be included in the calculation of the difference between the reference margin and the program year margin.

## 5.5. Related farming activities with different year ends

When determining the program benefits of related farming activities, AgriStability combines the respective tax years of the farms in question, regardless of year end.

For example, a participant runs two corporations, one with a December 31st year end and the other with a March 31st year end. AgriStability would calculate the program year margin by combining the records for the year ending December 31st 2019 for the one corporation, with the records for the year ending March 31st 2019 for the second corporation.

## 5.6. Assignment of Program Benefits

AgriStability government program benefits cannot be assigned, deferred, or otherwise encumbered.

- AgriStability is joint cost shared between the federal and provincial governments.
- The Federal Programs Act prohibits the federal 60% share of AgriStability program benefits from being assigned.
- The provincial 40% share of AgriStability program benefits will not be assigned because of the administrative complexity required to do so.

## 5.7. Assignment in bankruptcy

Where an AgriStability participant that has yet to receive a program benefits for a program year has entered bankruptcy proceedings, any benefits provided after the assignment in bankruptcy will be made payable to the trustee in bankruptcy of the farmer. To do so, the AgriStability will require proof of the assignment in bankruptcy and appointment of the trustee.

## 5.8. Deemed Production Insurance Benefit

Crop losses that could have been covered by production insurance will not be eligible for benefits as part of the negative margin coverage under AgriStability.

AgriStability participants that have a negative program year margin and did not participate in production insurance for some or all of their crop production will have be reviewed to determine if an adjustment for a deemed production insurance benefit (deemed benefit) is required.

The following crops **will** have a deemed benefit calculated: corn, soybeans, winter wheat, white beans, coloured beans, spring grain, canola, peanuts, popping corn, sunflowers, red spring wheat, green & wax beans, green peas, sweet corn, sugar beets, tomatoes, hemp, lima beans, red beets, butternut squash, carrots, apples, grapes, peaches, pears, sour cherries, flue-cured tobacco, burly tobacco, black tobacco.

It is not possible to deem benefits in every situation. As an example, some fresh market horticulture crops require infield inspection to assess crop damage and due to the timing of the AgriStability application it is impossible to accurately assess infield losses. Another example is pilot/new crop plans or existing plans that are undergoing design changes. These plans are temporarily exempted from deeming with the expectation that they will be included in future crop years.

The following are among those crops that **will not** have a deemed benefit calculated: potatoes, seed onions, rutabagas, set onions, spanish onions, strawberries, sweet cherries, peppers, asparagus, plums, fresh market carrots, honey, forage rainfall plan, mustard, unseeded acreage, reseeding benefit, forage celery, fresh market tomatoes, broccoli, lettuce, cabbage, parsnips, cauliflower and fresh market sweet corn.

### Calculating the Deemed Benefit

For purposes of calculating the deemed benefit, a participant that has not purchased any coverage from production insurance will have coverage, premium, loss and benefit for each insurable commodity deemed at the minimum coverage level offered for each plan. The program will calculate the deemed benefit based on information provided on the AgriStability inventory forms, following the standard rules used to set coverage, premium and loss within production insurance programs as they existed at the time that coverage would have been obtained. If a AgriStability participant has no production insurance history, their coverage, premium and losses (if any) will be determined as for a new entry into the production insurance program. This may require the use of regional or provincial average information rather than the usual individual underwriting process. If an AgriStability participant has a production insurance history, then those records will be used to establish coverage, premium and loss based on the standards used in the province. If the historical information does not reflect current management practices and potential productive capacity, Agricorp may adjust the coverage and premium.

### Notes:

1. If crop production can be insured under an “acreage value option”, and revenue for this crop is reported to AgriStability at less than the coverage provided under the production insurance program, the “insured acreage value” will be used to calculate the deemed benefit.
2. The highest available price option under the production insurance program will be used to calculate the deemed benefit. If a variable or floating price option is available under a production insurance program, the most common price option that the farm population elects for production insurance will be used to calculate the deemed benefit.

3. For production insurance participants, any assessed uninsured causes of loss will be counted in calculating the deemed benefit, in order to include indemnities refused to a production insurance client because of poor management or ‘non-insured causes’ of production loss.
4. Deemed benefits will be calculated for participants who were excluded from participating in Production Insurance for reasons of fraudulence, misrepresentation, non-payment of premiums or failure to comply with other Production Insurance participation requirements.

## 6. Growing Forward 2 AgriStability amendments

Starting with the 2013 program year, the AgriStability program changed as agreed to under the Growing Forward 2 Multilateral Framework. The changes include:

- Decrease of the payment trigger to 70%
- Harmonization of the compensation rates to 70%, even in the negative tier
- A limit to reference margins equal to eligible expenses. A Participant's Reference Margin with respect to a Program Year shall not exceed the average allowable expenses of the three years used to calculate the Reference Margin for the Program Year.
- The AgriStability fee shall reflect the trigger decrease and the harmonization of compensation rates but reference margin limit will not be applied when calculating the Contribution Reference Margin. When calculating Interim Payments or Targeted Advance Payments, the administrator may elect not to apply the reference margin limit.

## 6.1. Reference Margin Limit

Starting with the 2013 program year, participant's Reference Margins shall not exceed the average allowable expenses of the three years used to calculate the Reference Margin for the Program Year.

Where a Structural Change adjustment was applied for a reference year, the Administrator will also apply a Structural Change adjustment to the allowable expenses for that reference year. In cases where no Structural Change adjustment was applied under clause 4.7 of the AgriStability Guidelines, the Administrator may apply a Structural Change adjustment to the allowable expenses if, in the opinion of the Administrator, there has been a Structural Change which can be expected to result in a significant change in allowable expenses.

Where there has been a change in productive units, the Administrator shall structurally adjust the allowable expenses using the same method that was applied under clause 4.7. However, in cases where, in the opinion of the Administrator, the method that was applied under 4.7 is not appropriate for structurally adjusting the allowable expenses, the Administrator may apply a different method.

The default method for structurally adjusting expenses shall be performed as follows for each of the three reference years used to calculate the Reference Margin:

1. For each reference year, the number of productive units (for each commodity or for commodity groups established by the Administrator) in that year will be multiplied by the expense portion of the BPU in that reference year for that commodity or commodity group. A benchmark level of expenses for each reference year will be established in this manner.

2. For each reference year, the number of productive units (for each commodity or commodity group) in the Current Program Year will be multiplied by the expense portion of the BPU in that reference year for that commodity or commodity group. A benchmark level of expenses for each reference year will be established in this manner.

3. The benchmark expense level calculated in (2) will be divided by the benchmark expense level calculated in (1).

4. The ratio calculated in (3) will be multiplied by the actual level of expenses for that reference year

## 7. Canadian Agricultural Partnership Agreement (CAP)

Starting with the 2018 program year, the AgriStability program changed as agreed to under the Canadian Agricultural Partnership Multilateral Framework. The changes include:

- A cap to the Reference Margin Limit that will ensure producers from all sectors have improved access to support under the program. With the cap, all producers are guaranteed at least 70% of their historical reference margin;
- Cost neutral changes such as a new simplified enrolment process to lower the administrative burden on new or rejoining participants;
- The addition of a late participation feature that provinces and the federal government can trigger after a significant downturn in the industry; and
- The minimum payment to a producer was increased from $75 to $250.

# 8. Structural Change

Structural change is a change in ownership, business structure, size of operation, farming practices, type of farming activity, method of accounting, moving from one province to another, or any other practice that a participant might undertake that may alter production margins. If the program determines that there has been a significant change in a farming operation's productive capacity as a result of a structural change, adjustments will be made to the reference year margins to reflect the change.

The Additive Method for Structural Change was the only method used for structural change calculations between 2003 and 2007. From 2008 onwards, the Ratio Method is the default method used for calculating structural change, although the Additive Method may be used where the administrator deems appropriate.

## 8.1. Structural Change - Additive Method

Under the Additive method, the structural change adjustment will be performed as follows:

- For each year in the reference period, the difference between the number of productive units (for each commodity or commodity group) in the Program Year and the number of units in the Reference Year will be calculated.
- The difference in productive units for each commodity will be converted to a dollar amount by multiplying the difference in units by the benchmark per unit margin in that reference year for that commodity or commodity group.
- This dollar amount will be added (subtracted) to the unadjusted production margin for that reference year.

Structural Change adjustments will be applied where the average unadjusted reference margin and the average adjusted reference margin differs by more than 10% and $5,000.

<u>Note:</u> Where the standard structural change adjustment cannot be calculated, or if in the opinion of the program, the standard structural change adjustment does not accurately reflect the structural change of the farming operation, alternate methods of calculating structural changes may be applied by the program.

The program will apply any structural change adjustments to the production margin of each reference year prior to calculating the reference margin but after any whole farm adjustments.

The following table illustrates an example of the structural change calculation for a farrow to finish hog operation.

| | | 2013 | 2014 | 2015 | 2016 | 2017 | Program Year |
|---|---|---|---|---|---|---|---|
| **Sow Numbers** | | 100 | 100 | 100 | 100 | 100 | 200 |
| **Difference in Units compared to Program Year** | 1) | 100 | 100 | 100 | 100 | 100 | |
| **Farrow-Finish per Sow BPU** | 2) | $61 | $275 | $992 | $1,209 | $502 | $472 |
| **Margin change (based on BPU)** | 3) = 1) * 2) | **$6,100** | **$27,500** | **$99,200** | **$120,900** | **$50,200** | |
| **Actual Margin** | 4) | $80,000 | $95,000 | $120,000 | $110,000 | $80,000 | |
| **Adjusted Margin** | = 3) + 4) | $86,100 | $122,500 | $219,200 | $230,900 | $130,200 | |
| **Actual Olympic Average** | | $95,000 | | | | | |
| | | | **% Change** | **34%** | **$ Change** | **$62,300** | |
| **Adjusted Olympic Average** | | $157,300 | | | | | |
| **Average to be used** | | **$157,300** | | | | | |

## 8.2. Structural Change – Ratio Method

The ratio method of structural change has been the default method since the 2008 AgriStability program year.

Where there has been a change in productive units, the Administration shall perform the structural change adjustment using the ratio method unless, in the opinion of the Administration, another method would more accurately reflect the structural change.

The ratio method assumes that the previous performance of the farming operation is an accurate predictor of the performance of the farming operation with respect to the change in productive units or commodities. There are cases in which the Administration may consider that this assumption is not realistic, and another method is more appropriate. The parties to the agreement established common procedures for the Administration to identify these cases.

When using the ratio method, the structural change shall be performed as follows:

- For each year in the reference period, the number of productive units (for each commodity or for commodity groups established by the Administration) in that year will be multiplied by the BPU in that reference year for that commodity or commodity group. A benchmark production margin for each reference year will be established in this manner.
- For each year in the reference period, the number of productive units (for each commodity or commodity group) in the current Program Year will be multiplied by the BPU in that reference year for that commodity or commodity group. A benchmark production margin for each reference year will be established in this manner.
- The benchmark production margin calculated in (2) will be divided by the benchmark production margin calculated in (1).
- The ratio calculated in (3) will be multiplied by the actual production margin for that reference year.

## 8.3. Benchmark-Per-Unit (BPU) Margins

The benchmark per unit (BPU) margins used by AgriStability for structural change and beginning farmer calculations try to represent the production margin that a participant could expect to generate from a single production unit of a given commodity. For example, the grain corn BPU provides an expected production margin that could be generated from growing an acre of corn in Ontario.

The BPUs are calculated from commodity specific economic data for the province of Ontario. BPUs are not calculated specific to a region or county. However, most of the information used to calculate the BPUs is based on weighted average information for the entire province. As such, the data takes into account the relative importance that a major producing region may play in terms of affecting provincial prices, yields or costs.

The program has used two methods to calculate BPUs for the AgriStability program. First where available, the program has used the budget approach. In developing budgets, the expertise of commodity specialists is utilized to establish a “budget” of revenues and costs involved in producing a specific commodity based on normal or typical farm practices. The budget is established for a specific year and then adjusted over time for changes in market prices, yields, and specific AgriStability expenses to develop the BPU for that year.

In the case of commodities where sufficient budget information is not available such as grapes, the program has used what has been termed the sample approach. Using the NISA/AgriStability database, the average production margin per dollar of commodity sales is determined for a sample of farms that generate a large percent of their total farm sales from the specific commodity being evaluated. This is then used to determine a provincial average production margin per unit of production.

## 8.4. Production Capacity

While the definition of productive capacity is specific to each commodity, the following provides a summary for major commodity types produced in Ontario.

### Acreage

Productive acres include those already producing a crop or intended for seeding a crop which would be productive in its first year. A crop which cannot normally be harvested in its first year, or in the program year, will not be deemed as contributing to the productive capacity of the farm.

### Breeding Stock

The productive capacity of a breeding operation will be determined by the number of breeding females which have birthed. Breeding animals which have been purchased but have not birthed will not be deemed as contributing to the productive capacity of the farm.

### Feeder Operations

The productive capacity of purchased livestock operations (feeder operations) will be determined by the number of sales in the fiscal year. Feeder animals which have not been sold will not be deemed as contributing to the productive capacity of the farm.

The productive capacity of custom feedlot operations will be based on the number of animals fed during the fiscal year.

### Greenhouse Operations

The productive capacity of a greenhouse will be determined by the number of sq ft of commodity harvested and sold.

## 8.5. Structural Change under Disaster Circumstances

The structural change adjustment may be waived if, in the opinion of the program, a structural change was a result of disaster circumstances. These situations will be dealt with on a case-by-case basis to ensure that all relevant factors affecting production in the program year are considered.

Structural change may be waived if productive capacity cannot be restored, or until such time that it is reasonable to restore productive capacity. When assessing structural changes resulting from disaster circumstances, the following principles will be applied by the AgriStability Program:

- Disaster circumstances include only those occurring for reasons outside of a producer's control. Common examples are flooded land and depopulation of livestock due to disease. Disaster circumstances do not include circumstances arising from a participant's health or business decisions.
- Where compensation is received by the producer for lost productive capacity, it will be considered allowable income under the program to the extent it is received in lieu of normal farm income or as an allowed program payment.
- Where the nature of the disaster is such that the producer's productive capacity can be restored, the structural change will be waived for such time as is reasonable for restoration to take place.
- Where the nature of the disaster is such that the producer's productive capacity cannot be restored, or restoration would be economically unfeasible, the structural change will be waived for such time as is reasonable for the producer to develop alternative capacity. Generally speaking, a reasonable time period would not exceed one year.

## 8.6. Double Cropping

To the extent that double cropping is not considered a normal production practice and accounted for in the calculation of the respective commodity's Benchmark-Per-Unit (BPU) margin, double cropping will be considered a structural change.

An example of double cropping is a participant that grows and harvests winter wheat, and then plants and harvests soybeans on the same acreage. Unless this is an annual practice for the participant, this is considered a structural change. If the participant grew 100 acres of winter wheat and then 100 acres of soybeans, their production summary would include both crops at 100 acres.

## 8.7. Lost Production Contracts

Participants that for reasons beyond their control lose a production contract with a processor or other operation may not have structural change (downsizing) applied for one program year.

For example, in February 2019 a tomato grower loses his/her contract with the local processor. Due to timing that grower cannot grow tomatoes that year, but instead is forced to grow other crops such as soybeans. For that program year, the Administrator will not apply structural change (downsizing); if triggered, to this participant.

For example, in June 2019, a tomato grower is told that his/her contract with a local processor will not be honored. The grower cannot find a buyer for the tomatoes and subsequently destroys the product. For that program year, the

Administrator will not apply structural change (downsizing); if triggered, to this participant.

## 8.8. Beginning Farmers and Structural Change

A beginning farmer is a participant without their own production margin for any of the three years immediately preceding the program year. In this case, the program creates margins for the missing years based on the appropriate Benchmark-Per-Unit margin for the commodity produced and the production units for the program year.

In some cases, the beginning farmer has production in one or two of the reference years. If the production units for these reference years differ from the program year, a structural change may be applied as per TIC – 07.1.

## 8.9. Unique Farming Activities

Where a participant demonstrates unique farming activities such as unique production or marketing practices he/she may use their own Benchmark-Per-Unit (BPU) margin rather than the BPUs referred to in TIC-07.2. Examples of unique farming activity would include product differentiation, and value added. Unique farm activity would not include a participant that simply has a higher production margin than other similar operations.

# 9. Whole Farm Combining

## 9.1. Whole Farm Approach

AgriStability is a “whole farm” program. This means that the program will consider all relevant farming history and sources of farm income when calculating a participant’s program margins. The whole farm approach ensures that AgriStability benefits are directed to producers who have experienced an actual income decline.

The AgriStability whole farm approach can have an impact both on how a participant’s reference margin and program year margin are calculated. With respect to the reference margin, participants who have joined or left operations may have all or a portion of that operation’s reference margin information used in calculating any AgriStability benefits. With respect to the program year margin, operations may be combined to reflect a participant’s whole farm.

The income and expense information of two or more persons or Entities may be combined if; in the opinion of the Administrator their farming operations are part of a Whole Farm, even though the operations report separately for income tax purposes. Where applicable, the combining of such operations is necessary under AgriStability to ensure that only actual income declines, and not financial accounting procedures or an operation’s taxable status, trigger a program payment. Participants may be combined with producers who are not participating in the program.

## 9.2. Assessing the Independence of Operations

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

### 9.2.1. Legal Independence

- Land Ownership (Land title, Consideration, Liens/encumbrances)
- Land Rental (Lessor/lessee, Consideration, Terms)
- Business Registrations / Agreements (Formality, Intent, Terms)
- Individuals connected by blood relationship, marriage, common-law partnership, or adoption.
- A corporation and
  - An individual, group of related persons, or entity that controls the corporation;
  - An individual, group of related persons, or entity of a related group that controls the corporation;
  - Any individual considered a related person to the individual, group of persons or entity that controls the corporation.
- Two or more corporations if:
  - They are controlled by the same individual, group of persons, or entity;
  - 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.

### 9.2.2. Financial independence

- Separate bank accounts
- Separate bookkeeping and accounting
- Separate 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 to a related person or party.

### 9.2.3. Operational independence

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

The following are operations that will not be considered independent of one another:

- Operations whose transactions are not clearly assignable. This would include operations that do not maintain separate books, have commonly held inventory or inputs, or cannot show independent operational viability.
- Operations that are engaged in risk-splitting. This would include operations that farmed as a single operation at any time in the program year or reference period and subsequently split into two or more operations, except where it can be demonstrated that a permanent

division of controlling interest has also taken place, and prior reference years have no transactions between the operations.

## 9.3. Whole Farm Combining Examples

**Example 1:** Inventory not assignable

A husband and wife both have individual cash crop farming operations and report separately to CRA. However, they share inventory storage facilities and do not differentiate stored production. As a result, crop inventories and sales cannot be properly assigned, and they would be combined for benefit purposes under AgriStability.

**Example 2:** Dividing an operation

In order to better manage on-farm risk, a participant with an individual operation producing hogs and wheat decided to split his proprietorship into an individual operation and a corporation in the program year. The individual operation maintained the grain business while the hog business was moved to the newly formed corporation. For program purposes, these operations share a reference history and will be considered a single whole farm. They would be combined for benefit purposes under AgriStability.

**Example 3:** Transaction not at fair market value

A father and son are both involved in farming operations. The father owns a large herd of feeder cattle and produces feed for these animals. The son also owns cattle but does not produce any feed. The father provides feed for the son’s cattle at no cost and maintains the animals on his land. Because the feed transactions between the father’s and son’s operations are not at fair market value and cannot be quantified, the two operations would be combined for AgriStability benefit purposes.

## 9.4. Non-Fair Market Value Transactions

Transactions between all participants must be at fair market value to be considered allowable for inclusion in the calculation of a 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, the program may combine the income and expenses of the operations involved in these transactions.

The administrator can exercise its discretion to apply adjustments necessary to more accurately reflect the farming activity of the participant.

## 9.5. Margin Calculation for Whole Farm Combining

The margin and benefits calculation for combined participants are performed as follows:

1. For each reference year, the allowable income and expenses of all operations are combined to arrive at a production margin for that year.
2. Based on the combined production margin for each reference year, a reference margin for the combined operation is calculated.
3. For the program year, the allowable income and expenses (including all adjustments for inventories, payables, and receivables) for all operations is combined to arrive at a combined program year margin.
4. 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.
5. 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.
6. Each participant's program benefits are calculated based on his/her share of the combined reference and program year margin.