Canada Revenue Agency | Agence du revenu du Canada

AgriStability
AgriInvest

Farming Income and the AgriStability and AgriInvest Programs Guide Joint Forms and Guide

2016

This guide is only available in electronic format.

For AgriStability and AgriInvest participants in Alberta, Ontario, Prince Edward Island and Saskatchewan.

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RC4060(E) Rev. 16

Canada

Before you start

This guide will help you complete your forms to participate in the AgriStability and AgriInvest programs.

- **AgriStability** – a margin based program that provides support when you experience larger income losses.
- **AgriInvest** – a self-managed producer-government savings account designed to help producers:
  - manage small income declines; and
  - make investments to manage risk and improve market income.

Review this guide to make sure you fill out your forms correctly. Providing correct information on your forms helps us to calculate your benefits accurately and prevent delays.

Don't forget to include your Participant Identification Number (PIN) on your form. Missing PINs is one of the top reasons for processing delays.

This guide gives you general information. For complete program rules, see the Growing Forward 2 AgriInvest and AgriStability Program Guidelines.

Is this guide for you?

Use this guide and these forms if you:

- want to participate in the AgriStability and AgriInvest programs for 2016, and you farm in Alberta, Ontario, Prince Edward Island or Saskatchewan;
- earned income as a self-employed farmer or partner of a farm partnership, or by renting land under a crop share arrangement; and
- are not a trust, a non-resident, a corporation, or a Status Indian farming on a reserve. Contact your administration for a separate form and guide for these operations.

Do not use these forms if you:

- do not want to participate in the AgriStability or AgriInvest programs:
  - use Guide T4003, *Farming and Fishing Income*; and
  - file Form T2042, *Statement of Farming Activities*.
- farm in British Columbia, Manitoba, New Brunswick, Newfoundland and Labrador, Nova Scotia, or the Yukon:
  - use Guide RC4408, *Farming Income and the AgriStability and AgriInvest Programs Harmonized Guide*; and
  - file Form T1273, *Harmonized AgriStability and AgriInvest Programs Information and Statement of Farming Activities for Individuals*.
- farm in Quebec:
  - use Guide T4003, *Farming and Fishing Income*; and
  - file Form T2042, *Statement of Farming Activities*.

AgriStability and AgriInvest contact information

For AgriStability:

AgriStability is delivered provincially in Alberta, Ontario, Prince Edward Island, and Saskatchewan. If you have questions about your participation in AgriStability or want to request copies of the forms and guides contact your provincial administration at one of the numbers listed below.

- For Alberta, contact:

  Agriculture Financial Services Corporation
  5718-56th Avenue
  Lacombe AB T4L 1B1
  Toll-free telephone: **1-877-899-2372**
  Fax: 403-782-8348
  Toll-free fax: 1-855-700-2372
  Email: AgriStability@AFSC.ca
  Website: **afsc.ca**

- For Ontario, contact:

  Agricorp
  1 Stone Road West
  Box 3660, Stn. Central
  Guelph ON N1H 8M4
  Toll-free telephone: **1-888-247-4999**
  Fax: 519-826-4334
  Email: contact@agricorp.com
  Website: **agricorp.com**

- For Prince Edward Island, contact:

  AgriStability Administration
  Agricultural Insurance Corporation
  7 Gerald MacCarville Drive
  Kensington, PE
  Mailing address:
  P.O. Box 2000
  Charlottetown, PE C1A 7N8
  Toll-free telephone: **1-855-251-9695**
  Fax: 902-836-8912
  Email: peiaic@gov.pe.ca

- For Saskatchewan, contact:

  Saskatchewan Crop Insurance Corporation (SCIC)
  P.O. Box 3000
  484 Prince William Drive
  Melville SK S0A 2P0
  Toll-free telephone: **1-866-270-8450**
  Toll-free fax: 1-888-728-0440
  Email: agristability@scic.gov.sk.ca
  Website: **saskcropinsurance.com**

- For Quebec, contact:

  La Financière agricole du Québec
  Toll-free telephone: **1-800-749-3646**
  Website: **fadq.qc.ca**

For AgriInvest:

AgriInvest is delivered by the federal administration in all provinces (except Quebec). If you have questions about your participation in the AgriInvest program contact the federal administration at the address listed below.

Program Administration
P.O. Box 3200
Winnipeg MB R3C 5R7
Toll-free telephone: **1-866-367-8506**
Calling from outside of Canada: **204-926-9650**

You can access the AgriInvest program website at **agr.gc.ca/agriinvest**.

Penalties

Include all your income when you calculate it for tax purposes. If you fail to report all your income, you may be subject to a penalty of 10% of the amount you failed to report after your first omission.

A different penalty may apply if you knowingly, or under circumstances amounting to gross negligence, participate in the making of a false statement or omission in your income tax and benefit return. In such a case, the penalty is 50% of the tax related to the omission or false statement (minimum $100).

Note
The term, income tax return, used in this guide has the same meaning as income tax and benefit return.

Forms and publications

Use the following forms with this guide:

- T1163, *Statement A – AgriStability and AgriInvest Programs Information and Statement of Farming Activities for Individuals*;
- T1164, *Statement B – AgriStability and AgriInvest Programs Information and Statement of Farming Activities for Additional Farming Operations*;
- T1175, *Farming – Calculation of Capital Cost Allowance (CCA) and Business-use-of-home Expenses*; and
- RC322, *AgriInvest Adjustment Request*.

Throughout the guide, we refer to other forms and publications. If you need any of these, go to **cra.gc.ca/forms**.

Where to mail your forms and return

Send the following to the Winnipeg Tax Center:

- your income tax return;
- Form T1163;
- Form T1164; and
- Form T1175.

Mailing address:

Canada Revenue Agency
Winnipeg Tax Centre
66 Stapon Road
Winnipeg MB R3C 3M2

The Winnipeg Tax Center is the only tax centre that processes these forms.

Send correspondence intended for the AgriStability program or the completed supplemental AgriStability program form to your provincial administration at one of the addresses on page 2.

Complete Form RC322, *AgriInvest Adjustment Request* to send correspondence intended for the AgriInvest program to the federal AgriInvest administration at the address on page 3.

Do you need more information?

If you have questions about your participation in AgriStability:

- contact your provincial administration at the address provided on page 2.

If you have questions about your participation in AgriInvest:

- contact the federal administration at the address provided on page 3. The federal administration delivers AgriInvest in all provinces except Quebec.

If you have questions about reporting your farm income for tax purposes:

- contact the CRA at **1-800-959-5525**.

This guide explains the most common tax situations.

What's new for 2016?

Eligible capital property

On January 1, 2017 the budget proposes to cancel the eligible capital property system. It will be replaced with a new capital cost allowance (CCA) class 14.1 with transitional rules. Under the old system, eligible capital expenditures are added to the cumulative eligible capital pool at a 75% inclusion rate, and the rate of depreciation of those expenditures is 7% on a declining-balance basis. Under the new system, newly-acquired eligible properties will be included in class 14.1 at a 100% inclusion rate with a 5% capital cost allowance rate on a declining-balance basis.

For each taxation year that ends before 2027, additional deductions for CCA will be allowed for property acquired before January 1, 2017. This property will be included in class 14.1. Also, a separate business deduction will be provided for incorporation expenses made after 2016. The first $3,000 of the expenses will be treated as a current expense rather than being added to class 14.1.

If you are blind or partially sighted, you can get our publications in braille, large print, etext, or MP3 by going to **cra.gc.ca/alternate**. You can also get our publications and your personalized correspondence in these formats by calling **1-800-959-5525**.

La version française de ce guide est intitulée *Revenu d'agriculture et les programmes Agri-stabilité et Agri-investissement*.

Alberta Government Government of Saskatchewan Ontario Prince Edward Island Canada Canada

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Chapter 1 – General information

Farming income

Farming income includes income you earned from the following activities:

- soil tilling;
- livestock raising or showing;
- racehorse maintenance;
- poultry raising;
- dairy farming;
- fur farming;
- tree farming;
- fruit growing;
- beekeeping;
- cultivating crops in water or hydroponics;
- Christmas tree growing;
- operating a wild game reserve;
- operating a chicken hatchery; and
- operating a feedlot.

In certain circumstances, you may also earn farming income from:

- raising fish;
- market gardening;
- operating a nursery or greenhouse; and
- operating a maple sugar bush (includes the activity of maple sap transformation into maple products if this activity is considered incidental to the basic activities of a maple sugar bush, such as the extraction and the collection of maple sap, which are farming activities).

Generally, livestock are domestic animals bred, raised, or kept on a farm or ranch, normally in an agricultural setting, for commercial profit. They may also be used in the production of commodities such as food, fiber, and labour. For more information, see Interpretation Bulletin IT-427R, *Livestock of Farmers*.

The raising or breeding of animals, fish, insects or any other living thing, to be sold as pets is **not** a farming activity. It is considered a business activity and must be reported as business income on Form T2125, *Statement of Business or Professional Activities*.

Generally, farming income does **not** include income you earned from working as an employee in a farming business, from trapping or from sharecropping. For more information on sharecropping arrangements, see the latest Interpretation Bulletin IT-433R, *Farming or Fishing -Use of Cash Method*. For partnerships or joint ventures, see Income Tax Folio S4-F16-C1, *What is a Partnership?*

Note
Include all your income when you calculate it for tax purposes. If you fail to report all your income, you may pay a penalty of 10% of the amount you failed to report after your first omission.

A different penalty may apply if you knowingly, or under circumstances amounting to gross negligence, participate in the making of a false statement or omission on your income tax return. The penalty is 50% of the tax attributable to the omission or false statement (minimum $100).

Note
Income earned from the following is not allowable for AgriStability or AgriInvest even if it is considered farming income for income tax purposes:

- wood sales;
- trees and seedlings sold for use in reforestation;
- aquaculture;
- peat moss; and
- wild game reserves.

For more information on how to report income earned from non-allowable commodities, see "Farming income" on page 16.

Note
Sales and purchases of supply managed commodities are not allowable for AgriInvest.

You were asking?

Q. When does a farming business start? Can I deduct the costs I incurred before and during the start of my farming business?

A. We look at each case on its own merits. Generally, we consider that a farming business starts whenever you begin some significant activity that is a regular part of the business, or that is necessary to get the business going.

Suppose you decide to buy enough poultry for resale to start your farming business. We would consider this to be the starting point of your business. You can usually deduct all the expenses you have incurred up to that point to earn farming income. You could still deduct the expenses even if, despite all your efforts, your business wound up. However, if you review several different types of farming activities in the hope of going into a farming business of some kind, we would not consider your business to have begun. In that case, you cannot deduct any of the costs you have incurred.

For more information about the start of a business, see the latest archived Interpretation Bulletin IT-364, *Commencement of Business Operations*, or go to **cra.gc.ca/smallbusiness**.

The law allows Statistics Canada to access business information collected by the Canada Revenue Agency (CRA). Statistics Canada can share data concerning business activities carried out in the respective province with provincial statistical agencies, for research and analysis purposes only.

How to report your farming income

You can earn farming income as a self-employed farmer or as a partner of a farm partnership. Most of the rules that apply to self-employed farmers also apply to partners. However, if you are a partner, you should see "Reporting partnership income" on page 11.

Fiscal period

Report your farming income based on a fiscal period. A **fiscal period** is the time covered from the day your farming business starts its business year, to the day it ends its business year. For an existing business, the fiscal period is usually 12 months. A fiscal period cannot be longer than 12 months. However, it can be shorter than 12 months in some cases, such as when a new business starts or when a business stops.

Self-employed individuals generally have to use a December 31 year-end. If you are an eligible individual, you may be able to use another method of reporting business income that allows you to have a fiscal period that does not end on December 31. If your fiscal year-end is not December 31, see Guide RC4015, *Reconciliation of Business Income for Tax Purposes*, to calculate the amount of business income to report on your 2016 income tax return. The publication includes Form T1139, *Reconciliation of 2016 Business Income for Tax Purposes*.

If you filed Form T1139 with your 2015 income tax return, generally you have to file one again for 2016.

Reporting methods

You can report your farming income using the cash method or the accrual method of accounting.

Cash method

When you use the **cash method** you:

- report income in the fiscal period you receive it; and
- deduct expenses in the fiscal period you pay them.

For special rules, see "Prepaid expenses" on page 25.

If you use the cash method and receive a post-dated cheque as security for a debt, include the amount in income when the cheque is payable.

If you receive a post-dated cheque as an absolute payment for a debt and the cheque is payable before the debt is due, include the amount in your income on one of the following dates, whichever is earlier:

- the date the debt is payable; or
- the date you cash or deposit the cheque.

> **Note**
> The preceding post-dated cheque rules apply to income producing transactions, such as the sale of grain. They do not apply to transactions involving capital property, such as the sale of a tractor.

Only farmers, fishers, and self-employed commission agents can use the cash method. All other business income must be reported using the accrual method.

When you use the cash method in a farming business, do not include inventory when you calculate your income. There are, however, two exceptions to this rule.

For more information on the cash method for farming income and the exceptions, see the latest archived Interpretation Bulletin IT-433R, *Farming or Fishing – Use of Cash Method*.

For more information, see "Line 9941 – Optional inventory adjustment – current year" on page 38 and "Line 9942 – Mandatory inventory adjustment – current year" on page 38.

Accrual method

When you use the **accrual method** you:

- report income in the fiscal period you earn it, no matter when you receive it; and
- deduct expenses in the fiscal period you incur them, whether or not you pay them in that period.

For special rules, see "Prepaid expenses" on page 25.

When you calculate your income using the accrual method, the value of all inventories, such as livestock, crops, feed, and fertilizer will form part of the calculation. Make a list of your inventory and count it at the end of your fiscal period. Keep this list as part of your business records.

You can use **one** of the following methods to value your inventory:

- value all inventory at its **fair market value** (FMV) (see the definition on page 39). Use either the price you would pay to replace an item or the amount you would get if you sold an item;
- value individual items at cost or FMV, whichever is less. You can value items by group when you cannot easily tell one item from another. Cost is the price you incur for an item, plus any expenses to get it to your business location and put in a condition of use for your business; or
- value livestock according to the unit price base. For this method, complete Form T2034, *Election to Establish Inventory Unit Prices for Animals*.

Use the same method you used in past years to value your inventory. The value of your inventory at the start of your 2016 fiscal period is the same as the value at the end of your 2015 fiscal period. In your first year operating a farming business, you will not have an opening inventory at the start of your fiscal period.

For more information on inventories, see the latest archived Interpretation Bulletin IT-473R, *Inventory Valuation*.

> **Note**
> If you use the accrual method to calculate your farming income, calculate your cost of goods sold on a separate piece of paper.

Changing your method of reporting income

If you decide to change your method of reporting income from the **accrual method** to the **cash method**, simply use the cash method when you file your next income tax return.

Make sure you include a statement that shows each adjustment made to your income and expenses because of the difference in methods.

If you decide to change from the **cash method** to the **accrual method**, you must receive permission from your tax services office. Ask for this change in writing before the date you have to file your income tax return. In your letter, explain why you want to change methods.

Because there is a difference between the cash and accrual methods, the first time you file your income tax return using the accrual method, make sure you include a statement that shows each adjustment made to your income and expenses.

For information on how to report income and expenses for both the AgriStability and AgriInvest programs, and for tax purposes, see "Method of accounting" on page 16.

Business records

You are required by law to keep records of all your transactions to be able to support your income and expense claims. A record is defined to include; an account, an agreement, a book, a chart or table, a diagram, a form, an image, an invoice, a letter, a map, a memorandum, a plan, a return, a statement, a telegram, a voucher, and any other thing containing information, whether in writing or in any other form.

Keep a record of your daily income and expenses. We do not issue record books nor suggest any type of book or set of books. There are many record books and bookkeeping systems available; you can use a book that has columns and separate pages for income and expenses.

Keep your duplicate deposit slips, bank statements, and cancelled cheques. Keep separate records for each business you run. If you want to keep computerized records, make sure they are clear and easy to read.

> **Note**
> Do not send your records with your income tax return. However, do keep them in case we ask to see them at a later date.

Benefits of keeping complete and organized records

You can benefit from keeping complete and organized records. For example:

- When you earn income from many places, good records help you identify the source of income. If you keep proper records, you may be able to prove that some income is not from your business, or that it is not taxable.
- Keeping good records will remind you of expenses you can deduct when it is time to do your income tax return.
- Good records will keep you better informed about the past and present financial position of your business.
- Good records can help you budget, spot trends in your business, and get loans from banks and other lenders.
- Good records can prevent problems you may run into if we audit your income tax returns.

Consequences of not keeping adequate records

If you do not keep the necessary information and you do not have any other proof, we may have to determine your income using other methods.

We may also disallow expenses you deducted if you are unable to support them.

There are penalties for not keeping adequate records, for not giving the CRA access to your records when requested, and for not giving information to CRA officials when asked.

Income records

Keep track of the gross income your farming business earns. Gross income is your total income before you deduct expenses. Your income records should show the date, amount, and source of the income. Record the income whether you received cash, property, or services. Support all income entries with original documents.

Original documents include sales invoices, cash register tapes, receipts, cash purchase tickets from the sale of grain, and cheque stubs from marketing boards.

Expense records

Always get receipts or other vouchers when you buy something for your business. When you buy merchandise or services, the receipts have to show:

- the date of the purchase;
- the name and address of the seller or supplier;
- the name and address of the buyer; and
- a full description of the goods or services.

You were asking?

Q. What should I do if there is no description on a receipt?

A. When you buy something, make sure the seller describes the item. However, sometimes there is no description on the receipt, as with a cash register tape. In this case, you should write what the item is on the receipt or in your expense records.

Q. What should I do if a supplier does not want to give me a receipt?

A. When you buy something, make sure you get a receipt. Suppliers who are GST/HST registrants are required to provide receipts. Farmers must obtain documentation to support the transactions they enter in their books and records. Your transactions may be denied if you do not have the proper documentation to support your purchases. For more information, see Guide RC4022, *General Information for GST/HST Registrants*.

Keep a record of the properties you bought and sold. This record should show who sold you the property, the cost, and the date you bought it. This information will help you calculate your capital cost allowance (CCA) and other amounts. Chapter 4 explains how to calculate CCA.

If you sell or trade a property, show the date you sold or traded it and the amount of the payment or credit from the sale or trade-in.

Time limits for keeping records

Depending on the situation, keep your records for the following lengths of time:

- if you filed your income tax return on time, a minimum of six years after the end of the tax year to which they relate;
- if you filed your income tax return late, six years from the date you file your return; or
- if you filed an objection or appeal, keep them until either:
  - the issue is settled and the time for filing any further appeal expires; or
  - the six-year period mentioned above has expired, whichever is later.

These retention periods do not apply to certain records. For more information, see the Information Circular IC78-10R5, *Books and Records Retention/Destruction*. If you want to destroy your records before the minimum six year period is over, you must first get written permission from your tax services office. To do this, either use Form T137, *Request for Destruction of Records*, or prepare your own written request. For more information, go to **cra.gc.ca/records**.

Instalment payment

As a self-employed farmer, you may have to pay an instalment payment due December 31, 2017. In most cases, we will send you an instalment reminder showing an instalment amount we have calculated for you. There are different methods you can use to calculate instalment payments. For example, you can use the Instalment payment calculator service at My Business Account to calculate them and view their due dates. Go to:

- **cra.gc.ca/mybusinessaccount**, if you are a business owner; or
- **cra.gc.ca/representatives**, if you are an authorized representative or employee.

You may have to pay interest and a penalty if you do not pay the full instalment amount owed on time.

For more information on instalment payments or instalment interest charges, go to **cra.gc.ca/instalments**.

> **Note**
> If any of the dates mentioned above fall on a Saturday, Sunday, or statutory holiday, you have until the next business day to make your instalment payments.

Dates to remember

February 28, 2017 – If you have employees, file your 2016 T4 *Summary* and T4A *Summary*. Also, give your employees their copies of the T4 and T4A slips.

March 31, 2017 – Most farm partnerships file a partnership information return. However, there are exceptions, see Guide T4068, *Guide for the Partnership Information Return (T5013 Forms)*.

April 30, 2017 – Pay any balance owing for 2016. You must file your 2016 income tax return, if the expenditures of your 2016 business are mainly the cost or the capital cost of tax shelter investments.

June 15, 2017 – File your 2016 income tax return if you have self-employed farming income, or if you are the spouse or common-law partner of someone who does, unless your business expenditures are mainly the cost or the capital cost of tax shelter investments. Remember to pay any balance owing due April 30, 2017, to avoid interest charges.

June 30, 2017 – If you are applying from Ontario, this is the initial (non-penalty) deadline to send:

- the T1163 portion of your AgriStability form to the Winnipeg Tax Centre; and
- the supplemental portion of your AgriStability form to your provincial administration.

Your forms will be accepted after this date until the final deadline of September 30, 2017.

Your benefit will be reduced by $500 for each month (or part of a month) you submit your forms between the initial and final deadline.

September 30, 2017 – If you are applying from Alberta, Prince Edward Island, or Saskatchewan, this is the initial (non-penalty) deadline to send:

- the completed T1163 portion of your AgriStability form to the Winnipeg Tax Centre; and
- the supplemental portion of your AgriStability form to your provincial administration.

Your forms will be accepted after this date until the final deadline of December 31, 2017.

Your benefit will be reduced by $500 for each month (or part of a month) you submit your forms between the initial and final deadline.

If you are applying from Ontario, this is the final (with-penalty) deadline to send:

- the T1163 portion of your AgriStability form to the Winnipeg Tax Centre; and
- the supplemental portion of your AgriStability form to your provincial administration.

> **Note**
> AgriStability participants in Ontario – You must file your 2016 tax return reporting your farming income or loss to the CRA by September 30, 2017 to be eligible for 2016 AgriStability program benefits.

If you are applying for AgriInvest (all provinces except Quebec), this is the initial (non-penalty) deadline to send your completed AgriInvest form to the Winnipeg Tax Centre. For more information, see "Important information for AgriStability and AgriInvest" on page 10.

December 31, 2017 – Pay your instalment payment if you meet the following conditions:

- your main source of income in 2017 is self-employment income from farming; and
- your net tax owing is more than $3,000 in each of 2015, 2016, and 2017 ($1,800 if you live in Quebec on December 31 for any of those years).

For more information on paying your income tax by instalments, go to **cra.gc.ca/instalments**.

> **Note**
> If any of the dates mentioned above fall on a Saturday, Sunday, or statutory holiday, you have until the next business day to file your return or make your payment.

If you are applying from Alberta, Prince Edward Island, or Saskatchewan, this is the final (with penalty) deadline to send:

- the T1163 portion of your AgriStability form to the Winnipeg Tax Centre; and
- the supplemental portion of your AgriStability form to your provincial administration.

If you are applying for AgriInvest (all provinces except Quebec), this is the final (with penalty) deadline to send your completed AgriInvest form to the Winnipeg Tax Centre. For more information, see "Important information for AgriStability and AgriInvest" below.

> **Note**
> AgriStability participants in Alberta, Saskatchewan, and Prince Edward Island and all provinces for AgriInvest: You must file your 2016 tax return reporting your farming income or loss to the CRA by December 31, 2017 to be eligible for the 2016 program benefits.

Important information for AgriStability and AgriInvest

To participate in AgriStability, complete and send Form T1163 to the Winnipeg Tax Centre by the deadline established in your province. You must also send supplementary information to your provincial administration.

You must complete a 2016 AgriStability form and send it to the Winnipeg Tax Centre by the deadlines shown for your province if you received an AgriStability Interim or a Targeted Advance Payment (or both) for the 2016 program year. If you do not, you will have to repay the money you received.

For more information on deadlines, see "Dates to remember" on page 9 or contact your provincial administration at one of the numbers on page 2.

To participate in AgriInvest, complete and send Form T1163 to the Winnipeg Tax Centre by the deadline. The initial deadline to submit your form without penalty is September 30, 2017. The final deadline to submit your form with penalty is December 31, 2017.

We will reduce your maximum government deposit by 5% for each month (or part of a month) that you submit your form between the initial and final deadline.

> **Note**
> If the initial or final deadlines fall on a Saturday, Sunday, or statutory holiday, you have until the next business day to file your form.

Employment insurance (EI) benefits for self-employed persons

Beginning in the year you register to participate in the EI program, your EI premiums will be calculated on your income tax return for that year. If you register in 2016 to participate in this program, premiums for 2016 will be calculated on your 2016 income tax return and will be payable by April 30, 2017.

Subsequently, if you pay your income tax by instalment, EI premiums may be included in your instalment payments.

When you register for the EI program, EI premiums will be payable on your self-employment income for the entire year, regardless of the date you register. For example, whether you register in April 2016 or December 2016, you will pay EI premiums on your self-employment income for the entire 2016 year.

EI premiums are payable on the amount of your self-employment earnings up to an annual maximum amount. The annual maximum amount for 2016 is $50,800.

For more information, visit **servicecanada.gc.ca**.

Goods and services tax/harmonized sales tax (GST/HST)

Generally, you must register for the GST/HST if your worldwide gross revenues from your taxable supplies of property and services (including those taxable at 0% and those of your associates) are more than $30,000 in a single calendar quarter or over four consecutive calendar quarters. Taxable supplies of property and services include those that are subject to GST/HST at the applicable rate, those that are taxed at 0% (zero-rated), and those from all your associates.

Do not include in your calculation any revenues from sales of capital property, supplies of financial services, and goodwill from the sale of a business.

For information about GST/HST taxable farm goods and services, zero-rated farm products, and zero-rated farm purchases, see page 76. For more information on GST/HST, go to **cra.gc.ca/gsthst** or see the GST/HST Memoranda Series 2-1, *Required registration*.

The GST/HST Registry

The GST/HST Registry is an online service that allows you to verify a business GST/HST registration number which helps make sure that claims submitted for input tax credits include only the GST/HST charged by suppliers who are registered for GST/HST purposes. For more information, go to **cra.gc.ca/gsthstregistry**.

You can verify the Quebec Sales Tax (QST) registration number at **revenuquebec.ca/en/sepf/services/sgp_validation_tvq/default.aspx**.

What is a partnership?

Under Canadian provincial and territorial common law statutes, a partnership is defined as the relation (or relationship) that subsists (or exists) between persons carrying on a business in common with a view to profit. You can have a partnership without a written agreement. To help you decide if you are a partner in a certain business, determine the type and extent of your involvement in the business and check your province or territory's laws.

When you form, change, or dissolve a relationship that may be a partnership, consider:

- whether the relationship is a partnership;
- the special rules about capital gains or losses and the recapture of CCA that apply when you transfer properties to a partnership;
- the special rules that apply when you dissolve a partnership; and
- the special rules that apply when you dispose of your interest in a partnership.

For more information about partnerships, see Income tax Folio S4-F16-C1, *What is a Partnership?*

Limited partnership

A limited partnership is a partnership comprised of one or more general partners and one or more limited partners. Unlike a limited partner, a general partner has unlimited liability. However, in general terms, the liability of a limited partner is only limited if that partner is a passive partner that does not participate in running the business.

Reporting partnership income

A partnership does not generally pay income tax on its income or file an income tax return. Instead, each partner files an income tax return to report his or her share of the partnership's net income or loss. This requirement is the same whether the share of income was received in cash or as a credit to one of the partner's capital account.

Partnership losses

If a partnership has a loss from carrying on business in a taxation year, this loss is allocated to the partners. In general, the amount of business loss allocated to a particular partner is either netted against the partner's income from other sources to arrive at net income for the year or is included in determining the partner's non-capital loss for the year, as the case may be.

> **Note**
> The loss carry forward period is 20 years for non-capital losses, farm or fishing losses, restricted farm losses, and life insurer's Canadian life investment losses incurred.

Filing requirements for partnerships

Under subsection 229(1) of the Regulations, all partnerships that carry on business in Canada or are Canadian partnerships or specified investment flow-through (SIFT) partnerships must file a partnership return. However, under CRA administrative policy, certain partnerships that carry on business in Canada or are Canadian partnerships are not required to file a partnership return.

A partnership that carries on a business in Canada, or a Canadian partnership with Canadian or foreign operations or investments, has to file a T5013 partnership information return for each of its fiscal periods, if:

- at the end of the fiscal period, the partnership has an absolute value of revenues plus an absolute value of expenses of more than $2 million, or has more than $5 million in assets; or
- at any time during the fiscal period:
  - the partnership is a tiered partnership (for example, the partnership has another partnership as a partner or is itself a partner in another partnership);
  - the partnership has a partner that is a corporation or a trust;
  - the partnership invested in flow-through shares of a principal-business corporation that incurred Canadian resource expenses and renounced those expenses to the partnership; or
  - the Minister of National Revenue requests one in writing.

For more information about the partnership information return and any other filing exemptions, go to **cra.gc.ca/partnership** or see Guide T4068, *Guide for the Partnership Information Return (T5013 Forms).*

When you receive your T5013 slip, or a partnership financial statement, you must complete a Form T1163 or T1164 in the manner described in Chapter 3. Use a separate Form T1164 to deduct any business expense you incurred for which the partnership did not repay you. For more information, see "Additional expenses (partnerships)" on page 14.

Once Form T1163 is completed, enter the gross income from the T1163 (or total gross income from the T1163 plus any gross income from T1164s) on line 168 of your income tax return. Enter your share of the net income from page 5 of Form T1163 (or total of your share of the net income from T1163 plus your share of any net income from T1164s) on line 141. Attach copy 2 of your T5013 to your return.

Capital cost allowance (CCA)

A partnership can own depreciable property and claim CCA on it. However, individual partners cannot claim CCA on property the partnership owns.

From the capital cost of depreciable property, subtract any investment tax credit allocated to the individual partners. We consider this allocation to be made at the end of the partnership's fiscal period. You must also reduce the capital cost by any type of government assistance received. Box 040 of your T5013 slip, *Statement of Partnership Income,* shows the amount of CCA the partnership claimed on your behalf. This amount has already been deducted from your business income in box 116 of the T5013 slip. Do not deduct this amount again.

For more information on CCA and the adjustments to capital cost, see Chapter 4.

Any recapture of CCA or terminal loss on the sale of a partnership's depreciable property is included in the partnership's income or loss for the year that is allocated to the partners. Any taxable capital gain on the sale of a partnership's depreciable property is also allocated to the partners.

For more information about capital gains and losses, as well as recapture and terminal losses, see Chapter 4.

Eligible capital expenditures

A partnership can own eligible capital property and deduct an annual allowance. Any income from the sale of eligible capital property owned by the partnership is income of the partnership. Under certain conditions, a partnership can elect to, in effect, recognize a capital gain on the disposition of eligible capital property as if the property were ordinary non-depreciable capital property. For more information, see "Election" in Chapter 5 and Guide T4068, *Guide for the Partnership Information Return (T5013 Forms)*.

GST/HST rebate for partners

If you are an individual who is a member of a partnership, you may be able to get a rebate for the GST/HST you paid on certain expenses. The rebate is based on the GST/HST you paid on expenses you deducted from your share of the partnership income on your income tax return. However, special rules apply if your partnership paid you an allowance for those expenses.

As an individual who is a member of a partnership, you may qualify for the GST/HST partner rebate if:

- the partnership is a GST/HST registrant; and
- you personally paid GST/HST on expenses that:
  - you did not incur on behalf of the partnership; and
  - you deducted from your share of the partnership income on your income tax return.

However, special rules apply if the partnership reimbursed you these costs.

We base the rebate on the amount of the expenses subject to GST/HST you deducted on your income tax return. Examples of expenses subject to GST/HST are vehicle costs and certain business-use-of-home expenses.

You can also get a GST/HST rebate calculated on the CCA you claimed on certain types of property. For example, you can claim CCA for a vehicle you bought to earn partnership income if you paid GST/HST when you bought it.

> **Note**
> Enter the amount of the GST/HST rebate for partners that relates to eligible expenses other than CCA at line 9974 of Form T1163 or T1164. In Area A of Form T1175, reduce the undepreciated capital cost (UCC) for the beginning of 2017 by the portion of the rebate that relates to the eligible CCA.

For more information about the GST/HST rebate, see Guide RC4091, *GST/HST Rebate for Partners,* which includes Form GST370, *Employee and Partner GST/HST Rebate Application*.

Investment tax credit (ITC)

An investment tax credit (ITC) lets you subtract part of the cost of some types of property you acquired or expenditures you incurred from the taxes you owe. You may be able to claim this tax credit in 2016 if you:

- acquired qualifying property;
- incurred qualifying expenditures;
- were allocated renounced Canadian exploration expenses; or
- for farmers, acquired monies paid to agricultural organizations through check-offs, levies or cash assistance.

You may also be able to claim this tax credit in 2016 if you have unused ITCs from previous years. For more information about ITCs, see Form T2038(IND), *Investment Tax Credit (Individuals)*.

You can receive scientific research and experimental development (SR&ED) ITCs on qualified expenditures. You can receive them in the form of a cash refund or a reduction of tax payable or both. Unused SR&ED ITCs can be carried back three years or carried forward 20 years.

Agricultural producers can access ITCs earned on contributions made to agricultural organizations that fund SR&ED. For more information, see Chapter 8 of the *Third-Party Payments Policy* on the CRA website.

Chapter 2 – Your AgriStability and AgriInvest programs

Participating in the programs

You can choose to participate in AgriStability only, AgriInvest only, or both programs together, depending on the business risk management needs of your farm.

As a program participant, you are responsible for knowing program deadlines and understanding program policies. For more information, contact your administration or visit the program websites.

AgriStability

AgriStability is a voluntary program that provides support when you experience larger income losses.

Are you eligible?

To participate in AgriStability for the 2016 program year, you must:

- file a 2016 Canadian income tax return reporting eligible farming business income (or loss); and
- meet all program requirements by the deadlines.

In addition, you must have:

- enrolled in the program and paid your fee by the deadline shown on your Enrolment Notice;
- completed a minimum of six consecutive months of farming activity; and
- completed a production cycle (for example, growing and harvesting a crop or rearing livestock).

Note
We may waive the requirements to complete six consecutive months of farming activity and a production cycle if you experienced a disaster.

If you are a Status Indian farming on a reserve and you are not required to file an income tax return, contact your administration for a copy of the form and guide you need to complete.

For more information on eligibility, contact your administration or visit the program websites.

How to participate

Complete and send Form T1163 by the deadline. For more information on program deadlines, see page 9.

AgriStability benefit calculations

AgriStability is based on margins.

Program margin – your allowable income minus your allowable expenses in the current year adjusted for changes in purchased inputs, receivables, payables, and inventory.

Reference margin – your average program margin for three of the past five years (the lowest and highest margins are dropped from the calculation).

Reference margin limit – your average allowable expenses for the three years used in your reference margin calculation.

Generally, you will receive an AgriStability payment when your program margin in the current year falls below 70% of either your reference margin or your reference margin limit, whichever is lower.

AgriStability program fee

You must pay an annual fee to participate in AgriStability. The fee is $3.15 for every $1,000.00 of contribution reference margin protected (based on coverage of 70% of your margin). The minimum fee is $45.00.

AgriStability administrative cost share (ACS)

You must pay $55.00 each year for administration costs.

Send your AgriStability fee and ACS directly to your administration. For more information, contact your administration.

Do not send payments for the AgriStability or AgriInvest programs with your income tax return. The CRA will credit any payments you include with your income tax return to your income tax account.

AgriInvest

AgriInvest is a voluntary program that provides you with a self-managed producer-government savings account. AgriInvest is designed to help you manage small income declines and make investments to manage risk and improve market income. Each year you can deposit money into an AgriInvest account and receive matching government contributions. You can withdraw the money when you need it.

Are you eligible?

To participate in AgriInvest for the 2016 program year you must:

- file a 2016 Canadian income tax return reporting eligible farming business income (or loss); and
- meet all program requirements by the deadlines.

If you are a Status Indian farming on a reserve and you are not required to file an income tax return, contact your administration for a copy of the form and guide you need to complete.

For more information on eligibility, see the AgriInvest Program Handbook or go to **agr.gc.ca/agriinvest**.

How to participate

Complete and send Form T1163 by the deadline. For more information on program deadlines, see page 9.

AgriInvest benefit calculations

AgriInvest deposits are based on a percentage of your Allowable Net Sales (ANS). Allowable Net Sales are your total allowable commodity sales and program payments minus your total allowable commodity purchases and repayment of program benefits.

Once we process your form, we will send you a Deposit Notice explaining your deposit options.

Form T1163, *Statement A – AgriStability and AgriInvest Programs Information and Statement of Farming Activities for Individuals*

As a self-employed farmer, you must give us a statement that accurately shows your farming activities for the year. Use Form T1163 to report your income and expenses for income tax purposes and to report your farming information for AgriStability and AgriInvest. To get this form, go to **cra.gc.ca/forms**.

Deceased participant

If a deceased individual had farming income or losses, complete Form T1163 in the name of the deceased individual. Print "Estate" in the name area. Use the income and expenses that you are reporting on the individual's final income tax return for 2016.

Send copies of the individual's death certificate and the probated will (or letters of administration) to the CRA with the final income tax return and to your AgriStability and AgriInvest administration.

If you also file an optional return for the year of death, such as a return of rights and things, contact your administration to get the correct form you need to provide this information to your administration.

Prepare an additional Form T1163 in the name of the surviving spouse or common-law partner if a beneficiary continues the farming business. Contact your administration to get the correct form if a trust has been established for the surviving spouse or common-law partner. Use the income and expenses from the surviving spouse or common-law partner's 2016 income tax return. For more information about applying as a trust, contact your administration.

Form T1164, *Statement B – AgriStability and AgriInvest Programs Information and Statement of Farming Activities for Additional Farming Operations*

You may have more than one farming operation. For example, you could have a sole proprietorship and be a partner in a partnership. If you have more than one farming operation, complete Form T1163 for one operation and a separate Form T1164 for each additional operation. To get these forms, go to **cra.gc.ca/forms**.

> **Note**
> For each additional farming operation, you must complete both Form T1164 and a supplemental AgriStability program form.

Additional expenses (partnerships)

Complete Form T1164 if you have reported a partnership operation on Form T1163 and you want to deduct additional expenses for which the partnership did not reimburse you. For example, you may want to deduct the farming business part of allowable motor vehicle expenses or business-use-of-home expenses.

If you are using Form T1164 to deduct business-use-of-home expenses, follow these steps:

- leave the income areas of page 2 blank;
- report your expenses on the appropriate lines of page 3;
- enter the total expense from page 3 to Line 9968 of page 4;
- do not complete the "Partnership information" area of page 4;
- do not make an entry on line 9934, "Adjustment to business-use-of-home expenses;" and
- complete Form T1175, *Farming – Calculation of Capital Cost Allowance (CCA) and Business-use-of-home Expenses*.

The amount you claim reduces your net income from farming on line 141 of your income tax return. However, you cannot use business-use-of-home expenses to create or increase a loss from farming.

> **Note**
> The instructions in the note in the "Business-use-of-home expenses" section of Form T1175 do not apply if you are only claiming business-use-of-home expenses.

Completing the forms

By completing forms T1163 and T1164, you authorize:

- the CRA to share information from your income tax return with Agriculture and Agri-Food Canada; and
- Agriculture and Agri-Food Canada to share the information from your form and any additional information that you provide with:
  - provincial and territorial ministers of agriculture; and
  - administrators of other federal or provincial farm programs.

The information is used for:

- audit;
- analysis;
- evaluation; and
- special assistance payments.

For more information, see "Confidential information and participant consent" on page 2 of Form T1163.

The *Privacy Act* gives you the right to access your personal information held by the Government of Canada and make any corrections to your information.

If you want to access or correct your personal information, contact the Access to Information and Privacy Coordinator at:

Access to Information and Privacy Office
Agriculture and Agri-Food Canada
Tower 7, 10th floor, Room 130
1341 Baseline Road
Ottawa ON K1A 0C5
Telephone: **613-773-1386**
Fax: 613-773-1380

For general inquiries on privacy of personal information, contact the Office of the Privacy Commissioner (OPC) at:

Office of the Privacy Commissioner of Canada
30 Victoria Street
Gatineau QC K1A 1H3
Toll-free telephone: **1-800-282-1376**
Telephone: **819-994-5444**
TTY: 819-994-6591
Website: **priv.gc.ca**

If you have a complaint under the *Privacy Act*, contact the Office of the Privacy Commissioner.

Adjustments

If you would like to change the information you included on Form T1163 or T1164, you must send the amended information to both your provincial administration and the CRA.

If you are an AgriInvest participant, use Form RC322 to send your amendment to the federal administration as well. For more information on adjustments, contact your administration.

For adjustments that affect your net income, send Form T1-ADJ, *T1 Adjustment Request* to the CRA.

The following text explains how to complete Form T1163. Some parts of the form are self-explanatory.

Participant identification

Enter your first and last name.

Enter your Participant Identification Number (PIN). You can find your PIN on your Enrolment Notice. If you cannot find your PIN, contact your administration.

Enter your social insurance number (SIN).

Enter your telephone and fax numbers (if applicable).

Your farming information

Province/Territory of main farmstead

Enter the province or territory where you earned most or all of your gross farming income over the previous five years.

For more information on province of main farmstead and multi-jurisdiction farms, contact your administration or visit the program websites.

Number of years farmed

Enter the number of years you have farmed.

Final year of farming

Answer "Yes" if 2016 is your final year of farming.

Industry code

Enter the **industry code** that best describes your farming activity. If more than 50% of your farming business involved one specific activity, choose the code that identifies that main activity. However, if your farming operation involved more than one type of farming activity and none of these makes up more than 50% of your farming business, choose the appropriate code from the combination farm list.

The following are lists of these codes for farming operations.

Livestock farm

112110 Beef cattle, including feedlots

112120 Dairy cattle and milk

112210 Hogs and pigs

112310 Chicken eggs (includes hatching eggs)

112320 Broiler and other meat-type chickens

112330 Turkeys

112340 Poultry hatcheries

112391 Combination poultry and egg

112399 All other poultry and egg

112410 Sheep

112420 Goats

112510 Aquaculture (includes animal aquaculture, and algae and seaweed farming)

112991 Livestock combination farming and livestock farming with secondary crop farming

115210 Support activities for animal production (husbandry services)

Other animal specialties farm

112910 Apiculture (beekeeping)

112920 Horses and other equines

112930 Fur-bearing animals and rabbits

112999 All other miscellaneous animals

Field-crop farm

111110 Soybeans

111120 Oilseed (includes canola, flax, mustard, and sunflowers)

111130 Pulse crops (such as dry field peas, beans, and lentils)

111140 Wheat

111150 Corn

111190 Cereals (such as barley, oats, rye, and growing wild rice)

111211 Potatoes (includes sweet potatoes and yams)

111219 Other vegetables (except potatoes, sweet potatoes, and yams) and melons

111330 Non-citrus fruit and tree nuts

111411 Mushrooms

111419 Other food crops grown under cover

111421 Nursery and tree production

111422 Floriculture

111910 Tobacco

111940 Hay

111993 Fruit and vegetable combination farming

111994 Production of maple syrup and maple products

111999 All other miscellaneous crop farming

115110 Support activities for crop production

Production cycle

Answer "Yes" or "No" to show if you have completed a production cycle on at least one of the commodities you produce.

You must complete a production cycle to be eligible for AgriStability. If you could not complete a production cycle for reasons beyond your control, we may waive this condition.

A production cycle includes at least one of the following:

- growing and harvesting a crop;
- the process of rearing livestock;
- buying and selling livestock within a Program Year for feeding or finishing enterprises.

You do not need to complete a production cycle to be eligible for AgriInvest.

Contact person information

Complete this area if you give permission to someone else (such as your spouse, common-law partner, or accountant) to provide or ask for more information about your AgriInvest form. We will call your contact person if we have a question. We will send correspondence to both you and your contact person.

Tick the box if you have a contact person.

Enter the first and last name of your contact person, their business name (if applicable), address, and daytime phone and fax numbers.

If you leave this area blank, we will contact you directly if we have a question.

For AgriStability, contact your provincial administration if you want to add or change your AgriStability contact information.

Federal public office holder or employee of Agriculture and Agri-Food Canada (AAFC)

If you or anyone involved in completing this form is a current or former federal public office holder or employee of AAFC, answer "Yes" to this question. If you are a partner in a partnership and at least one of your partners is a current or former federal public office holders or employees of AAFC, answer "Yes."

Identification

In the following section of the form, only provide information about your main farming operation (Operation #1). Complete Form T1164 for each additional farming operation you have. Number each operation in the box at the top right-hand corner of each page.

Fiscal period

Enter the fiscal period for this operation. Report the beginning and end of the farming operation's business year by the year, month, and day. The farming operation's 2016 fiscal period must end in your 2016 tax year.

Method of accounting

Use the same method of reporting (cash or accrual) for program purposes as you use for income tax. Enter:

- code 1 if you are using the accrual method; or
- code 2 if you are using the cash method.

Was your farming operation involved in any of the following?

Tick the applicable box if you carried on business:

- as a member of a feeder association; or
- in a crop share arrangement as either a landlord or a tenant.

For your main farming operation (Operation #1), enter this information on Form T1163. For your other operations, enter this information on Form T1164.

Chapter 3 – Calculating your farming income or loss

This section of the form is used to calculate your Allowable Net Sales for AgriInvest. Allowable Net Sales are allowable commodity sales and program payments, less allowable purchases. For more information on Allowable Net Sales and how we calculate benefits under AgriInvest, see the AgriInvest Program Handbook or go to **agr.gc.ca/agriinvest**.

This section of the form is also used to calculate the cash portion of your program year margin for AgriStability. For more information on how we calculate AgriStability margins, contact your provincial administration at one of the numbers on page 2.

Use the "Commodity list" on page 68, to report all income and expenses on Form T1163. Codes may change from one year to the next. Check the list when entering your information to make sure you use the right code.

If you use the accrual method of accounting, report all your sales and your changes in opening and closing commodity inventories on separate lines using the code for the commodity to report both entries.

If you have more than one farming operation, use Form T1164 for each additional operation. Instructions in this chapter apply to both forms.

To make sure you report your information correctly for AgriInvest and AgriStability, read the following instructions carefully.

Farming income

An agricultural commodity is a plant or an animal produced in a farming business.

Some commodities that are considered farming income for income tax purposes are not allowable for AgriInvest and AgriStability programs. These include but are not limited to:

- aquaculture;
- trees and seedlings sold for use in reforestation;
- wood sales;
- peat moss; and

- income or expenses earned from wild game reserves.

Where permitted by law, hunt farms, which are different from wild game reserves, are eligible. For more information on how to apply if you operate a hunt farm, contact your administration.

If you do not produce any allowable commodities on your farm, use Form T2042 to report your farming income from non-allowable commodities to the CRA.

If you produce both allowable and non-allowable commodities on your farm:

- report the income from non-allowable commodities on line 9600, except for woodlots. Report woodlot sales using code 259; and
- report income from allowable commodities using the commodity codes (found at the back of this guide) on the "Commodity sales and program payments" section of the form. Report allowable commodity sales based on the point of sale conditions outlined further on this page.

Note
Sales and purchases of supply managed commodities are not allowable for AgriInvest. You must produce allowable commodities in addition to your supply managed commodities to participate in AgriInvest. Report both your supply managed and non-supply managed commodities using the commodity codes (found at the back of this guide) on the "Commodity sales and program payment" section of the form.

If you have questions about whether a commodity you produce is allowable for AgriInvest, contact the federal Administration at **1-866-367-8506**. For AgriStability, contact your provincial administration.

Point of sale

AgriInvest benefits are based on Allowable Net Sales, so you have to determine when the sale occurs. For AgriInvest, the point of sale for your allowable commodity is determined by the following conditions:

- you produce it on your farm;
- it is separate and identifiable from other producers' commodities;
- you bear full direct risk for the commodity; and
- you have a separate billing or accounting transaction that shows the sale value and any deductions from that value.

The point of sale is when you:

- can no longer identify your commodity as your own; and
- are no longer at risk for the value of the commodity.

If your commodity sales meet these point of sale conditions, report the code, name, and gross sale amount of each commodity on the form.

Example
You have seed potato sales of $50,000, you report:

147 potatoes $50,000

If you received a cheque for a commodity sale that is net of expenses, report the sale to include the full value of the commodity.

Example
Your receipt from the processor shows:

$10,000	gross apple sales
-1,500	pack-and-sell costs
$8,500	net sales

Report $10,000 as your gross apple sales, and $1,500 as an expense on line 9836, "Commissions and levies."

If your commodity sales include charges that were applied after the point of sale, adjust your sales to show the value of the commodity at the point of sale. Report any amounts charged after the point of sale on line 575, "Point of Sale Adjustments." This will ensure that we calculate your Allowable Net Sales correctly.

Example
Your cash ticket from the elevator shows:

$7,000	gross wheat sales
-1,500	freight charges
- 300	elevation charges
$5,200	net sales

Report the gross wheat sales of $7,000 as income. Report the freight charges of $1,500 and the elevation charges of $300 as a point of sale adjustment on line 575, under Commodity purchases and repayment of program benefits (not under Allowable expenses). You report these charges on line 575 because you incurred these expenses after you delivered your grain to the elevator (i.e., after the point of sale).

Payment in kind

A payment in kind occurs when you receive or give goods or services instead of money. For instance, to pay someone for a business expense, you may give them something you produced on your farm instead of money. When you do this, include the fair market value (FMV) of the goods or services in income. Use the appropriate code for the commodity. Deduct the same amount as an expense.

If you received a payment in kind for a product you would normally have sold, include the FMV of the product in income.

If you were a landlord renting out land involved in sharecropping, we consider any payment in kind you received to be rental income.

Example
You owed your landlord $1,000 for rent. Instead of cash, you pay him by giving him $1,000 worth of seed. Report the fair market value of $1,000 for the seed crops ($1,000) that you gave the landlord to your income as a commodity sale. Deduct the $1,000 on line 9811 as a rental expense.

Gifts

In your income, include the **fair market value** (see the definition on page 39) of livestock or other items you gave away that you would normally have sold.

Once you give the livestock or other items away, you cannot deduct any more costs for raising or maintaining them.

Crop share

If you are a tenant in a crop share, you are eligible to apply for AgriStability and AgriInvest.

If you are a landlord in a crop share, you are eligible for AgriStability and AgriInvest only if the crop share arrangement is considered a joint venture.

For AgriStability, your crop share arrangement is considered a joint venture if your share of the allowable expenses reported to the CRA is reasonable for your share of the allowable income.

For AgriInvest, your crop share arrangement is considered a joint venture if your share of allowable purchases reported to the CRA is reasonable for your share of the allowable income.

Eligible tenants and landlords report only their individual share of the allowable income and expenses.

Example 1
You are a tenant in a crop share and receive 60% of the income from the sale of your crop. Report only your 60% share of the sales under Commodity sales and program payments. Report your 60% share of expenses under Allowable expenses.

Example 2
You are an eligible landlord who receives 40% of the income from the sale of the crop. Report only your 40% share of the sales under Commodity sales and program payments. Report your 40% share of expenses under Allowable expenses.

Farming activities outside Canada

If you ship a commodity you produce in Canada outside of the country for further production, the income and expenses generated once the commodity leaves Canada is non-allowable for AgriStability and AgriInvest.

When shipping commodities outside Canada for further production, include the fair market value of the commodity at the point it leaves Canada as allowable income using the code for the commodity.

If the commodity is returned to Canada for further production or sale, include the fair market value of the commodity at the point it enters Canada as an allowable purchase using the code for the commodity.

Commodity futures

You can report income from commodity futures as a commodity sale for AgriStability and AgriInvest purposes if the income is:

- from a primary agricultural product that you produced on your farm; and
- considered a hedging strategy.

Report the gross income earned from the futures transaction as a commodity sale using the code for the commodity. Report related purchases as a commodity purchase using the code for the commodity.

Report income from futures transactions involving commodities that you did not produce or that were not considered a hedging strategy as other farming income on line 9600. Report losses as a non-allowable expense on line 9896.

Grains, oilseeds, and special crops

If you sold grain directly or through an agency, include in income all the amounts you received from these sales.

Storage and cash purchase tickets

When you delivered grain to a licensed public elevator or process elevator, you received a storage ticket, a cash purchase ticket, or a deferred cash purchase ticket.

If you received a **storage ticket**, a sale did not take place. Therefore, you do not have to include that amount in income.

However, if you received a **cash purchase ticket**, a sale did take place. Since we consider that you received a payment at the time you received the ticket, you must include the amount in income.

If you received a **deferred cash purchase ticket**, you may be able to defer the income until a later fiscal period. You can do this if the ticket provides for payment after the end of the year in which you delivered the grain. This carryover of income is only allowable in specific situations. For more information, see the latest archived Interpretation Bulletin IT-184R, *Deferred cash purchase tickets issued for grain*.

Cash advances

Under the *Agricultural Marketing Programs Act*, you may be able to get cash advances for crops that someone stores in your name. We consider these advances to be loans. Do not include these payments in your income until the crops are sold. However, for the fiscal period in which the sale occurs, include the full amount from the sale of your crops in your income.

Tree production

Allowable tree production

Trees must be produced through farming activity to be allowable for AgriStability and AgriInvest. Farming activity for trees includes:

- planting;
- nurturing; and
- harvesting.

Operations must:

- pay significant attention to managing the growth, health, and quality of the trees; and
- generate normal input and harvesting costs.

Allowable tree production includes regular seeding and harvesting of:

- trees;
- shrubs;
- herbaceous perennials; or
- annuals, including ornamental, fruit, and Christmas trees.

Report income, expenses, and inventory of allowable tree production using the code for the commodity.

Non-allowable tree production

Trees produced or harvested for the following reasons are non-allowable for AgriStability and AgriInvest:

- firewood;
- construction material;
- poles or posts;
- fibre, pulp and paper; and
- trees and seedlings destined for use in reforestation.

Report income from these non-allowable items on line 9600, “Other (specify).”Report corresponding expenses on line 9896.

Woodlots

If you operated or regularly harvested a woodlot, use commodity code 259 to report the sale of trees, lumber, logs, poles, or firewood in your income. This income is non-allowable income for AgriStability and AgriInvest.

From this income, you can deduct a type of capital cost allowance known as a depletion allowance. For more information, see the latest archived Interpretation Bulletin IT-481, *Timber Resource Property and Timber Limits*.

If you earned the income by letting other people remove standing timber from your woodlot, the proceeds may be a capital receipt. A taxable capital gain or an allowable capital loss may result. For more information on capital gains and losses, see Chapter 7 and Guide T4037, *Capital Gains*.

For more information on the sale of wood, see the latest archived Interpretation Bulletin IT-373R2, *Woodlots*.

Livestock

Include insurance payments you received for loss of livestock in the commodity sales column using the livestock commodity code.

Custom feedlot operators

For AgriStability, income and expenses may be allowable if:

- you grew (or purchased) the feed used in your custom feeding operation; and
- you made an appreciable contribution to the growth and maturity of the livestock.

For AgriInvest, income you earned from custom feeding is allowable based on the value of allowable commodities you grew (or purchased) and fed to custom-fed livestock.

If your custom feeding invoices are itemized:

- report allowable feed and protein supplements as a prepared feed sale under “Commodity sales and program payments,” using code 243; and
- report other itemized charges under “Commodity sales and program payments,” using code 576.

If your custom feeding invoices are not itemized:

- report the total amount invoiced as a prepared feed sale under “Commodity sales and program payments,” using code 246. We will use 70% of this amount to calculate your Allowable Net Sales.

PMU contract cancellation income

Income you received from the buy-out of pregnant mare urine (PMU) contracts is allowable if paid in lieu of the income you would have received for the sale of the product under the contract. Penalty fees and other compensation are non-allowable.

Use code 322 to report amounts you received for your Collection Agreement, Herd and Health payments, West Nile Reimbursement, and Equine Placement Fund.

Use line 9600, “Other (specify)” to report amounts received for Business Planning Subsidy and capital costs.

Canadian Food Inspection Agency (CFIA) – Destroying livestock

You have to include in income any payments you received under the *Health of Animals Act* for destroying animals.

Use the CFIA program payment codes to report CFIA payments you received. For more information on how to report your CFIA payments, see “Income from program payments” on page 21.

You can choose to deduct all or part of the payment as an expense in the year. However, if you choose to do this, you have to include in your income for your next fiscal period the amount you deduct in your 2016 fiscal period. If you deferred payments in your 2015 fiscal period, you have to include the deferred amounts as income in your 2016 fiscal period. Use the codes found in the “PDR/PFR/CFIA deferred livestock codes” chart on page 21 to report these amounts.

Prescribed drought region (PDR) or prescribed flood region (PFR)

In some cases, you may be able to defer the applicable income received from the sale of breeding animals in your 2016 fiscal period to a later fiscal period.

To be able to do this, you must meet these two conditions:

- your farming business was located in a PDR or PFR at some time during your 2016 fiscal period; and
- you reduced, by sale or other means, the number of breeding animals in your breeding herd by at least 15%.

For a list of PDRs and PFRs, contact the CRA or Agriculture and Agri-Food Canada. You can also visit **canada.ca** and search for Drought Watch.

> **Note**
> These deferrals do not apply if you were a non-resident and were not carrying on a farming business through a fixed place of business in Canada at the end of the tax year. They also do not apply in the year of the farmer's death.

Income deferral

The following animals kept for breeding that are over 12 months of age are considered breeding animals eligible for the income deferral:

- bovine cattle;
- bison;
- goats;
- sheep;
- deer, elk, and other similar grazing ungulates; and
- horses you breed to produce pregnant mare's urine that you sell.

Eligibility for the income deferral includes:

- all horses over 12 months of age kept for breeding; and
- breeding bees not used mainly to pollinate plants in greenhouses and larvae of such bees. For the purposes of the income deferral rule, breeding bee stock is defined as follows:
  - at any time, a reasonable estimate of the quantity of your breeding bees held at that time in the course of carrying on a farming business using a unit of measurement that is accepted as an industry standard.

The unit of measurement at the end of the year is the same as that used for the beginning of the year. A formula is used to calculate what you can defer for breeding bees.

To determine the size of your breeding herd at the end of your 2016 fiscal period, complete the following chart.

Breeding herd chart

Part 1				
How many of your female bovine cattle over 12 months of age held at the end of your 2016 fiscal year have given birth?			________	1
How many of your female bovine cattle over 12 months of age held at the end of your 2016 fiscal year have **never** given birth?			________	2
Enter one half of the figure from line 1			________	3
Enter either the figure from line 2 or line 3, whichever is less			________	4
Part 2				
How many breeding animals did you have at the end of your 2016 fiscal period?			________	5
Enter the figure from line 2	________	6		
Enter the figure from line 4	________	7		
Line 6 **minus** line 7	________		________	8
Number of breeding animals in your breeding herd at the end of your 2016 fiscal period: line 5 **minus** line 8			________	9

If the figure from line **9** is **not** more than 85% of the number of animals in your breeding herd at the end of your 2015 fiscal year, you can defer part of the income received in 2016 from the sale of breeding animals.

Before you determine how much you can defer, you need to calculate a few amounts. First, determine your sales of breeding animals for your 2016 fiscal period minus any reserves you claimed for these sales.

A **reserve** is created when you sell property and do not receive the full proceeds at the time of the sale. Instead, the amount of proceeds is spread over a number of years, which allows you to defer reporting these proceeds to the year in which you receive them. For more information on reserves, see the latest archived Interpretation Bulletin IT-154R, *Special Reserves*.

When you have determined your sales of breeding animals, subtract from this amount the cost of breeding animals you bought in your 2016 fiscal period. The result is your net sales amount.

You then determine how much you can defer as follows:

- if the amount on line 9 is more than 70% and not more than 85% of your breeding herd at the end of your 2015 fiscal period, you can defer up to 30% of your net sales amount; or
- if the amount on line 9 is between 0% and 70% of your breeding herd at the end of your 2015 fiscal period, you can defer up to 90% of your net sales amount.

You do not have to defer all of this income. You can include any part of it in your 2016 income. However, the deferred income must be reported in the fiscal period that ends in:

- the year beginning after the period or periods when the region stops being a PDR or PFR;
- the year when the farmer dies; or
- the first year when, at the end of that year, the farmer is a non-resident and has ceased to carry on business through a fixed place of business in Canada.

If you want, you can elect to report the deferred income in the year after you deferred it.

Report the income you received from the sale of breeding animals as a commodity sale using the commodity code (see "Commodity list" on page 68). Report the amount you are deferring as a purchase using one of the deferred livestock codes listed below.

In the year that you must report the deferred income, report it under commodity sales using the same deferred livestock code you used before.

PDR/PFR/CFIA deferred livestock codes	
Deferred bovine cattle	150
Deferred bison	151
Deferred goat	152
Deferred sheep	153
Deferred deer	154
Deferred elk	155
Deferred horse for PMU sales	156
Deferred other breeding animals	157

If your farming business was not in a PDR or PFR at any time during your 2016 fiscal period, you cannot defer the amount you received when you sold breeding animals. Also, you must include in your 2016 income any unreported amounts you deferred in earlier years.

However, as long as your farming business was in a PDR or PFR at any time in your 2016 fiscal period, you do not have to include income you deferred in earlier years.

Income earned from the use of commodities

Include income earned from the use of commodities with commodity sales, except for pollination services. For example, report income from stud fees with horse sales. However, report income earned from pollination services using code 376.

Private insurance proceeds for allowable commodities

Use code 661 to report proceeds you received from private insurance for revenue losses for allowable commodities. For example, report proceeds you received from Global Ag Risk for production losses of allowable commodities using this code.

Insurance proceeds for allowable expense items

Use code 406 to report insurance proceeds you received for allowable expense items, such as fertilizers, chemicals, fuel, or twine.

Income from program payments

For AgriInvest, only payments received for the loss of an allowable commodity are included in your Allowable Net Sales. For example:

- AgriInsurance/production or crop insurance, hail insurance;
- private insurance for allowable commodities; or
- wildlife damage compensation.

For AgriStability, only payments that compensate you for losses covered under AgriStability are included in your program year margin.

You should receive an AGR-1 slip, *Statement of Farm-Support Payments*, to identify your 2016 taxable farm-support payments. According to the *Income Tax Regulations*, you must provide your social insurance number to organizations that issue farm-support payments.

Use the codes found in the Program payment list A or B to report your program payment. Report the program payment code, name, and amount under "Commodity sales and program payments." Find the program payment lists beginning on page 71.

If you recorded program payments net of expenses in your books (i.e., income minus expenses), report the full amount of the payment as income and the deductions as an expense.

Example
$6,000 hail insurance proceeds
- 2,000 premiums
$4,000 net proceeds

Report $6,000 as an AgriInsurance (production or crop/hail) program payment for grains, oilseeds, and special crops, using code 401.

Report $2,000 as an allowable expense, on line 9665, "Insurance premiums (AgriInsurance/production or crop insurance)."

You should receive an AGR-1 slip reporting all farm-support programs from which you received payments of more than $100. These include farm-support programs administered by the federal, provincial, territorial, and municipal governments, and by producer associations.

You must include in income all taxable farm-support payments you received in your 2016 fiscal period, including amounts of $100 or less.

If your farm is operated as a partnership, only one partner should attach the AGR-1 slip to his or her income tax return. However, if your partnership has to file a partnership information return, you should file the AGR-1 slip with that return.

If the annual period of the AGR-1 slip is not the same as the fiscal period of your farming operation, report only the part of the farm-support payments that you earned during your normal fiscal period. For example, if your farming business has a fiscal period ending on June 30, 2016, and your AGR-1 slip shows income of $10,000 in box 14, but you earned only $6,000 of that income by June 30, 2016, you will include only $6,000 in your income for your 2016 fiscal period. You will include the remaining $4,000 in your next fiscal period. You should, however, include the AGR-1 slip issued for the 2016 calendar year with your 2016 income tax return.

Canadian Food Inspection Agency (CFIA)

Report the portion of CFIA payments you received for the loss of an allowable commodity using code 663 – *CFIA Payment for allowable commodities*.

Report the portion of CFIA payments you received for the loss of a commodity that is non-allowable for AgriStability or AgriInvest using code 587 – *CFIA payments for non-allowable commodities.* For example, a payment you received for the loss for trees destined for use in reforestation.

Report the portion of CFIA payments you received for the loss of a supply managed commodity using code 664 – *CFIA Payment for supply managed commodities*.

Report the portion of CFIA payments you received for costs not directly related to a commodity loss using code 665 – *CFIA Payment for other amounts*. For example, a payment you received for the cost of carcass disposal.

Payments from the AgriStability and AgriInvest programs

The government contributions withdrawn from Fund 2 of your AgriInvest account (shown in box 18 of your AGR-1) must be reported as investment income.

Payments you receive from AgriStability (shown in box 14 of your AGR-1) are considered farming income. Report these payments on line 9544, "Business risk management (BRM) and disaster assistance program payments."

If you received an AGR-1 slip with a negative amount in box 14, enter this amount on line 9896, "Other (specify)." You could have a negative amount if you were in an overpayment in one year and repaid the money the following year.

Other farming income

The instructions for completing "Other farming income" apply to forms T1163 and T1164.

Rental income

Except for leases explained under line 9613, on page 23, you do not usually include rental income in your farming income. To determine your rental income, use Form T776, *Statement of Real Estate Rentals*. You will find this form in Guide T4036, *Rental Income*. Report the amount of your net rental income on line 126 of your income tax return.

However, for AgriStability and AgriInvest, landlords are eligible if the crop share arrangement is a joint venture. For more information, see "Crop share" on page 18.

Line 9540 – Other program payments

Report any payments you received from programs that are not listed on Program payment list A or B (on pages 71 and 73) or under Line 9544 (below).

If you received an overpayment from any of these programs, report the amounts you repaid on line 9896, "Other (specify)." For more information, see page 38.

Do not include AgriInsurance (production or crop insurance) on this line.

Line 9544 – Business risk management (BRM) and disaster assistance program payments

Report any payments you received from the following federal or provincial BRM and disaster assistance programs:

- Canadian Agricultural Income Stabilization (CAIS) and AgriStability payments, including Interim or Targeted Advance payments;
- Whole Farm Insurance Pilot (WFIP) Program in British Columbia; and
- Ontario Whole Farm Relief Program (OWFRP).

If you received an overpayment from any of these programs, report the amounts you repaid on line 9896, "Other (specify)." For more information, see page 38.

Do not include AgriInsurance (production or crop insurance) on this line.

Line 9574 – Resales, rebates, GST/HST for allowable expenses

Report the total resales and rebates of allowable expenses, including GST/HST rebates, unless you have already reduced your expenses by these amounts.

Line 9575 – Resales, rebates, GST/HST for non-allowable expenses, and recapture of capital cost allowance (CCA)

Report the total resales and rebates for non-allowable expenses, including GST/HST rebates, unless you have already reduced your expenses by these amounts.

Recapture of capital cost allowance (CCA)

Include in your income the amount of any recapture of CCA you have from selling depreciable property such as tools and equipment.

Complete the "Calculation of capital cost allowance (CCA)" chart on Form T1175, *Farming – Calculation of Capital Cost Allowance (CCA) and Business-use-of-home Expenses*, to find out if you must report any recapture of CCA. For more information, see Chapter 4.

Line 9601 – Agricultural contract work

Report the total of incidental farming income from such things as custom or contract work, harvesting, combining, crop dusting or spraying, seeding, drying, packing, cleaning, and treating seeds.

To report income you received from renting farm machinery, see "Line 9614 – Machine rentals".

If you are a custom feedlot operator, see page 19 for information on reporting your custom feeding income.

Line 9605 – Patronage dividends

Report the total of patronage dividends (other than those for consumer goods or services) you received if you are an eligible member of an agricultural co-operative.

If you receive a patronage dividend in the form of "tax deferred co-operative shares," there is no need to immediately include it in income. Tax may be deferred until the shares are disposed of (or deemed disposed of). The balance could then be carried forward and sheltered later as actual (or deemed) proceeds of disposition.

The temporary deferral of tax on patronage dividends paid by an agricultural cooperative corporation in the form of eligible shares is extended in respect of eligible shares issued before 2021.

Line 9607 – Interest

Report the total incidental interest earned on business accounts related to your farming business, not interest on personal accounts and investments.

Line 9610 – Gravel

Report the total amounts you received from the sale of soil, sand, gravel, or stone. For some of these items, you can claim a depletion allowance.

Line 9611 – Trucking (farm-related only)

Report the total amounts you received for trucking related to your farming business.

Line 9612 – Resales of commodities purchased

Report the total sales of commodities that you did not produce on your farm. These are commodities that you bought for resale.

Report the corresponding purchases you made in this fiscal period on line 9827, "Purchases of commodities resold." For more information, see page 36.

Line 9613 – Leases (gas, oil well, surface, etc.)

If you received payments for leasing your farmland for petroleum or natural gas exploration, these payments will be either income or a capital receipt.

Include in your income the yearly amounts for rental, severance, or inconvenience from a surface rental agreement.

The first payment from these agreements is often larger than the rest of the annual payments. However, the agreement may not specify how much of the first payment is for such things as damage to land, land improvements, severance, inconvenience, or the first year's rent. When this happens, in the year you received the first payment, include in income an amount that is equal to the annual payment you will receive in the following years. The rest of the first payment is a payment for property. This may result in either a capital gain or loss. For more information on capital gains, see Chapter 7.

Line 9614 – Machine rentals

Report the amounts you received from the rental of your farm machinery.

Line 9600 – Other (specify)

Report the total amount of all other types of farming income not listed on the form. Then list the items on the blank lines provided under it.

In this section, report all non-allowable farming income. Non-allowable income includes, but is not limited to:

- aquaculture;
- trees and seedlings sold for use in reforestation;
- peat moss; and
- income earned from wild game reserves.

Income from wood sales, as defined in "Woodlots" on page 19, is also non-allowable but is reported using code 259.

The following paragraphs identify some of the other income items you can report on line 9600.

Insurance proceeds

If you received insurance proceeds as compensation for loss or damage to certain types of property, report the amount of insurance proceeds that did not relate to a specific commodity. For example, you may have insurance proceeds for damage to a building due to fire.

Report the total insurance proceeds on this line if you are being reimbursed for:

- the cost of non-depreciable property that you previously deducted as a current expense; or
- the cost of property that was a saleable item.

Indicate "insurance proceeds" on one of the lines below line 9600. If the insurance proceeds compensated you for **damages** to depreciable property and you used all of them to **repair** the property within a reasonable period of time, include the proceeds as income on this line and claim a deduction for the same amount in the "Expenses" area on page 3 of the form. Claim repairs to depreciable property that is machinery on line 9760 and repairs to motor vehicles on line 9819. If you did not spend all the insurance proceeds on repairs within a reasonable length of time, include the unexpended excess as proceeds of disposition. For more information, see "Column 4 – Proceeds of disposition in the year" on page 45.

Insurance proceeds that compensate you for **replacement** of **lost** or **destroyed** depreciable property are considered to be proceeds of disposition for that depreciable property. Do not include this type of insurance proceeds on line 9600. For more information, see Chapter 4. For information on how insurance affects the adjusted cost base of capital property, see Chapter 7.

Do not include insurance proceeds from federal, provincial, or municipal government programs. For the codes to use for government insurance programs, see the Program payment lists beginning on page 71.

Miscellaneous

You can deduct 100% of the cost of property such as **small** tools if they cost less than $500. If you did this and you later sold that property, you must include in income the amount you received from the sale.

Include in your income prizes you won from fairs or exhibitions. For more information, see Income Tax Folio S3-F9-C1, *Lottery Winnings, Miscellaneous Receipts, and Income (and Losses) from Crime*.

Summary of income

Report totals A and B from the last lines of the two columns to page 3 of the form. Add the totals together to get your gross farming income. Gross farming income is your total farming income before you deduct expenses.

Expenses

Report your expenses in this section. If you have more than one farming operation, use a separate Form T1164 for each additional operation.

You cannot include expenses for your personal use of either of the following:

- property of your farming business; or
- partnership property or services.

In addition, you cannot include any of the following as part of your expenses:

- the cost of saleable goods or services you, your family, or your partners and their families personally used or consumed, such as dairy products, eggs, fruit, vegetables, poultry, and meat;
- donations to charities and political contributions;
- interest and penalties you paid on your personal income tax; or
- most life insurance premiums (see "Line 9804 – Other insurance premiums" on page 30).

For AgriStability, there are two types of expenses:

- allowable expenses; and
- non-allowable expenses.

Allowable expenses are the operating or input expenses that directly relate to producing your commodities.

Non-allowable expenses are costs not directly related to producing your commodities. These include amounts paid for interest and capital-related expenses.

For AgriInvest, only allowable commodity purchases are used to calculate your Allowable Net Sales.

Current or capital expenses

Renovations and expenses that extend the useful life of your property or improve it beyond its original condition are usually capital expenses. However, an increase in a property's market value because of an expense is not a major factor in deciding whether the expense is capital or current. To determine whether the expense is capital or current, answer the questions in the following chart.

Current or capital expenses		
Criteria	**Capital expenses**	**Current expenses**
Does the expense provide a lasting benefit?	A capital expense generally gives a lasting benefit or advantage. For example, the cost of putting vinyl siding on the exterior walls of a wooden house is a capital expense.	A current expense is one that usually recurs after a short period. For example, the cost of painting the exterior of a wooden house is a current expense.
Does the expense maintain or improve the property?	The cost of a repair that improves a property beyond its original condition is probably a capital expense. If you replace wooden steps with concrete steps, the cost is a capital expense.	An expense that simply restores a property to its original condition is usually a current expense. For example, the cost of repairing wooden steps is a current expense.
Is the expense for a part of a property or for a separate asset?	The cost of replacing a separate asset within that property is a capital expense. For example, the cost of buying a compressor for use in your business operation is a capital expense. This is the case because a compressor is a separate asset, and is not a part of the building.	The cost of repairing a property by replacing one of its parts is usually a current expense. For instance, electrical wiring is part of a building. Therefore, an amount you spend to rewire is usually a current expense, as long as the rewiring does not improve the property beyond its original condition.
What is the value of the expense? (Use this test only if you cannot determine whether an expense is capital or current by considering the three previous tests.)	Compare the cost of the expense to the value of the property. Generally, if the cost is of considerable value in relation to the property, it is a capital expense.	This test is not a determining factor by itself. You might spend a large amount of money for maintenance and repairs to your property all at once. If this cost was for ordinary maintenance that was not done when it was necessary, it is a maintenance expense, and you deduct it as a current expense.
Is the expense for repairs to used property that you acquired to put it in suitable condition, for use in your business?	The cost of repairing used property that you acquired to put it in a suitable condition for use in your business is considered a capital expense, even though in other circumstances it would be treated as a current operating expense.	Where the repairs were for ordinary maintenance of a property that you already had in your business, the expense is usually current.
Is the expense for repairs made to an asset in order to sell it?	The cost of repairs made in anticipation of the sale of a property or as a condition of sale is regarded as a capital expense.	Where the repairs would have been made anyway, but a sale was negotiated during the course of the repairs or after their completion, the cost is regarded as current.

For more information, see Chapter 4 and Income Tax Folio S3-F4-C1, *General Discussion of Capital Cost Allowance*.

Eligible disability-related modifications made to a building

Outlays and expenses for eligible disability-related modifications made to a building can be considered current expenses. You do not have to add them to the capital cost of your building. You can also deduct expenses you paid to install or get disability-related devices and equipment. Eligible disability-related modifications include changes you make to accommodate wheelchairs.

Grants, credits, and rebates

You should subtract from the applicable expense any grant, credits, and rebates you have received.

If the grant, credit, and rebate are for a depreciable asset, subtract the amount of the rebate from the property's capital cost before calculating the capital cost allowance. For more information, see Chapter 4. If the asset qualifies for the investment tax credit, this reduction to the capital cost will also affect your claim. For more information, see Form T2038(IND), *Investment Tax Credit* (*Individuals*).

If you cannot apply the rebate, grant, or assistance to reduce a particular expense or a property's capital cost, include the amount as income on line 9574 or 9575. Only include the amount that was not used to reduce the cost of a property or the amount of an outlay or expense.

GST/HST input tax credits

If you claim the GST/HST you paid on your farming business expenses as an input tax credit, reduce the amount of the business expenses you claim by the amount of the input tax credit. Do this when the GST/HST for which you are claiming the input tax credit was paid or became payable. Enter the net expense figure on the appropriate line of Form T1163 or T1164.

Input tax credits that you claim for the purchase of depreciable property used in your business will affect your claim for CCA. If you cannot apply the credit you received to reduce a particular expense or an asset's capital cost, include the amount as income on line 9574 or 9575 of Form T1163 or T1164.

For more information on how input tax credits affect your claim for CCA, see "Column 2 – Undepreciated capital cost (UCC) at the start of the year" on page 44.

Prepaid expenses

A prepaid expense is the cost of a service you paid for ahead of time. For example, insurance, property taxes, and rent would be prepaid expenses if you paid for them in one year, but did not receive the benefits until the next year.

If you use the accrual method to determine your farming income, you can deduct the part of the prepaid expense that applies to the year you receive the benefit.

If you use the cash method for reporting income, you cannot deduct a prepaid expense amount (other than for inventory) relating to a tax year that is two or more years after the year the expense is paid. However, you can deduct the part of an amount you paid in a previous year for benefits received in the current tax year. These amounts are deductible as long as you have not previously deducted them.

For example, if you paid $600 for a three-year lease in 2016, you can deduct $400 in 2016. This represents the part of the expense that applies to 2016 and 2017. On your 2018 income tax return, you could then deduct the balance of $200 for the part of the prepaid lease that applies to 2018.

Business-use-of-home expenses

You can deduct expenses for using a work space in your home for the farming business, if you meet **one** of these conditions:

- the work space is your principal place of business; or
- you use the space only to earn income from your farming business, and you use it on a regular and ongoing basis to meet your customers.

You can deduct a part of the following expenses:

- heating;
- home insurance;
- electricity;
- cleaning materials;
- property taxes;
- mortgage interest; and
- capital cost allowance.

To calculate the part you can deduct, use a reasonable basis, such as the area of the work space divided by the total area of your home.

The capital gain and recapture rules will apply if you deduct capital cost allowance on the business-use part of your home and you later sell your home.

For more information on recapture and capital gains rules, see Chapters 4 and 7.

If you rent your home, you can deduct the part of the rent and any expenses you incur that relate to the work space.

Include your expenses for business-use-of-home on line 9896, "Other (specify)" of Form T1163 or T1164. For more information, see "Additional expenses (partnerships)" on page 14, and "Line 9934 – Adjustment to business-use-of-home expenses" on page 41.

Example
Marjorie calculates that $85 of her household electrical expense is for her farming business use. The total electrical expenses for her farm outbuildings are $1,200. She enters $1,200 on line 9799 and $85 on line 9896.

For income tax purposes, you cannot use business-use-of-home expenses to create or increase a farming loss. Therefore, if you claimed business-use-of-home expenses and you report a farming loss on line 9944, you must adjust your loss for income tax purposes at line 9934. For more information on how to make this adjustment, see the instructions for line 9934, on page 41.

Business-use-of-home expenses are non-allowable expenses for AgriStability and AgriInvest.

Commodity purchases

Report the following as commodity purchases:

- feed;
- seed;
- plants;
- transplants;
- livestock; and
- marketable products.

If you are an apple producer replacing damaged or dead trees, report apple tree purchases using the code for apples. If you are buying trees to expand an orchard, report this purchase as a capital expense.

Do not include the cost of seeds and plants you used in your personal vegetable or flower garden.

Include expenses you incurred from the use of commodities with the commodity purchases, except for pollination fees. For example, report stud fees with horse purchases. However, report pollination fees using code 376.

If you made a payment in kind for a farming business commodity purchase, deduct the value of the payment as a purchase. For more information, see "Payment in kind" on page 17.

If you are a tenant in a crop share, only include your share of the crop in your income or expenses.

Livestock owners and custom feedlot operators with prepared feed purchases

If the ingredients on your purchase invoices of prepared feed and protein supplements are listed separately:

- report allowable commodities (such as grains, forage, oilseeds) and protein supplements using code 046; and
- report the remaining expenses (such as minerals and salts) using code 570.

If the ingredients on your purchase invoices of prepared feed and protein supplements are not listed separately:

- report your total purchase using code 571. We will use 65% of this amount to calculate your Allowable Net Sales.

Livestock owners with custom feeding expenses

If the ingredients on your purchase invoices are listed separately:

- report allowable commodities (such as grains, forage, oilseeds) and protein supplements using code 577; and
- report the remaining expenses (such as minerals and salts) using code 572.

If the ingredients on your purchase invoices are not listed separately:

- report your total purchase using code 573. We will use 70% of this amount to calculate your Allowable Net Sales.

Ranch fur operators with prepared feed purchases

If the ingredients on your purchase invoices of prepared feed and protein supplements are listed separately:

- report allowable commodities (such as grains, forage, oilseeds) and protein supplements using code 046; and
- report the remaining expenses (such as minerals and salts) using code 310.

If the ingredients on your purchase invoices of prepared feed and protein supplements are not listed separately:

- report your total purchases using code 574. We will use 20% of this amount to calculate your Allowable Net Sales.

Livestock insurance premiums

Report your premiums for private livestock insurance using "Line 9953 – Private insurance premiums for allowable commodities."

Repayment of program benefits

If you had to repay a program benefit, report the repayment as a purchase using the code for the program. Amounts you repaid are shown in box 17 of your AGR-1 slip.

If you repay a program benefit from the programs listed on lines 9540 and 9544, report the amounts you repaid on line 9896, "Other (specify)."

AgriStability program – Allowable expenses

Line 9661 – Containers and twine

Report the total amount you paid for material to package, contain, or ship your farm produce or products.

If you operated a nursery or greenhouse, report the cost of your containers and pots for the plants you sold.

Line 9662 – Fertilizers and soil supplements

Report the total amount you paid for fertilizers and lime you used in your farming business.

If you used soil supplements or other growth media, report the amounts you paid for them here. Examples of soil supplements include mulch, sawdust, and weed-mats.

Report your expenses for water you purchased to produce your commodity (crop or livestock) if it was not included in your municipal taxes.

Line 9663 – Pesticides and chemical treatments

Report the total amount you paid for herbicides, insecticides, rodenticides, and fungicides. Insecticides include chemicals for pest control purposes as well as any predators or parasites introduced for that use. Also report the total amount you paid for chemicals used in treating water, manure, or slurry, as well as those used in disinfecting equipment and facilities.

Report seed treatment expenses on this line if the treatment is listed separately from the seed purchase on your original invoice. If not listed separately, include the treatment as part of the commodity purchase.

Line 9665 – Insurance premiums (AgriInsurance/production or crop insurance)

Report the total amount of premiums paid for AgriInsurance. Include premiums for hail insurance on this line. Do not include premiums for Alberta Spring Price Endorsement. For more information on other types of insurance premiums such as private, business related, or motor vehicle insurance, see "Line 9804 – Other insurance premiums" on page 30.

Line 9713 – Veterinary fees, medicine, and breeding fees

Report the total amount you paid for medicine for your animals, and for veterinary and breeding fees. Examples of such fees include the cost of artificial insemination, embryo transplants, disease testing, and castration. If you used disposable veterinary supplies for your farming business, enter these costs here.

Line 9714 – Minerals and salts

Report purchases of minerals, salts, vitamins, and premixes (which are mainly minerals and vitamins).

If you have purchased feed expenses, see page 26 for information on the codes you use to report these amounts.

Line 9764 – Machinery (gasoline, diesel fuel, oil)

Report the total amount you paid for fuel and lubricants for your machinery used in your farming operation.

Line 9799 – Electricity

Only the part of your electricity costs that relates to your farming business is deductible. To determine the part you can deduct, keep a separate record of the amounts that apply to the farmhouse and other farm properties. For example, the business part of your electricity expense will depend on how much electricity you used for the barns and shops.

Since the electricity for the farmhouse is a personal expense, you cannot deduct it unless you meet the conditions we explain in "Business-use-of-home expenses" on page 26. Include your expenses for business-use-of-home on line 9896, "Other (specify)."

Do not include the electricity expense for a house that you rented to someone else. This is a rental expense, which you enter on Form T776, *Statement of Real Estate Rentals.* You can get this form in Guide T4036, *Rental Income*.

Line 9801 – Freight and shipping

Report the amount you paid for shipping farm inputs to your operating site and shipping farm produce to market.

Report amounts you paid for carcass disposal on this line.

If you were trucking for someone else, the costs you incurred for trucking are non-allowable for AgriStability. For information on how to report these costs, see line 9798, "Agricultural contract work."

For information on how to report freight and shipping charged after the point of sale, see line 575 – "Point of Sale Adjustments."

Line 9802 – Heating fuel

Report the total amount you paid for natural gas, coal, and oil to heat farm buildings. Also enter your expenses for fuel used for curing tobacco, crop drying, or greenhouses.

You can deduct only the part of these costs that relates to your farming business. To determine the part you can deduct, keep a separate record of the amounts you paid for the farmhouse and other farm properties. For example, the business part of your heating fuel expense will depend on how much heating fuel you used for the barns and shops.

Since heating fuel for the farmhouse is a personal expense, you cannot deduct it unless you meet the conditions we explain in "Business-use-of-home expenses" on page 26. Include your expenses for business-use-of-home on line 9896, "Other (specify)."

Do not include heating fuel expenses for a house that you rented to someone else. This is a rental expense, which you enter on Form T776, *Statement of Real Estate Rentals*. You can get this form in Guide T4036, *Rental Income*.

Line 9815 – Arm's length salaries

Report the amount of gross wages you paid to your employees. Include the cost of board for hired help. Do not include salaries paid to related persons (see the definition below). If you paid salaries to related persons, see "Line 9816 – Non-arm's length salaries" on page 33.

Related persons are:

- individuals connected by blood relationship, marriage or common-law partnership, or adoption;
- a corporation; and
  - an individual, group of persons, or entity that controls the corporation;
  - an individual, group of persons, or entity of a related group that controls the corporation; or
  - any individual related to a person described above.

Salaries or drawings paid to yourself are not deductible for tax purposes.

As the employer, you must deduct your part of CPP or QPP contributions and employment insurance premiums. You can also deduct workers' compensation amounts payable on employees' remuneration and Provincial Parental Insurance Plan (PPIP) premiums. The PPIP is an income replacement plan for residents of Quebec. For details, contact Revenu Québec. For more information on making payroll deductions, go to **cra.gc.ca/payroll**.

Do not deduct the amounts you withheld from your employees' remuneration, since you already deducted them in the amount you claimed as wages.

You may have paid wages in kind to your employees. For example, you may have paid your employees by giving them livestock or grain instead of cash. If you did this:

- your employees include in their income the value of the livestock or grain; and
- you include the same amount in your gross sales for the year and deduct it as a wage expense.

Keep a detailed record of the amounts you paid to each employee and the employee's name, address, and social insurance number.

Line 9822 – Storage/drying

Report the amount you paid for storing and drying commodities. Examples of such costs include amounts paid for storage and drying services, air treatment expenses, and the purchase of germination inhibitors and other preservative agents.

Report electricity and heating fuel costs incurred in storage and drying commodities on lines 9799, "Electricity," and 9802, "Heating fuel," respectively.

Line 9836 – Commissions and levies

Report the amount you paid in commissions and levies incurred in the sale, purchase, or marketing of commodities. Also include amounts paid in levies to marketing boards, except those due to penalties or fines you incurred. Do not include commissions paid to a salesperson you contracted to market your product.

If you market fruit or vegetables through a co-op, report your pack-and-sell expenses here, except pack-and-sell expenses incurred after the point of sale. Report these amounts on line 575, "Point of Sale Adjustments."

Line 9953 – Private insurance premiums for allowable commodities

Report your private insurance premiums paid for allowable commodities such as livestock.

Report premiums for hail insurance on line 9665, "Insurance premiums (AgriInsurance/production or crop insurance)."

Do not include any premiums for:

- private insurance for non-allowable commodities;
- business-related insurance; or
- motor vehicle insurance.

For more information on other types of insurance premiums, see "Line 9804 – Other insurance premiums" on page 30.

AgriStability program – Non-allowable expenses

Line 9760 – Machinery (repairs, licences, insurance)

Report the total amount of repair, licence fee, and insurance premium expenses you incurred for your machinery. If you received insurance proceeds to help pay for repairs, see "Insurance proceeds" on page 23.

Line 9765 – Machinery lease/rental

Report the expenses you incurred for leasing machinery used to earn your farming income.

If you lease a passenger vehicle, see "Line 9829 – Motor vehicle interest and leasing costs" on page 36.

If you entered a lease agreement, you can choose to treat your lease payments as combined payments of principal and interest. However, you and the person from whom you are leasing must agree to treat the payments this way.

In this case, we consider that:

- you have bought the machinery rather than leased it; and
- you have borrowed an amount equal to the **fair market value** (see the definition on page 43) of the leased machinery.

You can deduct the interest part of the payment as an expense. You can also claim capital cost allowance (CCA) on the machinery. For more information on CCA, see Chapter 4. You can make this choice as long as the machinery qualifies and the total fair market value (FMV) of all the machinery that is subject to the lease is more than $25,000. For example, a combine that you lease with a FMV of $35,000 qualifies. However, office furniture and automobiles often do not.

To treat your lease this way, attach one of the following forms with your income tax return for the year you make the lease agreement:

- Form T2145, *Election in Respect of the Leasing of Property*; or
- Form T2146, Election in Respect of Assigned Leases or Subleased Property.

Both of these forms explain which property qualifies for this treatment.

Line 9792 – Advertising and promotion costs

Report the expenses you incurred for advertising and promoting your farm products.

If you market fruit or vegetables through a co-op, see line 9836, "Commissions and levies" for information on how to report your pack-and-sell expenses.

Line 9795 – Building and fence repairs

Report the amounts for repairs to fences and all buildings you used for farming, except your farmhouse. Do not include the value of your own labour. If the repairs improved a fence or building beyond its original condition, the costs are capital expenditures. Add them to the cost of the asset or building on your capital cost allowance (CCA) charts on Form T1175, *Farming – Calculation of Capital Cost Allowance (CCA) and Business-use-of-home Expenses*. We explain the CCA charts in Chapter 4.

For more information on capital expenditures, see Income Tax Folio S3-F4-C1, *General Discussion of Capital Cost Allowance*.

> **Note**
> You may have received insurance proceeds to pay for the repairs. If the insurance proceeds compensated you for damages to depreciable property such as buildings or fences, and you used all of them to repair the property within a reasonable period of time, you can claim a deduction for the amount spent on repairs on line 9795.
>
> You must also include the insurance proceeds as income on line 9600. If you did not spend all the insurance proceeds on repairs within a reasonable length of time, include the remainder as proceeds of disposition in column 4 of Area A, "Calculation of capital cost allowance (CCA)" on Form T1175. For more information, see "Column 4 – Proceeds of disposition in the year" on page 45.

Line 9796 – Land clearing and draining

Report the total amount for the expenses listed below. In most cases, you can deduct the costs for:

- clearing the land of brush, trees, roots, stones, and so on;
- first ploughing the land for farm use;
- building an unpaved road; and
- installing land drainage.

You do not have to deduct all the costs in the year you paid them. If you paid all the costs, you can deduct any part of them in the year you paid them. You can carry forward any part of the costs you did not deduct to another year.

However, if you rented land to someone else, you cannot deduct the above costs. Instead, you may be able to:

- add these costs to the cost of the land; or

- add these costs to the cost of the building if you plan on building on the land right away; or
- include these costs under Class 8 in the CCA charts on Form T776, *Statement of Real Estate Rentals,* if you installed a tile, plastic, or concrete land drainage system. In this case, you also need to add the costs for a tile, plastic or concrete land drainage system to Class 8 on your CCA charts on Form T2042. For more information, see Chapter 4.

For more information, see the latest archived Interpretation Bulletin IT-485, *Cost of clearing or levelling land.*

Improving land

You cannot deduct the cost of a paved road. Instead, you must add this cost to class 17 on your CCA charts on Form T1175. For more information, see Chapter 4.

You can deduct most of the cost to drill or dig water wells in the year you did the work. However, you must add some of the costs to class 8 on your CCA charts.

The costs you add are those you incurred to purchase and install:

- the casing and cribwork for the well; and
- the system that distributes water, including the pump and pipes.

You can deduct amounts you paid to have public utilities brought to your farm as long as the installations remain the property of the utility.

You can deduct amounts you paid under the *Canada Co-operative Associations Act* to build a distribution system under a gas service contract.

Line 9798 – Agricultural contract work

Report the total amount of expenses you incurred for custom and contract work, other than custom feeding. For example, you could have had a contract with someone who:

- cleaned, sorted, graded, and sprayed the eggs your hens produced; or
- had facilities to age the cheese you produced; or
- did your harvesting, combining, crop dusting, or contract seed cleaning.

If you are a custom feedlot operator, see page 26 for information on reporting your custom feeding expenses.

For AgriStability, agricultural contract work is a non-allowable expense. However, if the charges on your invoice are listed separately, report amounts that are allowable expenses for AgriStability on their specific line.

For example, your invoice lists the costs charged for chemical, fuel, and salaries. Report these amounts as follows:

- chemical on “Line 9663 – Pesticides and chemical treatments;”
- fuel on “Line 9764 – Machinery (gasoline, diesel fuel, oil);” and
- salaries on “Line 9815 – Arm’s length salaries.”

Report the remaining non-allowable amounts on line 9798.

Line 9804 – Other insurance premiums

Report the total amount of business-related insurance premiums you paid to insure your farm buildings, farm equipment (excluding machinery and motor vehicles), and business interruption. Include premiums for Alberta Spring Price Endorsement on this line. For information on reporting premiums for hail insurance or livestock, see “Line 9665 – Insurance premiums (AgriInsurance/production or crop insurance)” and “Line 9953 – Private insurance premiums for allowable commodities.”

In most cases, you cannot deduct your life insurance premiums. However, if you use your life insurance policy as collateral for a loan related to your farming business, you may be able to deduct a limited part of the premiums you paid. For more information, see the latest archived Interpretation Bulletin IT-309R2, *Premiums on Life Insurance Used as Collateral*.

In most cases, you cannot deduct the amounts you paid to insure personal property such as your home or car. However, if you used the personal property for your farming business, you can deduct the business part of these costs. For more information, see “Business-use-of-home expenses” on page 26, and line 9819, “Motor vehicle expenses” on page 34.

Premiums to private health services plans

You can deduct premiums paid to a private health services plan (PHSP) if you meet the following conditions:

- your **net income from self-employment** (excluding losses and PHSP deductions) for the current or previous year is more than 50% of your **total income***, or
- your **income from sources other than self-employment**** is $10,000 or less, for the current or previous year;
- you are actively engaged in your farming business on a regular and continuous basis either individually or as a partner; and
- the premiums are paid or payable to insure yourself, your spouse or common-law partner, or any member of your household.

* For the purposes of this claim, calculate your **total income** as follows:

– the amount from line 150 of your 2015 or 2016 income tax return, whichever applies, before you deduct any amounts for PHSPs; **minus**

– the amounts you entered on lines 207, 212, 217, 221, 229, 231, and 232 on your 2015 or 2016 income tax return, whichever applies.

** For the purposes of this claim, calculate your **income from sources other than self-employment** as follows:

– the amount from line 150 of your 2015 or 2016 income tax return, whichever applies, before you deduct any amounts for PHSPs; **minus**

– the amounts you entered on lines 135, 137, 139, 141, 143 (excluding business losses which reduced the amount on those lines), 207, 212, 217, 221, 229, 231, and 232 on your 2015 or 2016 income tax return, whichever applies.

You cannot claim a deduction for PHSP premiums if another person deducted the amount, or if you or anyone else claimed the premiums as a medical expense. For your premiums to be deductible, your PHSP coverage has to be paid or payable under a contract with **one** of the following:

- an insurance company;
- a trust company;
- a person or partnership in the business of administering PHSPs;
- a tax-exempt trade union of which you or the majority of your employees are members; or
- a tax-exempt business organization or a tax-exempt professional organization of which you are a member.

For more information on PHSPs, see the latest archived Interpretation Bulletin IT-339R2, *Meaning of 'private health services plan' (1988 and subsequent taxation years)* or go to **cra.gc.ca/phsp**.

Definitions

For the purposes of this claim, the following definitions apply:

Qualified employees are arm's length, full-time employees who have three month's service since they last became employed with a business carried on by you, with a business in which you are a majority interest partner, or with a business carried on by a corporation affiliated with you. Temporary or seasonal workers are not qualified employees.

Arm's length employees are, generally, employees who are not related to you and who are not carrying on your business with you, (for example, as your partners). For more information, see "Arm's length" on page 43.

Insurable persons are people to whom coverage is extended and who are:

- qualified employees;
- people who would be qualified employees if they had worked for you for three months; or
- people carrying on your business (including yourself and your partners).

How to calculate your maximum deduction for PHSPs

The following sections explain how to calculate your maximum PHSP deduction based on whether you had employees, and whether you insured them throughout the year or part of the year. Find the section that describes your situation.

If you did not have any employees throughout 2016

Your PHSP deduction is restricted by a dollar limit on an annual basis. The limit is a maximum of:

- $1,500 for yourself;
- $1,500 for your spouse or common-law partner and household members 18 years of age or older at the start of the period when they were insured; and
- $750 for household members under the age of 18 at the start of the period.

The maximum deduction is also limited by the number of days the person was insured. Calculate your allowable maximum for the year by using the following formula:

$\frac{A}{365} \times (B + C)$, where:

A is the number of days during the period of the year when you insured yourself and household members, if applicable, but insured less than 50% of your employees;

B equals $1,500 × the number of household members 18 and over who were insured during that period; and

C equals $750 × the number of household members under 18 who were insured during that period.

Example 1
Edwin was a sole proprietor who ran his farm alone in 2016. He had no employees and did not insure any of his household members. Edwin paid $2,000 for PHSP coverage in 2016. In his case, the coverage lasted from July 1 to December 31, 2016, a total of 184 days.

Edwin's maximum allowable PHSP deduction is calculated as follows:

$\frac{184}{365} \times \$1,500 = \$756$

Even though Edwin paid $2,000 in premiums in 2016, he can only deduct $756, because the annual limit is $1,500 and he was only insured for about half of the year. If he had been insured for the entire year, his deduction limit would be $1,500.

Example 2
Bruce was a sole proprietor who ran his farm alone in 2016. He had no employees. From January 1 to December 31, he insured himself, his wife, and his two sons. Bruce paid $1,800 to insure himself, $1,800 to insure his wife, and $1,000 for each of his sons. One of his sons was 15 years old and the other turned 18 on September 1. Bruce's PHSP deduction is limited to the following amounts:

- $1,500 for himself;
- $1,500 for his wife;
- $750 for his 15-year-old son; and
- $750 for the son who turned 18. This limit applies because he did not turn 18 until after the insured period began.

If you had employees throughout 2016

If you had at least one qualified employee throughout all of 2016, and at least 50% of the insurable persons in your business were qualified employees, your claim for PHSP premiums is limited in a different way. Your limit is based on the lowest cost of equivalent coverage for each of your qualified employees (see the definition on page 31).

Use the following steps to calculate your maximum allowable claim for the PHSP premiums paid or payable for yourself, your spouse or common-law partner, and your household members.

For each of your qualified employees, use the following formula:

X × Y = Z, where:

X equals the amount you would pay to provide yourself, your spouse or common-law partner, and your household members with coverage equivalent to that provided to a particular employee, his or her spouse or common-law partner, and household members;

Y equals the percentage of the premium you pay for that particular employee; and

Z equals your limit based on that particular employee.

Example
You have one qualified employee. To provide yourself with coverage equivalent to his, you pay a premium of $1,800. You pay 60% of your employee's premium. Your deduction limit for yourself is $1,080, calculated as follows:

$1,800 (amount X) × 60% (amount Y) = $1,080 (amount Z)

The maximum you can claim is $1,080, if you have only one qualified employee.

If you had more than one qualified employee, you must do the X × Y = Z calculation for each employee. Your limit is then the least amount you calculate for each and every employee.

Example
You have three qualified employees, Jack, Jill, and Sue. The following table shows how much you would pay for coverage equivalent to each of theirs, and the percentage of each employee's premium that you pay.

Name of employee	Cost of equivalent coverage for yourself	% of the employee's premium you pay
Jack	$1,500	20%
Jill	$1,800	50%
Sue	$1,400	40%

You must do the following three calculations:

For Jack: $1,500 (X) × 20% (Y) = $300 (Z)

For Jill: $1,800 (X) × 50% (Y) = $900 (Z)

For Sue: $1,400 (X) × 40% (Y) = $560 (Z)

Your limit is $300, the lowest of the amounts you calculated for the three employees.

Note
If you have a qualified employee with no coverage, you cannot claim your PHSP premiums as a deduction from self-employment income. You may, however, be able to claim them as medical expenses.

If you had employees throughout 2016 but the number of **arm's length** employees you insured was less than 50% of all the insurable persons in your business, your maximum allowable deduction is the **lesser** of the following two amounts:

Amount 1

Determine this amount by using the following formula:

$$\frac{A}{365} \times (B + C), \text{ where:}$$

A is the number of days during the period of the year when you insured yourself and household members, if applicable, but insured less than 50% of your employees;

B equals $1,500 × the number of household members 18 and over insured during that period;

C equals $750 × the number of household members under 18 insured during that period.

Amount 2

If you had at least one qualified employee, amount 2 is the lowest cost of equivalent coverage for each qualified employee, calculated by using the X × Y = Z formula. If you did not have at least one qualified employee, the limit in amount 1 will apply.

If you had employees for part of the year

For the part of the year when you had at least one qualified employee and your insurable arm's length employees represented at least 50% of all the insurable persons in your business, calculate your limit for **that** period the same way as in the previous section called "If you had employees throughout 2016" on page 32.

For the remainder of the year when you had no employees or when your insurable arm's length employees represented less than 50% of all the insurable persons in your business, your deduction limit for that remaining period is the lesser of the following two amounts:

Amount 1

$$\frac{A}{365} \times (B + C), \text{ where:}$$

A is the number of days during the period of the year when you insured yourself and household members, if applicable, but insured less than 50% of your employees;

B equals $1,500 × the number of household members 18 and over who were insured during that period; and

C equals $750 × the number of household members under 18 who were insured during that period.

Amount 2

If you had at least one qualified employee, amount 2 is the lowest cost of equivalent coverage for each qualified employee, calculated by using the X × Y = Z formula. If you did not have at least one qualified employee, the limit in amount 1 will apply.

Undeducted premiums

If you deduct only a part of your PHSP premium at line 9804, and you paid the premium in the year, you can include the undeducted balance in the calculation of your non-refundable medical expense tax credit. For more information, see "Line 330" in your *General Income Tax and Benefit Guide*.

Line 9805 – Interest (real estate, mortgage, other)

Report the total amount of interest you paid on money you borrowed to earn farming income, such as interest on a loan you used to buy a baler. However, do not include the interest on money you borrowed to buy a passenger vehicle used in your farming business. Include this amount under "Line 9829 – Motor vehicle interest and leasing costs."

You may be able to deduct interest expenses for a property that you used for your farming business, even if you have stopped using the property for such purposes because you are no longer in the farming business. For more information, call **1-800-959-5525**.

You can deduct interest you paid on any real estate mortgage you incurred to earn farming income, but do not deduct the principal part of loan or mortgage payments. Do not deduct interest on money you borrowed for personal purposes or to pay overdue income taxes.

Line 9807 – Memberships/subscription fees

Report the amount of annual dues or fees you paid to keep your membership in a trade or commercial farming association. You cannot deduct club membership dues (including initiation fees) if the main purpose of the club is dining, recreation, or sporting activities.

You can also deduct fees for subscriptions to farming publications you use in your farming business.

Report the amounts you paid for your AgriStability Administrative Cost Share (ACS) and your fee on this line.

Line 9808 – Office expenses

Report the amount of office expenses, such as stationery, invoices, receipt and accounting books, and any other office supplies.

Line 9809 – Legal and accounting fees

In most cases, you can deduct legal fees you incurred for your farming business. Also, you can deduct any accounting or bookkeeping fees you paid to have someone maintain your books and records, and to prepare your income tax return and GST/HST returns.

If you paid accounting and legal fees to file an appeal against an assessment or decision under the *Income Tax Act*, the *Canada Pension Plan* (CPP), the *Quebec Pension Plan* (QPP), the *Employment Insurance Act*, or the *Unemployment Insurance Act*, do not deduct them here. Deduct them on line 232 of your income tax return instead. However, you must subtract any reimbursement you received from the fees and report only the result on line 232. If you received a reimbursement in 2016 for these types of fees, which you deducted in a previous year, report the amount of the reimbursement on line 130 of your income tax return.

Do not deduct any legal or other fees you incurred to buy property, such as land, buildings, and equipment. Add these fees to the adjusted cost base of the property if the property is used in your farming business.

For more information, see the latest archived Interpretation Bulletin IT-99R5, *Legal and Accounting Fees*.

Line 9810 – Property taxes

Report the total amount of land, municipal, and realty taxes you paid for property used in your farming business. Since the municipal tax for the farmhouse is a personal expense, you cannot deduct it unless you meet the conditions we explain in "Business-use-of-home expenses" on page 26.

If you are repaying a loan for land drainage through your property tax payments to your township, you cannot include the amount you repaid as part of your property tax expense.

Line 9811 – Rent (land, buildings, pastures)

Report the total amount of rent expense you paid for land, buildings, and pastures you used for your farming business.

If you farmed in a crop share and paid your landlord a share of the crop, only include your share of the crop in your income and expenses.

Line 9816 – Non-arm's length salaries

Keep a detailed record of the amounts you paid to each related person. For a definition of related persons, see "Line 9815 – Arm's length salaries" on page 28.

As the employer, you must deduct your part of CPP or QPP contributions and employment insurance premiums. You can also deduct workers' compensation amounts payable on employees' remuneration and Provincial Parental Insurance Plan (PPIP) premiums. The PPIP is an income replacement plan for residents of Quebec. For details, contact Revenu Québec. For more information on making payroll deductions, go to **cra.gc.ca/payroll**.

Do not deduct the amounts you withheld from remuneration, since you already deducted them in the amount you claimed as wages. Do not include the cost of board.

The terms "salaries" and "wages" are used interchangeably in the description of this non-allowable expense.

You can deduct the wages you paid to your child, as long as you meet **all** of these conditions:

- you paid the wages by cheque, in cash or in kind;
- the work your child did was necessary for you to earn farm income;
- the wages were reasonable when you consider your child's age; and
- the amount you paid is what you would have paid someone else to do the same work.

Keep documents to support the wages you paid to your child. If you paid your child by cheque, keep the cancelled cheque. If you paid cash, have your child sign a receipt.

If you paid wages in kind to non-arm's length employees (including your spouse or children), report such wages in the same manner that is described at "Line 9815 – Arm's length salaries" on page 28.

You can deduct wages you paid to your spouse or common-law partner, as long as that person is not a partner in your business and you follow the same rules that apply to wages paid to your child.

If you were a partner of a farm partnership that employed your or your partner's spouse or common-law partner, the farm partnership can deduct that person's wages if it incurred the expense to earn farming income and the wages were reasonable.

Line 9819 – Motor vehicle expenses

Business use of a motor vehicle

If you used your motor vehicle for personal and business reasons, you can deduct the part of your expenses that was for farming business use. Farming business use includes things such as trips to pick up parts and farm supplies, or to deliver grain. If you did not live on your farm, the travel between the farm and your home is not considered business travel.

Keep a record of the total kilometres you drive and the kilometres you drive for farming business use. Also, keep track of what it costs you to run and maintain the motor vehicle for your fiscal period.

Do not include any of the following:

- interest on the money you borrow for a motor vehicle;
- leasing costs for a motor vehicle; or
- the capital cost allowance (CCA).

For more information on interest and leasing costs, see line 9829 on page 36. For more information on CCA, see Chapter 4.

The kind of vehicle you own may affect the expenses you can deduct. For income tax purposes, there are two definitions for vehicles:

- motor vehicles; and
- passenger vehicles.

A **motor vehicle** is an automotive vehicle designed or adapted for use on highways or streets. A motor vehicle does not include a trolley bus or a vehicle designed or adapted to be operated only on rails.

A **passenger vehicle** is a motor vehicle designed or adapted primarily to carry people on highways and streets. It seats a driver and no more than eight passengers. Most cars, station wagons, vans, and some pick-up trucks are passenger vehicles. They are subject to the limits for CCA, interest, and leasing. A passenger vehicle does not include:

- an ambulance;
- clearly marked police and fire emergency response vehicles;
- a motor vehicle you bought to use more than 50% as a taxi, a bus used in the business of transporting passengers, or a hearse used in a funeral business;
- a motor vehicle you bought to sell, rent, or lease in a motor vehicle sales, rental, or leasing business;
- a motor vehicle (except a hearse) you bought to use in a funeral business to transport passengers;
- a van, pick-up truck, or similar vehicle that seats no more than the driver and two passengers and that, in the tax year you bought or leased it, was used more than 50% to transport goods and equipment to earn income;
- a van, pick-up truck, or similar vehicle that, in the tax year you bought or leased it, was used 90% or more to transport goods, equipment, or passengers to earn income;
- a pick-up truck that, in the tax year you bought or leased it, was used more than 50% to transport goods, equipment, or passengers while earning or producing income at a remote work location or at a special work site that is at least 30 kilometres from the nearest community having a population of at least 40,000 persons; and
- a clearly marked emergency medical service vehicle used to carry paramedics and their emergency medical equipment.

To help you determine what type of vehicle you have, see the following chart. The chart does not cover every situation, but it gives some of the main definitions for vehicles bought or leased, and used to earn business income.

Vehicle definitions

Type of vehicle	Seating (includes driver)	Business use in year bought or leased	Vehicle definition
Coupe, sedan, station wagon, sports car, or luxury car	1 to 9	1% to 100%	passenger
Pick-up truck used to transport goods or equipment	1 to 3	more than 50%	motor
Pick-up truck (other than above)	1 to 3	1% to 100%	passenger
Pick-up truck with extended cab used to transport goods, equipment, or passengers	4 to 9	90% or more	motor
Pick-up truck with extended cab (other than above)	4 to 9	1% to 100%	passenger
Sport-utility used to transport goods, equipment, or passengers	4 to 9	90% or more	motor
Sport-utility (other than above)	4 to 9	1% to 100%	passenger
Van or minivan used to transport goods or equipment	1 to 3	more than 50%	motor
Van or minivan (other than above)	1 to 3	1% to 100%	passenger
Van or minivan used to transport goods, equipment, or passengers	4 to 9	90% or more	motor
Van or minivan (other than above)	4 to 9	1% to 100%	passenger

Example

Murray's farming business has a December 31 year-end. He owns a truck that is not a passenger vehicle. He uses the truck to pick up supplies and equipment. Murray kept the following records for his 2016 fiscal period:

Farming business kilometres	27,000 km
Total kilometres	30,000 km

Expenses

Gasoline and oil	$3,500
Repairs and maintenance	500
Insurance	1,000
Licence and registration fees	100
Total expenses for the truck	$5,100

This is how Murray determines the motor vehicle expenses he can deduct in his 2016 fiscal period:

$$\frac{27{,}000 \text{ (farming business kilometres)}}{30{,}000 \text{ (total kilometres)}} \times \$5{,}100 = \$4{,}590$$

Murray enters $4,590 on line 9819 of the form as motor vehicle expenses in his 2016 fiscal period. He calculates and deducts the interest on the loan to buy his truck separately on line 9829.

Note

You may have received insurance proceeds to pay for the cost of repairs. If the insurance proceeds compensated you for damages to a motor vehicle for which you claimed CCA, and you used all of them to repair the vehicle within a reasonable period of time, claim a deduction for the amount spent on repairs on line 9819. You must also include the insurance proceeds as income on line 9600. If you did not spend all the insurance proceeds on repairs within a reasonable length of time, include the remainder as proceeds of disposition in column 4 of Area A, "Calculation of capital cost allowance (CCA)" on Form T1175, *Farming – Calculation of Capital Cost Allowance (CCA) and Business-use-of-home Expenses*. For more information, see "Column 4 – Proceeds of disposition in the year" on page 45.

For more information on motor vehicle expenses, see the latest archived Interpretation Bulletin IT-521R, *Motor Vehicle Expenses Claimed by Self-Employed Individuals*.

Simplified logbook for motor vehicle expense provisions

Following a Federal initiative to reduce paper burden on businesses, you can choose to maintain a full logbook for one complete year to establish the business use of a vehicle in a base year.

After one complete year of keeping a logbook to establish a base year, a three month sample logbook can be used to extrapolate business use for the entire year, providing the usage is within the same range (within 10%) of the results of the base year. Businesses will need to demonstrate that the use of the vehicle in the base year remains representative of its normal use.

More than one vehicle

If you used more than one motor vehicle for your farming business, keep a separate record that shows the total kilometres and farming business kilometres you drove and the cost to run and maintain each vehicle. Calculate each vehicle's expenses separately.

Line 9820 – Small tools

If a tool costs you less than $500, deduct its full cost. If it costs $500 or more, add the cost to your CCA charts on Form T1175 as class 8 property. For more information, see Chapter 4.

Note
Small tools that cost less than $500 are fully deductible in the year you buy them. You can claim them as an expense on line 9820 **or** claim capital cost allowance (CCA) by including them in class 12 (with a rate of 100%). Either method is acceptable, but do not claim the amount twice. For more information on CCA, see Chapter 4.

Line 9821 – Soil testing

Report the amount of expenses you incurred for testing soil samples.

Line 9823 – Licences/permits

Report the total of annual licence and permit fees that you incurred to run your business.

Line 9824 – Telephone

Do not deduct the basic monthly rate of your home telephone. However, you can deduct any long-distance telephone calls you made on your home telephone for farming business purposes.

If you have a separate telephone to use in your business and you use it for business calls only, you can deduct its basic monthly rate.

Line 9825 – Quota rental

Report the amount of expenses you incurred for quota rentals in the fiscal year.

Line 9826 – Gravel

Report the amount of expenses you incurred for gravel used to earn farming income in the fiscal year.

Line 9827 – Purchases of commodities resold

Report purchases of commodities that you bought for resale and then sold. Report the corresponding sales of commodities purchased for resale on line 9612, "Resales of commodities purchased."

Report purchases of commodities that you bought for resale but have not yet sold.

Line 9829 – Motor vehicle interest and leasing costs

Report the leasing costs for your motor vehicle or the interest on the money you borrowed for a motor vehicle.

If you used a **passenger vehicle** (see the definition on page 34) to earn farming income, there is a limit on the amount of interest you can deduct. Whether you use the cash or accrual method to determine your income, complete the following chart to calculate the interest you can deduct. If you used your passenger vehicle for both personal and farming business use, complete the chart before you determine how much interest you can deduct as an expense.

Interest chart

Enter the total interest you paid (cash method) or that is payable (accrual method) in your fiscal year	$________	A
$10* × ________ number of days in your fiscal year for which interest was paid or payable	$________	B
Your available interest expense is either A or B, whichever amount is less	$________	

* For passenger vehicles bought:

- from September 1, 1989, to December 31, 1996, and from 2001 to 2016, use $10; and
- from 1997 to 2000, use $8.33.

Example
Heather's farming business has a December 31 year-end. On January 1, 2016, she bought a new passenger vehicle that she uses for both personal and business use. She borrowed money to buy the vehicle, and the interest she paid in her 2016 fiscal period was $2,200.

Since the car Heather bought is a passenger vehicle, there is a limit on the interest she can deduct. Heather's available interest is either of these two amounts, whichever is less:

- $2,200 (the total interest she paid in her 2016 fiscal period); and
- $3,650 ($10 × 365 days).

Heather drove 20,000 kilometres on farming business out of the total 25,000 kilometres she drove in her 2016 fiscal period. Here is how Heather determines the motor vehicle interest expenses she can deduct for her 2016 fiscal period:

$$\frac{20{,}000 \text{ (farming business kilometres)}}{25{,}000 \text{ (total kilometres)}} \times \$2{,}200 = \$1{,}760$$

Heather enters $1,760 on line 9829, as motor vehicle interest for her 2016 fiscal period.

When you use a passenger vehicle to earn farming business income, there is a limit on the amount of the leasing costs you can deduct. To calculate your eligible leasing costs, complete the "Eligible leasing costs for passenger vehicles" chart.

The lease agreement for your passenger vehicle may include items such as insurance, maintenance, and taxes. In this case, include them as part of the lease charges on line A when you complete the chart.

Note
Generally, leases include taxes such as GST and PST, or HST. Include them at line A. If you pay for items such as insurance and maintenance separately, do not include them in the amount on line A. Claim them separately on the appropriate line on Form T1163.

The following example will show you how to calculate your eligible leasing costs.

Example
On July 1, 2016, Meadow started leasing a car that is a passenger vehicle. She used the car to earn farming income. Her business has a December 31 fiscal year-end. The PST rate for her province is 8% and GST is 5%. Meadow entered the following for 2016:

Monthly lease payment	$ 500
Lease payments for 2016	$ 3,000
Manufacturer's suggested list price	$ 33,000
Number of days in 2016 she leased the car	184
GST and PST on $30,000	$ 3,900
GST and PST on $35,294	$ 4,588
GST and PST on $800	$ 104

Total lease charges incurred in Meadow's 2016 fiscal period for the vehicle	$ 3,000	1
Total lease payments deducted in fiscal periods before 2016 for the vehicle	$ 0	2
Total number of days the vehicle was leased in 2016 and before 2016	184	3
Manufacturer's list price	$ 33,000	4
Whichever is more: line 4 or $39,882 ($35,294 + $4,588) $39,882 × 85%	$ 33,900	5
($904 × 184) ÷ 30	$ 5,545	6
($33,900 × $3,000) ÷ $33,900	$ 3,000	7

Meadow's eligible leasing cost is either line **6** or **7**, whichever amount is less. In this case, her allowable claim is $3,000.

Eligible leasing costs for passenger vehicles

Total lease charges incurred in your 2016 fiscal period for the vehicle	$______	1
Total lease payments deducted before your 2016 fiscal period for the vehicle	$______	2
Total number of days the vehicle was leased in 2016 and before 2016	______	3
Manufacturer's list price	$______	4
The amount on line 4 or ($35,294 + GST* and PST*, or $35,294 + HST*), $ _____ × 85% = whichever is more	$______	5
[($800 + GST* and PST*, or $800 + HST*) × line 3] / 30 $ _____ – line 2: $ _____ =	$______	6
[($30,000 + GST* and PST*, or $30,000 + HST*) × line 1] / line 5 =	$______	7
Eligible leasing cost: Line 6 or line 7, whichever is less	$______	

* Use a GST rate of 5% or the HST rate applicable to your province.

Repayments and imputed interest
When you lease a passenger vehicle, you may have a repayment owing to you, or you may have imputed interest. If this is the case, you will not be able to use the chart.

Imputed interest is interest that would be owing to you if interest were paid on the money you deposited to lease a passenger vehicle. Calculate imputed interest for leasing costs on a passenger vehicle only if **all** the following apply:

- you made one or more deposits for the leased passenger vehicle;
- the deposit is, or the deposits are, refundable; and
- the total of the deposits is more than $1,000.

For more information, see the latest archived Interpretation Bulletin IT-521R, *Motor Vehicle Expenses Claimed by Self-Employed Individuals*.

Joint ownership of a passenger vehicle
If you and someone else owned or leased the same passenger vehicle, the limits on CCA, interest, and leasing costs still apply. The amount you can deduct as joint owners cannot be more than the amount one person owning or leasing the passenger vehicle could deduct. Each of you has to claim expenses in proportion to your share of the passenger vehicle. Your share is based on the part of the purchase price or lease costs that you paid.

Line 9935 – Allowance on eligible capital property
We explain how to determine this allowance in Chapter 5.

Line 9936 – Capital cost allowance
Report the amount of capital cost allowance (CCA) you calculate on all the eligible assets used in your farming operation. To calculate your CCA claim, use the charts on Form T1175, *Farming – Calculation of Capital Cost Allowance (CCA) and Business-use-of-home Expenses*. For more information on how to complete these charts, see Chapter 4.

Line 9937 – Mandatory inventory adjustment – prior year
If you included an amount for the mandatory inventory adjustment (MIA) on line 9942 in your 2015 fiscal period, deduct the amount as an expense on line 9937 in your 2016 fiscal period. Do not include the accrual inventories from your financial statements on this line. For more information on the accrual method, see the following:

- "Reporting methods" on page 7; and
- "Method of accounting" on page 16.

Line 9938 – Optional inventory adjustment – prior year

If you included an amount for the optional inventory adjustment (OIA) on line 9941 in your 2015 fiscal period, deduct the amount as an expense on line 9938 in your 2016 fiscal period. For more information on OIA, see the explanation for line 9941 on this page.

Do not include accrual inventories from your financial statements on this line. For information on the accrual method, see the following:

- “Reporting methods” on page 7; and
- “Method of accounting” on page 16.

Line 9896 – Other (specify)

The expenses listed on the form are only the most common ones. If you have other farming expenses that are not listed on this form and are non-allowable for AgriStability, enter the total amount on line 9896. Then list the items on the blank lines provided under line 9896. You can find more information about other expenses in Guide T4002, *Business and Professional Income*.

Report any overpayments you repaid for any of the programs identified on lines 9540 and 9544.

Summary of expenses

Copy totals C, D, and E from the bottom of each of the three tables on page 4 of the form. Add them to get your total expenses.

Summary of income and expenses

Line 9959 – Gross farming income

Report your gross farming income from line 9959 to line 168 of your income tax return. If you also completed Form T1164, add the totals from line 9959 on your Form T1163 and all your T1164 forms. Enter the result on line 168 of your income tax return.

Line 9969 – Net income (loss) before adjustments

If you are a partner of a partnership, this amount is the net farming business income of the partnership. If the amount is negative, enter the amount in brackets.

Line 9940 – Other deductions

You can enter any business-use-of-home expenses that you are carrying forward from a previous fiscal period, as long as you meet **one** of the following conditions:

- the work space is your principal place of business; or
- you use the space only to earn your farming business income, and you use it on a regular, ongoing basis to meet your customers.

For more information, see line 9934 on page 41.

Line 9941 – Optional inventory adjustment – current year

If you want to include an inventory amount in income, read this section. By making the optional inventory adjustment (OIA), you can include in your income an amount up to the fair market value of your inventory minus the mandatory inventory adjustment (MIA).

You can only make the OIA if you use the cash method. For the definitions of inventory and fair market value, see line 9942 on this page.

For the OIA, unlike for the MIA, the inventory does not have to be purchased inventory. It is the entire inventory you still have at the end of your 2016 fiscal period.

Report the amount of your OIA on line 9941. You must deduct this amount as an expense in your next fiscal period.

Line 9942 – Mandatory inventory adjustment – current year

The mandatory inventory adjustment (MIA) decreases your net loss if you held inventory at the end of your fiscal period. Read this section even if you do not have to make the MIA. This section will show you how to determine the value of the farm inventory you bought and still have at the end of your 2016 fiscal period. You will need to know this value if you must make the MIA this year or in the future.

You must make the MIA if **all** of the following apply:

- you use the cash method to report your income. Do not include accrual inventories from your financial statements on line 9942. For more information on the accrual method, see the following:
  - “Reporting methods” on page 7; and
  - “Method of accounting” on page 16;
- you have a net loss on line 9969 of the form; and
- you bought inventory and still have it at the end of your 2016 fiscal period. This does not refer only to inventory that you bought in 2016. It includes inventory that you had previously bought and still owned at the end of your 2016 fiscal period.

Your MIA is one of these two amounts, whichever is less:

- the net loss before adjustments on line 9969; or
- the value of the purchased inventory you still have at the end of your 2016 fiscal period.

To calculate your MIA, complete charts 1, 2, 3, and 4 on page 75. Once you have completed Chart 4, enter the amount on line 9942. For more information, see the latest archived Interpretation Bulletin IT-526, *Farming – Cash Method Inventory Adjustments*.

In your next fiscal period, you will deduct from your farming income the MIA you add to your net loss in your 2016 fiscal period.

Note
If you bought a specified animal (as defined on this page) in a non-arm's length transaction (see the definition on page 43), we consider that you bought the animal in the same year and at the same price for which the seller bought it.

Definitions

To value your inventory, you need to know the meaning of the following terms.

Inventory is a group of items that a business holds and intends either to consume or sell to its customers.

Farm inventory is tangible property that is:

- held for sale, such as harvested grain;
- used in the production of saleable goods, such as seed or feed; or
- in the process of being produced, such as standing crops or feeder livestock.

Seed that you have already planted and fertilizer or chemicals that you have already applied are no longer part of your inventory items. They are included in the value of the standing crops that may be included in the OIA.

Purchased inventory is inventory you have bought and paid for.

Specified animals are horses. You may also choose to treat cattle you registered under the *Animal Pedigree Act* as specified animals. To make this choice, put a note on your income tax return saying you want to treat the animal this way. If you treat an animal on a return as a specified animal, we will continue to treat it this way until you sell it.

Cash cost is the amount you paid to buy your inventory.

Fair market value is generally the highest dollar value you can get for your property in an open and unrestricted market between an informed and willing buyer and an informed and willing seller who are dealing at arm's length (see the definition on page 43) with each other.

Valuing your purchased inventory

To value your purchased inventory, read the text that follows and the example of how to complete the MIA charts. On page 75 of this guide, there are blank charts for you to use. Keep these charts as part of your records. Except for specified animals, you must value any purchased inventory you bought before or during your 2016 fiscal period at one of these two amounts, whichever is less:

- the cash cost; or
- the fair market value.

To determine which amount is less, separately compare each item or group of items in the inventory.

Value at one of the following amounts the specified animals you acquired **in** your 2016 fiscal period and still have at the end of this period:

- the cash cost;
- 70% of the cash cost; or
- any amount between these two amounts.

Value at one of the following amounts the specified animals you acquired **before** your 2016 fiscal period and still have at the end of this period:

- the cash cost;
- 70% of:
  - the value of the specified animals for MIA purposes as determined at the end of your 2015 fiscal period; **plus**
  - any amounts you paid in your 2016 fiscal period toward the purchase price; or
- any amount between these two amounts.

Example
Doug started his farming business in 2013 and uses the cash method to report his income. His year-end is December 31. Doug shows a net loss of $55,000 on line 9969. Doug has purchased inventory at the end of his 2016 fiscal period. This means he has to decrease his net loss by the MIA. Doug made a chart for the cash cost of his livestock that is purchased inventory at the end of his 2016 fiscal period.

Livestock		
Year of purchase	Cost of purchase	Amount Doug paid by the end of his 2016 fiscal period
2016	$30,000	$25,000
2015	$26,000	$26,000*
2014	$22,000	$22,000
2013	$20,000	$20,000

* For livestock bought in his 2015 fiscal period, Doug paid $19,000 in 2015 and $7,000 in 2016.

Doug's other inventory is fertilizer, seed, and fuel. The cash cost is the same as the fair market value for this inventory. Its value is as follows:

- $15,000 bought in his 2016 fiscal period
- $6,000 bought in his 2015 fiscal period
- $5,000 bought in his 2014 fiscal period

At the end of his 2016 fiscal period, Doug did not have any other inventory that he bought before his 2013 fiscal period.

Doug has registered his livestock under the *Animal Pedigree Act*. He wants to treat these animals as specified animals.

Doug completes Chart 1 as follows:

Chart 1
Cash cost of purchased inventory

Doug enters the amount he paid by the end of his 2016 fiscal period for the specified animals he bought:

Fiscal period	Cash cost	
■ in his 2016 fiscal period	$25,000	1
■ in his 2015 fiscal period	$26,000	2
■ in his 2014 fiscal period	$22,000	3
■ in his 2013 fiscal period	$20,000	4
■ before his 2013 fiscal period	$ 0	5

Doug enters the amount he paid by the end of his 2016 fiscal period for all other inventory he bought:

■ in his 2016 fiscal period	$15,000	6
■ in his 2015 fiscal period	$ 6,000	7
■ in his 2014 fiscal period	$ 5,000	8
■ in his 2013 fiscal period	$ 0	9
■ before his 2013 fiscal period	$ 0	10

Doug now knows the cash cost of his purchased inventory, including his specified animals. He uses these amounts to calculate the value of his purchased inventory at the end of his 2016 fiscal period. To do this, he completes Charts 2, 3, and 4 as follows:

Chart 2
Value of purchased inventory for specified animals

The small letters in front of each line match the paragraphs at the end of this chart. These paragraphs explain how Doug calculates the number on each line.

Inventory bought in his 2016 fiscal period Doug enters an amount that is not more than the amount on line 1, but not less than 70% of this amount.	a) $20,000	11
Inventory bought in his 2015 fiscal period Doug enters an amount that is not more than the amount on line 2, but not less than 70% of the total of the value at the end of his 2015 fiscal period, plus any amounts he paid in his 2016 fiscal period toward the purchase price.	b) $14,210	12
Inventory bought in his 2014 fiscal period Doug enters an amount that is not more than the amount on line 3, but not less than 70% of the total of the value at the end of his 2015 fiscal period, plus any amounts he paid in his 2016 fiscal period toward the purchase price.	c) $ 7,546	13
Inventory bought in his 2013 fiscal period Doug enters an amount that is not more than the amount on line 4, but not less than 70% of the total of the value at the end of his 2015 fiscal period, plus any amounts he paid in his 2016 fiscal period toward the purchase price.	d) $ 4,802	14
Inventory bought before his 2013 fiscal period	e) $ 0	15

a) Doug chose $20,000, which is between the cash cost of $25,000 and $17,500 (70% of the cash cost).

b) Doug chose to value the inventory he bought in his 2015 fiscal period at 70% of the cash cost. Therefore, the value of this inventory at the end of his 2015 fiscal period was $13,300 ($19,000 × 70%). Remember, Doug paid $19,000 for these specified animals in 2015. He paid $7,000 in 2016.

For his 2016 fiscal period, Doug chose to value the inventory he bought in his 2015 fiscal period at 70% of the total of the value at the end of the 2015 fiscal period plus any amounts he paid in his 2016 fiscal period toward the purchase price. Therefore, the amount he enters on line 12 is $14,210 [70% × ($13,300 + $7,000)]. He could choose any amount between the cash cost of $26,000 and the lowest acceptable inventory value of $14,210.

c) Doug chose to value the inventory he bought in his 2014 fiscal period at 70% of the cash cost. Therefore, the value of this inventory at the end of his 2014 fiscal period was $15,400 ($22,000 × 70%).

For his 2015 fiscal period, Doug chose to value the inventory he bought in his 2014 fiscal period at 70% of the total of the value at the end of his 2014 fiscal period. Therefore, the value of this inventory at the end of his 2015 fiscal period was $10,780 ($15,400 × 70%).

For his 2016 fiscal period, Doug chose to value the inventory he bought in his 2014 fiscal period at 70% of the total of the value at the end of his 2015 fiscal period. Therefore, the amount he enters on line 13 is $7,546 ($10,780 × 70%). He could choose any amount between the cash cost of $22,000 and the lowest acceptable inventory value of $7,546.

d) Doug chose to value the inventory he bought in his 2013 fiscal period at 70% of the cash cost. Therefore, the value of this inventory at the end of his 2013 fiscal period was $14,000 ($20,000 × 70%).

For his 2014 fiscal period, Doug chose to value the inventory he bought in his 2013 fiscal period at 70% of the total of the value at the end of his 2013 fiscal period. Therefore, the value of this inventory at the end of his 2014 fiscal period was $9,800 ($14,000 × 70%).

For his 2015 fiscal period, Doug chose to value the inventory he bought in his 2013 fiscal period at 70% of the total of the value at the end of his 2014 fiscal period. Therefore, the value of this inventory at the end of his 2015 fiscal period was $6,860 ($9,800 × 70%).

For his 2016 fiscal period, Doug chose to value the inventory he bought in his 2013 fiscal period at 70% of the total of the value at the end of his 2015 fiscal period. Therefore, the amount he enters on line 14 is $4,802 ($6,860 × 70%). He could choose any amount between the cash cost of $20,000 and the lowest acceptable inventory value of $4,802.

e) Doug had not purchased any specified animals before his 2013 fiscal period.

Chart 3
Value of purchased inventory for all other inventory

Inventory bought in his 2016 fiscal period Doug enters the amount on line 6 or the fair market value, whichever is less.	$15,000	16
Inventory bought in his 2015 fiscal period Doug enters the amount on line 7 or the fair market value, whichever is less.	$ 6,000	17
Inventory bought in his 2014 fiscal period Doug enters the amount on line 8 or the fair market value, whichever is less.	$ 5,000	18
Inventory bought in his 2013 fiscal period Doug enters the amount on line 9 or the fair market value, whichever is less.	$ 0	19
Inventory bought before his 2013 fiscal period Doug enters the amount on line 10 or the fair market value, whichever is less.	$ 0	20

Chart 4
Calculation of MIA

Doug enters the amount of his net loss from line 9969		$55,000	21
Doug enters the value of his inventory from charts 2 and 3:			
■ the amount on line 11	$20,000		
■ the amount on line 12	14,210		
■ the amount on line 13	7,546		
■ the amount on line 14	4,802		
■ the amount on line 15	0		
■ the amount on line 16	15,000		
■ the amount on line 17	6,000		
■ the amount on line 18	5,000		
■ the amount on line 19	0		
■ the amount on line 20	0		
Total value of inventory	$72,558	$72,558	22
MIA – Doug enters the amount on line 21 or line 22, whichever is less.		$55,000	23

The MIA that Doug uses for his 2016 fiscal period will be the same amount he deducts from his farming income when he calculates his income for his next fiscal period.

Enter the figure from line 23 of Chart 4, on line 9942 of Form T1163.

Partnership information – Your share of line a

Show your share of the amount from line a. In the chart "Partnership information," enter your information. For more information, see Partnership information chart on page 42.

Line 9974 – GST/HST rebate for partners received in the year

If you received a GST/HST rebate for partners, report the amount of the rebate that relates to eligible expenses other than CCA at line 9974, in the section, "Summary of income and expenses" of Forms T1163 or T1164 in the year you receive it.

In the chart "Partnership information," show the full names of the other partners, as well their percentages of ownership shares in the partnership.

Line 9934 – Adjustment to business-use-of-home expenses

If you have claimed business-use-of-home expenses (including a carry forward from a previous year claimed on line 9940) in arriving at your net income (loss), and the amount on line 9944 is negative (a loss), you must make an adjustment on line 9934. Enter one of the following amounts, whichever is less:

- the expenses you claimed from the business use of your home, including current-year expenses and any expenses you are carrying forward from previous years; or
- the amount of your loss on line 9944.

This does not mean that you cannot use your claim for business-use-of-home expenses. In a future year, you can use any expense you could not deduct in your 2016 fiscal period, as long as you meet **one** of these conditions:

- the work space is your principal place of business; or
- you use the space only to earn your farming business income, and you use it on a regular and ongoing basis to meet your customers.

Use the chart on Form T1175 to calculate your allowable claim for business-use-of-home expenses. Be sure to include any part of the CCA that you claimed for the business use of your home.

For more information, see the latest archived Interpretation Bulletin IT-514, *Work Space in Home Expenses*.

Line 9946 – Net farming income (or loss)

Report your net farming income or loss from line 9946 on line 141 of your income tax return if:

- your fiscal year-end is December 31, 2016; and
- you did not file Form T1139, *Reconciliation of 2015 Business Income for Tax Purposes,* with your 2015 income tax return.

Note
If you have more than one farming operation or additional expenses that apply to partnerships, add the amounts from line 9946 of Form T1163 and Form T1164. Enter the total of these amounts on line 141 of your income tax return.

If you have a loss, enter the amount in brackets. For more information about losses, see Chapter 6.

You may have to adjust the figure from line 9946 before entering it on your return if your fiscal year-end is not

December 31, 2016. To calculate the amount of farming income to report on your 2016 return, see Guide RC4015, *Reconciliation of Business Income for Tax Purposes*. The guide includes Form T1139. You may have filed Form T1139 with your 2015 return. If so, you probably have to complete the same form for 2016.

Partnership information chart

Complete the chart if you are a partner of a partnership. Enter your own percentage share of the partnership on the first line. Enter all other partners' information in the lines below.

AgriStability/AgriInvest Participant Identification Number (PIN)

Enter the PIN (if available) for each individual partner, corporate or co-operative partner.

Partners' names

Report the first and last names of each individual partner. If a corporation or co-operative is a partner, report the name of the corporation or co-operative. If another partnership is a partner, list the names of the partners in that partnership.

Percentage (%) share

Report each partner's percentage share based on the allocation of partnership net income/loss reported to us unless **one** of the following conditions is met:

- interest has been paid on the partners' capital; or
- salaries have been paid to partners.

In these cases, exclude these amounts when you determine the partner's percentage share.

If another partnership is a partner, determine the beneficial ownership of each individual partner. (See the following example.)

Example
The Fred and Mary Smith Partnership (a 50/50 partnership) owns 60% of the Sunny Skies Partnership. Therefore, Fred and Mary Smith would each have a 30% beneficial ownership in the Sunny Skies Partnership.

Chapter 4 – Capital cost allowance (CCA)

What is CCA?

You might acquire a depreciable property, such as a building, machinery, or equipment, to use in your farming business. You cannot deduct the cost of the property when you calculate your net farming income for the year. However, since these properties may wear out or become outdated over time, you can deduct their cost over a period of several years. The deduction for this is called capital cost allowance (CCA).

Definitions

To calculate your CCA claim, you will need to know the meaning of the following terms.

Arm's length – refers to a relationship or a transaction between persons who act in their separate interests. An arm's length transaction is generally a transaction that reflects ordinary commercial dealings between parties acting in their separate interests.

"Related persons" are not considered to deal with each other at arm's length. Related persons include individuals connected by blood relationship, marriage, common-law partnership or adoption (legal or in fact). A corporation and another person or two corporations may also be related persons.

"Unrelated persons" may not be dealing with each other at arm's length at a particular time. Each case will depend upon its own facts. The following criteria will be considered to determine whether parties to a transaction are not dealing at arm's length:

- whether there is a common mind which directs the bargaining for the parties to a transaction;
- whether the parties to a transaction act in concert without separate interests; "acting in concert" means, for example, that parties act with considerable interdependence on a transaction of common interest; or
- whether there is de facto control of one party by the other because of, for example, advantage, authority or influence.

For more information, see Income Tax Folio S1-F5-C1, *Related persons and dealing at arm's length*.

Available for use – You can claim CCA on a depreciable property only when it becomes available for use.

Property **other** than a building usually becomes available for use on the earlier of:

- the date you first use it to earn income;
- the second tax year after the year you acquire the property;
- the time just before you dispose of the property;
- the time the property is delivered or made available to you and is capable of producing a saleable product or service; or
- the time the property is delivered and is capable of performing the function for which it was acquired only in respect of property acquired by you in the course of carrying on your farming or fishing business.

Example
If you buy a tractor and the seller delivers it to you in 2016, but it was not in working order until 2017, you cannot claim CCA on it until 2017. However, if you buy a tractor and the seller delivers it to you in working order in 2016, but you did not use it until 2017; you can still claim CCA in 2016 because it was available for use.

A **building** or **part** of a building usually becomes available for use on the earlier of:

- the date you start using 90% or more of the building in your business;
- the second tax year after the year you acquire the building; or
- the time just before you dispose of the building.

A building you are **constructing**, **renovating**, **or altering** usually becomes available for use on the earlier of:

- the date you complete the construction, renovation, or alteration;
- the date you start using 90% or more of the building in your business;
- the second tax year after the year you acquire the building; or
- the time just before you dispose of the building.

Capital cost – the amount on which you first claim CCA. The capital cost of a depreciable property is usually the total of:

- the purchase price not including the cost of land, which is not depreciable (see "Land" on page 45);
- the part of your legal, accounting, engineering, installation, and other fees that relates to the purchase or construction of the depreciable property (not including the part that applies to land);
- the cost of any additions or improvements you made to the depreciable property after you acquired it, provided you have not claimed these costs as a current expense; and
- soft costs (such as interest, legal and accounting fees, and property taxes) related to the period you are constructing, renovating, or altering the building, provided you have not claimed these costs as a current expense.

Depreciable property – any property on which you can claim CCA. You usually group depreciable properties into classes. For example, diggers, drills, and tools that cost $500 or more belong to class 8. You must base your CCA claim on a rate assigned to each class of property.

For the most common classes of depreciable properties you could use in your farming operation, see "Classes of depreciable property" on page 47, and the "Capital cost allowance (CCA) rates" chart on page 74.

Fair market value (FMV) –generally the highest dollar value that you can get for your property in an open and unrestricted market between an informed and willing buyer and an informed and willing seller who are dealing at arm's length with each other.

Non-arm's length – generally refers to a relationship or transaction between persons who are related to each other.

However, a non-arm's length relationship might also exist between unrelated individuals, partnerships or corporations, depending on the circumstances. For more information, see the definition of "arm's length."

Proceeds of disposition – usually the amount you received, or that we consider you to have received, when you dispose of your depreciable property. This could include compensation you received for depreciable property that has been destroyed, expropriated, damaged, or stolen. For more information about proceeds of disposition, see Income Tax Folio S3-F4-C1, *General Discussion of Capital Cost Allowance*.

Undepreciated capital cost (UCC) – generally the amount left after you deduct CCA from the capital cost of a depreciable property. The CCA you claim each year reduces the UCC of the property each year.

How much CCA can you claim

Base your CCA claim on your fiscal period, not the calendar year. The amount of CCA you can claim depends on the type of property you own, and the date you acquired it. You group the depreciable property you own into classes. A different rate of CCA applies to each class.

We explain the most common classes of depreciable property at "Classes of depreciable property" on page 47. We list most of the classes of depreciable property and the rates for each class in the chart "Capital cost allowance (CCA) rates" on page 74.

Other things you should know about CCA:

- In most cases, you will use the declining balance method to calculate your CCA. This means that you claim CCA on the capital cost of the property minus the CCA you claimed in previous years, if any. The balance declines over the years as you claim CCA.
- You do not have to claim the maximum amount of CCA in any given year. You can claim any amount you like, from zero to the maximum allowed for the year. For example, if you do not have to pay income tax for the year, you may not want to claim CCA. Claiming CCA reduces the balance of the class by the amount of CCA claimed. As a result, the available CCA for future years will be reduced.
- In the year you acquire a depreciable property, you can usually claim CCA only on one-half of your net additions to a class. We explain this half-year rule in "Column 6 – Adjustment for current-year additions" on page 46. The available-for-use rules may also affect the amount of CCA you can claim. For more information, see "Available for use" on page 42.
- You cannot claim CCA on most land or on living things such as trees, shrubs, or animals. However, you can claim CCA on timber limits, cutting rights, and wood assets. For more information, see the latest archived Interpretation Bulletin IT-481, *Timber Resource Property and Timber Limits*.
- If you receive income from a quarry, sand, or gravel pit, or a woodlot, you can claim a type of allowance known as a depletion allowance. For more information, see the latest archived Interpretation Bulletins IT-373R2,

Woodlots, and IT-492, *Capital Cost Allowance – Industrial Mineral Mines*.

- If you claim CCA and you later dispose of the property, you may have to add an amount to your income as a recapture of CCA. Alternatively, you may be able to deduct an additional amount from your income as a terminal loss. For more information, see "Column 5 – UCC after additions and dispositions" on page 46.
- If you used depreciable property in 2016 that you used in your farming business before January 1, 1972, complete "Area A – Part XVII properties" on Form T1175, *Farming – Calculation of Capital Cost Allowance (CCA) and Business-use-of-home Expenses*.
- If you are a partner of a partnership that provides you with a T5013 slip, *Statement of Partnership Income*, you cannot personally claim CCA for property owned by the partnership. The T5013 slip you receive will have already allocated to you a share of the partnership's CCA on the depreciable farm property.

You were asking?

Q. If I start a farming business on June 1, 2016, how do I determine my CCA claim to December 31, 2016?

A. Since the period is shorter than 365 days, you must prorate your CCA claim. Calculate your CCA using the rules we discuss in this chapter. However, base your CCA claim on the number of days in your fiscal period compared to 365 days.

In your case, your fiscal period is 214 days. Suppose you calculate your CCA to be $3,500. The amount of CCA you can claim is $2,052 ($3,500 × 214/365).

Form T1175, *Farming – Calculation of capital cost allowance (CCA) and business-use-of-home expenses*

Business-use-of-home expenses

Use this section on Form T1175 to list your expenses and any amount of CCA for the business use of your home. Include these expenses and any amount of CCA for business-use-of-home expenses on line 9896 "Other (specify)" on page 4 of Form T1163 or Form T1164. You can also report any business-use-of-home expense carry forward from a previous year on the chart. This chart is for information purposes and to help you make an adjustment at line 9934 if you have a loss in the year. For more information on this adjustment, see page 41.

Area A – Calculation of capital cost allowance (CCA)

Use Area A on Form T1175 to calculate your CCA deduction. Add lines (i) and (ii) of the chart, and enter the result on line 9936 of Form T1163 or Form T1164. If any part of the CCA is for business-use-of-home expenses, enter that part in the "Business-use-of-home expenses" section. For more information, see above.

If you acquired or disposed of buildings or equipment during the year, you will need to complete Area B, C, D, or E (whichever applies) before you complete Area A. Even if you are not claiming a deduction for CCA for your 2016 fiscal period, you should complete these areas to show any additions or disposals during the year.

For more information on how to complete all these areas, see the following sections.

Column 1 – Class number

If this is the first year you are claiming CCA, see "Classes of depreciable property" on page 47 for the most common classes of depreciable properties you could use in your farming operation, and "Capital cost allowance (CCA) rates" on page 74.

If you claimed CCA last year, you can get the class numbers from last year's Form T1175. Generally, if you own several properties in the same CCA class, you combine the capital cost of all these properties in one class. You then enter the total in Area A.

Column 2 – Undepreciated capital cost (UCC) at the start of the year

If this is the first year you are claiming CCA, skip this column. Otherwise, enter in this column the UCC for each class at the end of last year. If you completed Area A on Form T1175 last year, you will find these amounts in column 10.

You may have received a GST/HST input tax credit in 2015 for a passenger vehicle you used less than 90% of the time in your business. In this case, subtract the amount of the credit from your beginning UCC for your 2016 fiscal period. For more information, see "Grants, subsidies, and rebates" on page 50.

Subtract any investment tax credit you claimed or were refunded in 2015 from your UCC at the start of your 2016 fiscal period. Also, subtract any 2015 investment tax credit you carried back to a year before 2015.

> **Note**
> In 2016, you may be claiming, carrying back, or getting a refund of an investment tax credit. If you still have depreciable property in the class, you must adjust the UCC of the class to which the property belongs in 2017. To do this, subtract the amount of the investment tax credit from the UCC at the beginning of 2017. If there is no property left in the class, report the amount of the investment tax credit as other income, on line 9600, in 2017.

Column 3 – Cost of additions in the year

If you acquire or make improvements to depreciable property in the year, we generally consider the improvements to be additions to the class in which the property belongs. For an exception to this rule, see "Class 3 (5%)" on page 47.

Enter the details of your 2016 additions on your form as follows:

- complete Area B or Area C (whichever applies) of Form T1175; and
- for each class, enter in column 3 of Area A the corresponding amount from column 5 in Area B and Area C.

When completing Area B and Area C (see below), enter in column 4 the part of the property that you use personally, separately from the part you use for business. For example, if you use 25% of the building in which you live for your farming business, your personal portion is the other 75%.

Do not include the value of your own labour in the cost of a property you build or improve. Include the cost of surveying or valuing a property you acquire in the capital cost of the property. Remember that a property usually has to be available for use before you can claim CCA. See "Available for use" on page 42.

Note
If you received insurance proceeds to reimburse you for the **loss** or **destruction** of depreciable property, enter the amount you spent to **replace** the property in column 3 of Area A, and also in column 3 of Area B or C, whichever applies.

Include the amount of insurance proceeds as proceeds of disposition in column 4 of Area A and also in column 3 of Area D or E, whichever applies. For more information, see "Insurance proceeds" on page 23.

If you replace lost or destroyed property, special rules for replacement property may apply. The replacement property must be acquired within two years of the end of the taxation year in which it was lost or destroyed. For more information, see the latest archived Interpretation Bulletins IT-259R4, *Exchange of Property*, and IT-491, *Former Business Property*, and its Special Release.

Area B – Details of equipment additions in the year

List the details of all equipment, machinery, or motor vehicles you acquired or improved in 2016. Group the equipment into the applicable classes, and put each class on a separate line. **Enter on line 9925** the total business portion of the cost of the equipment.

Area C – Details of building additions in the year

List the details of all buildings you acquired or improved in 2016. Group the buildings into the applicable classes, and put each class on a separate line. **Enter on line 9927** the total business portion of the cost of the buildings. The cost includes the purchase price of the building, plus any related expenses that you should add to the capital cost of the building, such as legal fees, land transfer taxes, and mortgage fees.

To find out if any special situations apply in your case when you acquire property, you should also see "Special situations" on page 49.

Land

Land is not depreciable property. Therefore, you cannot claim CCA on its cost. If you acquire a farm property that includes both land and a building, enter in column 3 of Area C only the cost of the building. To work out the building's capital cost, you must split any fees that relate to the purchase of the property between the land and the building. Related fees may include legal and accounting fees.

Calculate the part of the related fees you can include in the capital cost of the building as follows:

$$\frac{\text{building value}}{\text{total purchase price}} \times \text{legal, accounting, or other fees} = \text{the part of the fees you can include in the building's cost}$$

You do not have to split a fee if it relates specifically to the land or the building. In this case, you would add the amount of the fee to the cost to which it relates either the land or the building.

Column 4 – Proceeds of disposition in the year

If you disposed of a depreciable property during your 2016 fiscal period:

- complete Area D and Area E on page 2 of Form T1175, if they apply; and
- enter at column 4 of Area A for each class, the amount from column 5 of Area C and Area D for the class.

When completing Area D and Area E, enter in column 3 one of the following amounts, whichever is less:

- your **proceeds of disposition** (see the definition on page 43), minus any related expenses; or
- the capital cost of your depreciable property.

Note
If you received insurance proceeds to reimburse you for the **loss** or **destruction** of depreciable property, include the amount of insurance proceeds as proceeds of disposition in column 4 of Area A and in column 3 of Area D or E, whichever applies. Enter the amount you spent to **replace** the property in column 3 of Area A, and in column 3 of Area B or C, whichever applies. For more information, see "Insurance proceeds" on page 23.

If you replace lost or destroyed property, special rules for replacement property may apply. The replacement property must be acquired within two years of the end of the taxation year in which it was lost or destroyed. For more information, see the latest archived Interpretation Bulletins IT-259R4, *Exchange of Property*, and IT-491, *Former Business Property*, and its Special Release.

Special rules may apply if you dispose of a building for less than both its undepreciated capital cost and your capital cost. If this is the case, for more information, see "Special rules for disposing of a building in the year" on page 52.

If you dispose of a depreciable property for more than its cost, you will have a capital gain. For more information on capital gains, see Chapter 7. You cannot have a capital loss when you sell depreciable property. However, you may have a terminal loss. For more information on terminal losses, see "Column 5 – UCC after additions and dispositions" on page 46.

Note
When completing Area D and Area E (see below), enter in column 4 the part of the property that you use personally, separately from the part you use for business. For example, if you use 25% of the building in which you live for your farming business, your personal portion is the other 75%.

For more information, see Income Tax Folio S3-F4-C1, *General Discussion of Capital Cost Allowance*.

Area D – Details of equipment dispositions in the year

In this area, list the details of all equipment, machinery, or motor vehicles you disposed of in 2016. Group the properties into the applicable classes, and put each class on a separate line. **Enter on line 9926** the total business portion of the proceeds of disposition of the equipment, machinery, and motor vehicles.

Area E – Details of building dispositions in the year

In this area, list the details of all buildings you disposed of in 2016. Group the buildings into the applicable classes, and put each class on a separate line. **Enter on line 9928** the total business portion of the proceeds of disposition of the buildings.

Column 5 – UCC after additions and dispositions

You cannot claim CCA when the amount in column 5 is:

- negative (see "Recapture of CCA" below); or
- positive and you do not have any property left in that class at the end of your 2016 fiscal period (see "Terminal loss" below).

In either case, enter "0" in column 10.

Recapture of CCA

If the amount in column 5 is negative, you have a recapture of CCA. Include your recapture on line 9600 of page 3 of Form T1163 or T1164. A recapture of CCA can occur, for example, when you get a government grant, or claim an investment tax credit.

It can also happen if the proceeds from the sale of depreciable property are more than the total of:

- the UCC of the class at the beginning of the year; and
- the capital cost of any additions during the year.

In some cases, you may be able to postpone a recapture of CCA. For example, you may sell a property and replace it with a similar one, someone may expropriate your property, or you may transfer property to a corporation, a partnership, or your child.

Terminal loss

If the amount in column 5 is positive, and you no longer own any property in that class, you may have a terminal loss. More precisely, you may have a terminal loss when, at the end of your fiscal period, you have no more property in the class, but you still have an amount that you have not deducted as CCA. You can usually subtract this terminal loss from your gross farming income in the fiscal period you disposed of the depreciable property. Include your terminal loss on line 9896 on page 3 of Form T1163 or T1164.

For more information on recapture of CCA and terminal loss, see Income Tax Folio S3-F4-C1, *General Discussion of Capital Cost Allowance*.

Note
The rules for recapture of CCA and for terminal loss do not apply to passenger vehicles in class 10.1. To calculate your CCA claim, see "Column 7 – Base amount for CCA" on this page.

Column 6 – Adjustment for current-year additions

In the year you acquire or make additions to a property, you can usually claim CCA on only one-half of your net additions (the amount in column 3 minus the amount in column 4). We call this the **half-year rule**.

Calculate your CCA claim only on the net adjusted amount. Do not reduce the cost of the additions in column 3, or the CCA rate in column 8. For example, if you acquired a property in 2016 for $30,000, you would base your CCA claim on $15,000 ($30,000 × 50%).

If you acquired and disposed of depreciable property of the same class in 2016, the calculation in column 6 restricts your CCA claim. Calculate the CCA you can claim as follows:

- determine which of the following amounts is less:
  - the proceeds of disposition of your property, **minus** any related costs or expenses; or
  - the capital cost.
- subtract the above amount from the capital cost of your addition.
- enter 50% of the result in column 6. If the result is negative, enter "0."

In some cases, you do not make an adjustment in column 6. For example, in a non-arm's length transaction, you may buy depreciable property that the seller continuously owned from the day that is at least 364 days before the end of your 2016 fiscal period to the day the property was purchased. However, if you transfer personal property, such as a car or a personal computer into your business, the half-year rule applies to the particular property transferred.

Some properties are not subject to the half-year rule. Examples of these are the properties in classes 13, 14, 23, 24, 27, 29, 34, and 52, as well as some of those in class 12, such as small tools that cost less than $500.

Note
If you claimed small tools that cost less than $500 as an expense on line 9820, do not claim them again as class 12 CCA.

The half-year rule does not apply when the available-for-use rule (see page 42) denies a CCA claim until the second tax year after the year you acquired the property.

For more information on the half-year rule, see Income Tax Folio S3-F4-C1, *General Discussion of Capital Cost Allowance*.

Column 7 – Base amount for CCA

Base your CCA claim on this amount.

For a class 10.1 vehicle you disposed of in your 2016 fiscal period, you may be able to claim 50% of the CCA that would be allowed if you still owned the vehicle at the end of your 2016 fiscal period. This is known as the **half-year rule on sale**.

You can use the half-year rule on sale if, at the end of your 2015 fiscal period, you owned the class 10.1 vehicle you disposed of in 2016. If this applies to you, in column 7 enter 50% of the amount in column 2.

Column 8 – Rate (%)
Enter the rate in this column for each class of property in Area A of Form T1175. For a list of rates, see "Capital cost allowance (CCA) rates" on page 74. For more information on certain kinds of property, see "Classes of depreciable property" on page 47.

Column 9 – CCA for the year
In column 9, enter the CCA you would like to deduct for 2016. The CCA you can deduct cannot be more than the amount you get when you multiply the amount in column 7 by the rate in column 8. You can deduct any amount up to the maximum.

If this is your first year of business, you may have to prorate your CCA claim. See "You were asking?" on page 44.

For Part XI assets, add the amounts in column 9 and enter the total on line (i). For Part XVII assets, add the amounts in column 6 and enter the total on line (ii). Enter the total of lines (i) and (ii), **minus** any CCA for business-use-of-home expenses, on line 9936 of Form T1163 or T1164. Enter any CCA for business-use-of-home expenses on page 1 of Form T1175. For more information, see "Business-use-of-home expenses" on page 44.

To find out how to calculate your CCA claim if you are using the property for both business and personal use, see "Personal use of property" on page 50.

Column 10 – UCC at the end of the year
This is the UCC at the end of your 2016 fiscal period. It is the amount you will enter in column 2 when you calculate your CCA claim next year.

Enter "0" in column 10 if you have a terminal loss or a recapture of CCA. There will not be an amount in column 10 for a class 10.1 passenger vehicle you dispose of in the year.

The example at the end of this chapter sums up CCA.

Classes of depreciable property

The following are the most common classes of depreciable farm property and the rates that apply to each class.

Buildings – Classes 1, 3, and 6

A building may belong to Class 1, Class 3, or Class 6, depending on what the building is made of and the date you acquired it. You also include in these classes the parts that make up the building, such as:

- electrical wiring;
- lighting fixtures;
- plumbing;
- sprinkler systems;
- heating equipment;
- air-conditioning equipment (other than window units);
- elevators; and
- escalators.

Note
Most land is not depreciable property. Therefore, when you acquire farm property, include in Area A and Area E only the cost that relates to the building.

Class 1 (4%)

Class 1 includes most buildings acquired after 1987, unless they specifically belong in another class. Class 1 also includes the cost of certain additions or alterations you made after 1987 to a Class 3 building. For more information, see "Class 3 (5%)" below.

The CCA rate for eligible **non-residential buildings** acquired by a taxpayer after March 18, 2007, used for the manufacturing or processing in Canada of goods for sale or lease, includes an additional allowance of 6% for a total rate of 10%. The CCA rate for other eligible **non-residential buildings** includes an additional allowance of 2% for a total rate of 6%. To be eligible for one of the additional allowances, you must elect to place a building in a separate class. To make the election, attach a letter to your return for the tax year in which you acquired it. If you do not file an election to put it in a separate class, the current rate of 4% will apply.

This applies to buildings acquired after March 18, 2007, (including a new building, if any portion of it is acquired after March 18, 2007, where the building was under construction on March 19, 2007) that have not been used or acquired for use before March 19, 2007.

To be eligible for the 6% additional allowance, at least 90% of a building (measured by square footage) must be used for the designated purpose at the end of the tax year. Manufacturing and processing buildings that do not meet the 90% use test will be eligible for the additional 2% allowance if at least 90% of the building is used for non-residential purposes at the end of the tax year.

Class 3 (5%)

Most buildings acquired before 1988 were added to Class 3 or Class 6. If you acquired a building before 1990 that does not fall into Class 6, you can include it in Class 3 if **one** of the following applies:

- you acquired the building under the terms of a written agreement entered into before June 18, 1987; or
- the building was under construction by you, or for you, on June 18, 1987.

Do not transfer to Class 1 any property you previously included in Class 3. However, there is a limit to how much you can include in Class 3 for the cost of any additions or alterations made after 1987 to a Class 3 building. This limit is one of the following amounts, whichever is less:

- $500,000; and

- 25% of the building's capital cost (including the cost of additions or alterations to the building included in Class 3, Class 6, or Class 20 before 1988).

Include the cost of any additions or alterations over this limit in Class 1.

Class 6 (10%)

Include a building in Class 6 if you acquired it before 1988 and it is made of frame, log, stucco on frame, galvanized iron, or corrugated iron. If you acquired the building after 1987, it has to be made of frame, log, stucco on frame, galvanized iron, or any corrugated metal.

In addition, **one** of the following conditions has to apply:

- the building is used for farming or fishing; or
- the building has no footings or other base supports below ground level.

If either of the above conditions applies, you also add to Class 6 the full cost of all additions and alterations to the building.

If neither of the above conditions applies, include the building in Class 6 if **one** of the following conditions applies:

- you acquired the building before 1979;
- you entered into an agreement before 1979 to acquire the building, and footings or other base supports were started before 1979; or
- you started construction of the building before 1979 (or it was started under the terms of a written agreement you entered into before 1979), and footings or other base supports of the building were started before 1979.

For additions or alterations to such a building:

- add to Class 6:
  - all additions made before 1979; and
  - only the first $100,000 of additions or alterations made after 1978.
- add to Class 3:
  - the part of the cost of all additions or alterations above $100,000 made after 1978 and before 1988; and
  - the part of the cost of additions or alterations above $100,000 made after 1987, but only up to $500,000 or 25% of the cost of the building, whichever is less.
- add to Class 1 any additions or alterations above these limits.

For more information, see the latest archived Interpretation Bulletin IT-79R3, *Capital Cost Allowance – Buildings or Other Structures*.

Class 8 (20%)

Class 8 with a CCA rate of 20% includes certain property that is not included in another class. Examples are furniture, appliances, tools costing $500 or more per tool, some fixtures, machinery, outdoor advertising signs, refrigeration equipment, and other equipment you use in business.

Photocopiers and electronic communications equipment, such as fax machines and electronic telephone equipment are also included in Class 8.

> **Note**
> If this equipment cost $1,000 or more, you can elect to have it included in a separate class. The CCA rate will not change but a separate CCA deduction can now be calculated for a five year period. When all the property in the class is disposed of, the UCC is fully deductible as a terminal loss. Any UCC balance remaining in the separate class at the end of the fifth year has to be transferred back to the general class in which it would otherwise belong. To make an election, attach a letter to your income tax return for the tax year in which you acquired the property. For more information on terminal losses, see "Column 5 – UCC after additions and dispositions" on page 46.

Include data network infrastructure equipment and systems software for that equipment acquired before March 23, 2004. If acquired after March 22, 2004, include it in Class 46. See "Class 46 (30%)" on page 49.

Include buildings that you use to store fresh fruit or vegetables by or for the person or persons by whom they were grown, at a controlled temperature in Class 8 instead of Class 1, Class 3, or Class 6. Also include in Class 8 any buildings that you use to store silage.

Small tools – Class 12 (100%)

The cost limit for access to the Class 12 (100%) treatment will increase to $500 from $200 for tools acquired on or after May 2, 2006.

Most small tools in Class 12 are not subject to the half-year rule. They are fully deductible in the year of purchase. If the tool costs $500 or more, include it in Class 8 with a CCA rate of 20%.

Class 12 tools that are subject to the half-year rule include dies, jigs, patterns, moulds or lasts, and the cutting or shaping part of a machine. For more information, see Income Tax Folio S3-F4-C1, *General Discussion of Capital Cost Allowance*.

Include in Class 12 with a CCA rate of 100% computer software that is not systems software. Software in Class 12 is subject to the half-year rule.

Class 45 (45%)

Include general-purpose electronic data-processing equipment (commonly called computer hardware) and systems software for that equipment, including associated data processing equipment, in Class 45 with a CCA rate of 45% if you acquired them after March 22, 2004, and before March 19, 2007.

> **Note**
> If you acquired the equipment or software before 2005 and made the separate Class 8 election, as discussed in the Class 8 note, the property does not qualify for the 45% rate.

Class 46 (30%)

Include in Class 46 with a CCA rate of 30% data network infrastructure equipment and systems software for that equipment if acquired after March 22, 2004. If acquired before March 23, 2004, include it in Class 8. See "Class 8 (20%)" on page 48.

Class 50 (55%)

Include in Class 50 with a CCA rate of 55% property acquired after March 18, 2007, that is general-purpose electronic data-processing equipment and systems software for that equipment, including ancillary data-processing equipment, but not including property that is included in Class 52 or that is principally or is used principally as:

a) electronic process control or monitor equipment;

b) electronic communications control equipment;

c) systems software for equipment referred to in a) or b); or

d) data handling equipment (other than data handling equipment that is ancillary to general-purpose electronic data-processing equipment).

Class 52 (100%)

Include in Class 52 with a CCA rate of 100% (with no half-year rule) general-purpose electronic data-processing equipment (commonly called computer hardware) and systems software for that equipment, including ancillary data-processing equipment if acquired after January 27, 2009, and before February 2011,but not including property that is principally or is used principally as:

a) electronic process control or monitor equipment;

b) electronic communications control equipment;

c) systems software for equipment referred to in a) or b); or

d) data handling equipment (other than equipment that is ancillary to general-purpose electronic data-processing equipment).

To qualify for this rate the asset must also:

- be situated in Canada;
- have not been used, or acquired for use, for any purpose before it is acquired by the taxpayer; and
- be acquired by the taxpayer:
  - for use in a business carried on by the taxpayer in Canada or for the purposes of earning income from property situated in Canada; or
  - for lease by the taxpayer to a lessee for use by the lessee in a business carried on by the lessee in Canada or for the purpose of earning income from property situated in Canada.

Passenger vehicles – Class 10 and Class 10.1 (30%)

Your **passenger vehicle** (see the definition on page 34) may belong to either Class 10 or Class 10.1. Include your passenger vehicle in Class 10 unless it meets a Class 10.1 condition. List each Class 10.1 vehicle separately.

Include your passenger vehicle in Class 10.1 if you bought it in your 2016 fiscal period and it cost more than $30,000. We consider the capital cost of that vehicle to be $30,000 plus the related GST and PST, or HST.

The $30,000 amount is the capital cost limit for a passenger vehicle. However, to determine the class to which your passenger vehicle belongs, you must use the cost of the vehicle before you add GST and PST, or HST.

Example
Vivienne owns a farming business. On June 21, 2016, she bought two passenger vehicles to use in her farming business. The PST rate for her province is 8%. Vivienne noted these details for 2016:

	Cost	GST	PST	Total
Vehicle 1	$33,000	$1,650	$2,640	$37,290
Vehicle 2	$28,000	$1,400	$2,240	$31,640

Vivienne puts Vehicle 1 in Class 10.1 since she bought it in 2016 and it cost her more than $30,000. Before Vivienne enters an amount in column 3 of Area B, she has to calculate the GST and PST on $30,000. She does this as follows:

- GST at 5% of $30,000 = $1,500
- PST at 8% of $30,000 = $2,400

Therefore, Vivienne's capital cost is $33,900 ($30,000 + $1,500 + $2,400). She enters this amount in column 3 of Area B.

Vivienne puts Vehicle 2 into Class 10, since she bought it in 2016, and it did not cost her more than $30,000.

Vivienne's capital cost is $31,640 ($28,000 + $1,400 + $2,240). She enters this amount in column 3 of Area B.

Note
For this example we used 5% as the GST rate, and 8% as the PST rate. For your calculation, use the current GST rate and the current PST rate that applies in your province or territory. If you live in a province that has harmonized sales tax (HST), use the current HST rate. For more information on GST/HST, see Guide RC4022, *General Information for GST/HST Registrants*.

Special situations

Changing from personal to business use

You may have bought a property for personal use and then started using it in your farming business in your 2016 fiscal period. When you change its use you need to determine the capital cost for business purposes.

Enter the FMV of the property in column 3 of Area B or C, whichever applies, if, at the time of change in use, the FMV of the depreciable property is less than its original cost.

When you start to use your property for your farming business, you are considered to have disposed of it. If the FMV of the property is greater than its cost, you may have a capital gain. For more information on capital gains, see Chapter 7.

Use the following chart to determine the amount to enter in column 3 when the FMV is more than its original cost.

Capital cost calculation

Actual cost of the property		$________	1
FMV of the property	$________ 2		
Amount on line 1	$________ 3		
Line 2 **minus** line 3 (if negative, enter "0")	$________ 4		
Enter all capital gains deductions claimed for the amount on line 4* $________ × 2 =	$________ 5		
Line 4 **minus** line 5 (if negative, enter "0") $________ × 1/2 =		$________	6
Capital cost: Line 1 **plus** line 6		$________	7

Enter the capital cost of the property from line 7 in column 3 of Area B or C.

* Enter the amount that relates to the depreciable property only.

We consider that you acquire the land for an amount equal to its FMV when you change its use. Include this amount on line 9923, "Total cost of all land additions in the year" in Area F.

Personal use of property

If you buy property for both business and personal use, there are two ways to show the business portion of the property in Area B or C:

- if your business use stays the same from year to year, enter the total cost of the property in column 3, the personal portion in column 4, and the business portion in column 5. To calculate the CCA you can claim, enter the amount from column 5 in column 3 of Area A.
- if your business use changes from year to year, enter the total cost of the property in column 3 and column 5, and enter "0" in column 4. To calculate the CCA you can claim, enter the amount from column 5 in column 3 of Area A. When you claim CCA, you must calculate the allowable portion you can claim for business use.

Example
Jennifer owns a business. She bought a car in 2016 that she uses both for personal and business use. The car cost $20,000, including all charges and taxes. Therefore, she includes the car in class 10. Her business use varies from year to year. She calculates her CCA on the car for 2016 as follows:

She enters $20,000 in column 3 and column 5 of Area B. She also enters $20,000 in column 3 of Area A. By completing the other columns in the chart, she calculates a CCA claim of $3,000. Because Jennifer used her car partly for personal use, she calculates her CCA claim as follows:

$$\frac{12{,}000\text{ (business kilometres)}}{18{,}000\text{ (total kilometres)}} \times \$3{,}000 = \$2{,}000$$

Jennifer enters $2,000 on line 9936 of Form T1163 or T1164.

Note
The capital cost limits on a Class 10.1 vehicle (a passenger vehicle) still apply when you split the capital cost between business and personal use.
For more information, see "Passenger vehicles – Class 10 and Class 10.1 (30%)" on page 49.

Grants, subsidies, and rebates

You may receive a grant, subsidy, or a rebate from a government or a government agency to buy depreciable property. When this happens, subtract the amount of the grant from the property's capital cost. Do this before you enter the capital cost in column 3 of Area B or C.

If the rebate is more than the remaining undepreciated capital cost in the particular class, add the excess to income on line 9574 or 9575.

You may have incurred GST or HST on some of the depreciable property you acquired for your business. If so, you may have also received an input tax credit from us.

Subtract the input tax credit from the property's capital cost. Do this before you enter the capital cost in column 3 of Area B or C, whichever applies. If you receive an input tax credit for a passenger vehicle you use in your business, use **one** of these methods:

- for a passenger vehicle you use 90% or more for your business, subtract the amount of the credit from the vehicle's cost before you enter its capital cost in column 3 of Area B.
- for a passenger vehicle you use less than 90% for your business, do not make an adjustment in 2016. In 2017, subtract the amount of the credit from your beginning UCC.

You may get an incentive from a non-government agency to buy depreciable property. For example, you can receive a tax credit that you can use to reduce your income tax payable. If this happens, you can either include the amount in income, or subtract the amount from the capital cost of the property.

For more information about government assistance, see the latest archived Interpretation Bulletin IT-273R2, *Government Assistance – General Comments*.

Non-arm's length transactions

When you acquire depreciable property in a **non-arm's length** transaction (see the definition on page 43), there are special rules to follow to determine the property's cost. These special rules will not apply if you get the property because of someone's death.

You can acquire depreciable property in a non-arm's length transaction:

- from an individual resident in Canada;
- from a partnership with at least one partner who is another partnership from an individual resident in Canada; or
- from a partnership with no partners who are individuals resident in Canada or with no partners that are other partnerships.

If you pay **more** for the property than the seller paid for it, calculate the cost as follows:

Capital cost calculation
Non-arm's length transaction –
Resident of Canada

The seller's cost or capital cost			$________	1
The seller's proceeds of disposition	$________	2		
Amount from line 1	$________	3		
Line 2 **minus** line 3 (if negative, enter "0")	$________	4		
Enter any capital gains deduction claimed for the amount on line 4 $________ × 2 =	$________	5		
Line 4 **minus** line 5 (if negative, enter "0") $________ × 1/2 =			$________	6
Capital cost (line 1 **plus** line 6)			$________	7

Enter this amount in column 3 of either Area B or C, whichever applies. Do not include the cost of the related land. Include the cost of the related land on line 9923, "Total cost of all land additions in the year" in Area F.

We consider that you acquire the land for an amount equal to its FMV when you change its use. Include this amount on line 9923 in Area F.

You can also buy depreciable property in a non-arm's length transaction from:

- a corporation or an individual who is not a resident of Canada; or
- a partnership with no partners who are individuals resident in Canada or no partners that are members of other partnerships.

If you pay **more** for the property than the seller paid for it, calculate the capital cost as follows:

Capital cost calculation for non-resident
Non-arm's length transaction –
Non-resident of Canada

The seller's cost or capital cost			$________	1
The seller's proceeds of disposition	$________	2		
Amount from line 1	$________	3		
Line 2 **minus** line 3 (if negative, enter "0") $________ × 1/2 =			$________	4
Capital cost Line 1 **plus** line 4			$________	5

Enter this amount in column 3 of either Area B or C, whichever applies. Do not include the cost of the related land. Include the cost of the related land on line 9923, "Total cost of all land additions in the year," in Area F.

You might have bought depreciable property in a non-arm's length transaction and paid **less** for it than the seller paid. If that is the case, your capital cost is the same amount as the seller paid. We consider you to have deducted as CCA the difference between what you paid and what the seller paid. Enter the amount you paid in column 3 of Area A. Enter the same amount in Area B or C, whichever applies.

Example
Bruce bought a tractor for $16,000 from his father, Paul, in his 2016 fiscal period. Paul paid $40,000 for the tractor in 2005. Since the amount Bruce paid is less than the amount Paul paid, we consider Bruce's cost to be $40,000. We also consider Bruce to have deducted CCA of $24,000 in the past ($40,000 – $16,000).

Bruce completes the CCA chart as follows:

- in Area B, "Details of equipment additions in the year," he enters $40,000 in column 3, "Total cost"; and
- in Area A, "Calculation of capital cost allowance (CCA)," he enters $16,000 in column 3, "Cost of additions in the year," as the addition for the 2016 fiscal period.

There is a limit on the cost of a passenger vehicle you buy in a non-arm's length capital transaction. The cost is one of these three amounts, whichever is **less**:

- the FMV when you buy it;
- $30,000 **plus** any GST/HST, or PST you would pay on $30,000, if you bought it in your 2016 fiscal period; or
- the seller's cost amount of the vehicle when you buy it.

The cost amount can vary, depending on what the seller used the vehicle for before you bought it.

If the seller used the vehicle to earn income, the cost amount will be the undepreciated capital cost (UCC) of the vehicle when you buy it. If the seller did not use the vehicle to earn income, the cost amount will usually be the original cost of the vehicle.

For more information on non-arm's length transactions, see Income Tax Folio S1-F5-C1, *Related persons and dealing at arm's length.*

Special rules for disposing of a building in the year

If you disposed of a building in the year, special rules may apply that change the amount you use as proceeds of disposition for capital cost purposes. This happens when you meet both of the following conditions:

- you disposed of the building for an amount less than both its cost amount, as calculated on the next page, and its capital cost to you; and
- you, or a person with whom you do not deal at **arm's length** (see the definition on page 43), owned the land that the building is on, or the land next to it, that was necessary for the building's use.

Calculate the cost amount as follows:

- if the building was the only property in the class, the cost amount is the undepreciated capital cost (UCC) of the class before you disposed of the building.
- if there is more than one property in the same class, you must calculate the cost amount of each building as follows:

$$\frac{\text{capital cost of the building}}{\text{capital cost of all the properties in the class that have not been disposed of previously}} \times \text{UCC of the class} = \text{cost amount of the building}$$

Note
If any property in the class of the building that was acquired at non-arm's length was previously used for a purpose other than gaining or producing income, or if the part of a property used for gaining or producing income has changed, the capital cost of such property has to be recalculated to determine the cost amount of the property.

If you disposed of a building under these conditions and you or a person with whom you do not deal at arm's length disposed of the land in the same year, calculate your deemed proceeds of disposition as shown in Calculation A, on this page.

If you, or a person with whom you do not deal at arm's length, did not dispose of the land in the same year as the building, calculate your deemed proceeds of disposition as shown in Calculation B, on the next page.

Calculation A
Land and building sold in the same year

FMV of the building at the time you disposed of it		$______	1
FMV of the land just before you disposed of it		$______	2
Line 1 **plus** line 2		$______	3
Seller's cost amount of the land	$______ 4		
Total capital gains (without reserves) from any disposition of the land (such as a change in use) in the three-year period before you or a person not dealing at arm's length with you disposed of the building, to either you or another person not dealing at arm's length with you	$______ 5		
Line 4 **minus** line 5 (if negative, enter "0")	$______ 6		
Line 2 or line 6, whichever amount is less		$______	7
Line 3 **minus** line 7 (if negative, enter "0")		$______	8
Cost amount of the building just before you disposed of it	$______ 9		
Capital cost of the building just before you disposed of it	$______ 10		
Line 9 or line 10, whichever amount is less	$______ 11		
Line 1 or line 11, whichever amount is more		$______	12
Deemed proceeds of disposition for the building			
Line 8 or line 12, whichever amount is less (enter this amount in column 3 of Area E, and include it in column 4 of Area A)		$______	13
Deemed proceeds of disposition for the land			
Proceeds of disposition of the building and the land		$______	14
Amount from line 13		$______	15
Line 14 **minus** line 15 (include this amount on line 9924 of Area F)		$______	16

If you have a terminal loss on the building, include it on line 9896, on page 3 of your form.

Calculation B Land and building sold in different years			
Cost amount of the building just before you disposed of it	$ ________	1		
FMV of the building just before you disposed of it	$ ________	2		
Line 1 or line 2, whichever amount is more			$ ________	3
Actual proceeds of disposition, if any			$ ________	4
Line 3 **minus** line 4			$ ________	5
Line 5 $ _______ × 1/2 =			$ ________	6
Amount from line 4			$ ________	7
Deemed proceeds of disposition for the building				
Line 6 **plus** line 7 (enter this amount in column 3 of Area E, and include it in column 4 of Area A)			$ ________	8
If you have a terminal loss on the building, include it on line 9896 on page 3 of your form.				

Ordinarily, you can deduct all of a terminal loss, but only part of a capital loss. Calculation B ensures that you use the same factor to calculate a terminal loss for a building as you use to calculate a capital loss on land. As a result of this calculation, you add part of the amount on line 5 to the actual proceeds of disposition from the building (see “Terminal loss” on page 46).

Replacement property

In some cases, you can postpone or defer recognizing a capital gain or recapture of CCA in computing income. You might sell a business property and replace it with a similar one, or your property might be stolen, destroyed, or expropriated, and you replace it with a similar one. To defer reporting the gain or *recapture* of CCA, you (or a person related to you) must acquire the replacement property within the specified time limits and use the new property for the same or similar purpose as the one you are replacing.

For more information, see the latest archived Interpretation Bulletins IT-259R4, *Exchange of Property,* and IT-491, *Former Business Property*, and its Special Release.

You can also defer a capital gain or recapture of CCA when you transfer property to a corporation, a partnership, or your child. For more information on transferring farm property to your child, see page 64.

For more information on transfers to a corporation or a partnership, see the latest version of:

- Information Circular IC76-19R3, *Transfer of Property to a Corporation Under Section 85*;
- Interpretation Bulletin IT-291R3, *Transfer of Property to a Corporation Under Subsection 85(1)*;
- Interpretation Bulletin IT-378R, *Winding-up of a Partnership*; and
- Interpretation Bulletin IT-413R, *Election by Members of a Partnership Under Subsection 97(2)*.

Area F – Details of land additions and dispositions in the year

In this area, enter the total cost of acquiring land in 2016. The cost includes the actual purchase price of the land, plus any related expenses that you should add to the capital cost of the land, such as legal fees, land transfer taxes, and mortgage fees. **Enter on line 9923** the total cost of all land additions in the year. You cannot claim CCA on land. Do not enter this amount in column 3 of Area A.

Enter on line 9924 the total of all amounts you received or will receive for disposing of land in the year.

Area G – Details of quota additions and dispositions in the year

Enter on line 9929 of Form T1175 the total cost of acquiring quotas in the year.

Enter on line 9930 of Form T1175 the total of all amounts you received or will receive for disposing of quotas in the year.

Details of equity

Line 9931 – Total business liabilities

A liability is a debt or an obligation of a business. Total business liabilities are the total of all amounts your farming business owes at the end of its fiscal period. This includes accounts payable, notes payable, taxes payable, unpaid salaries, wages and benefits, interest payable, deferred or unearned revenues, loans payable, mortgages payable, or any other outstanding balance.

Line 9932 – Drawings in 2016

A drawing is any withdrawal of cash or other assets and services of a business by the proprietor or partners. This includes transactions by the proprietor or partners (or family members) such as withdrawing cash for non-business use and using business assets and services for personal use.

Line 9933 – Capital contributions in 2016

A capital contribution is an addition of cash or other assets you made to the farming business during its fiscal period. This includes adding personal funds to the business account, paying business debts with personal funds, and transferring personal assets to the farming business.

The following example summarizes this chapter on CCA.

Example
In 2016, Trevor bought a building to use for his farming business. The total cost was $95,000 (the total of the $90,000 total purchase price and the $5,000 total expenses connected with the purchase), as follows:

Building value	$75,000
Land value	$15,000
Total purchase price	$90,000

Expenses connected with the purchase

Legal fees	$3,000
Land transfer taxes	$2,000
Total fees	$5,000

Trevor's farming business has a December 31 year-end. In 2016, Trevor's farming income was $6,000 and his expenses were $4,900. Therefore, his net income before deducting CCA was $1,100 ($6,000 – $4,900).

Before Trevor can complete his CCA schedule, he has to calculate the capital cost of the building. Since land is not depreciable farm property, he has to calculate the part of the expenses connected with the purchase that relates only to the building. To do this, he has to use the following formula, which is explained in the section "Land" on page 45.

$$\frac{\$75{,}000}{\$90{,}000} \times \$5{,}000 = \$4{,}166.67$$

This $4,166.67 represents the part of the $5,000 in legal fees and land transfer taxes that relates to the purchase of the building, while the remaining $833.33 relates to the purchase of the land. Therefore, the capital cost of the building is:

Building value	$75,000.00
Related expenses	$ 4,166.67
Capital cost of the building	$79,166.67

Trevor enters $79,166.67 in column 3 of Area C and $15,833.33 ($15,000 + $833.33) on line 9923 of Area F as the capital cost of the land.

> **Note**
> Trevor did not own farm property before 2016. Therefore, he has no UCC to enter in column 2 of Area A.

Trevor acquired his farm property in 2016. Therefore, he is subject to the half-year rule that we explain under the heading "Column 6 – Adjustment for current-year additions" on page 46.

Chapter 5 – Eligible capital expenditures

What is an eligible capital expenditure?

You may buy property that does not physically exist but gives you a lasting economic benefit. Some examples are milk and egg quotas. This kind of property is eligible capital property. The price you pay to buy this type of property is an eligible capital expenditure.

What is an annual allowance?

You cannot fully deduct an eligible capital expenditure because the expenditure is considered to be capital in nature and provides a lasting economic benefit. However, you can deduct part of its cost each year. We call the amount you can deduct your annual allowance.

What is a cumulative eligible capital (CEC) account?

This is the bookkeeping record you establish to determine your annual allowance. You also use your cumulative eligible capital (CEC) account to keep track of the property you buy and sell. We call the property in your CEC account your eligible capital property. You base your annual allowance on the balance in your account at the end of your fiscal period. Keep a separate account for each business, but include all eligible capital property for the one business in the same CEC account.

How to calculate your annual allowance

Fill in the following chart to calculate your annual allowance and the balance in your CEC account at the end of your 2016 fiscal period.

Calculating your annual allowance and your CEC account balance at the end of your 2016 fiscal period

Balance in the account at the start of your 2016 fiscal period			$______	1
Eligible capital expenditures you made or incurred in your 2016 fiscal period ______75%			$______	2
Line 1 **plus** line 2			$______	3
All the amounts you received or are entitled to receive from the sale of eligible capital property in your 2016 fiscal period	$______	4		
All the amounts that became receivable in your 2016 fiscal period from the sale of eligible capital properties before June 18, 1987	$______	5		
Line 4 **plus** line 5	$______	6		
Line 6 × 75%			$______	7
CEC account balance Line 3 **minus** line 7			$______	8
Annual allowance 7% × line 8			$______	9
CEC account balance at the end of your 2016 fiscal period Line 8 **minus** line 9			$______	10

Note
An eligible capital expenditure is reduced by the amount of any government assistance received or receivable. Also, an amount forgiven (or entitled to be forgiven) on government loans for an eligible capital expenditure reduces your CEC account.

Special conditions may apply to non-arm's length transactions. For more information, see the latest archived Interpretation Bulletin IT-123R6, *Transactions Involving Eligible Capital Property*.

You can deduct an annual allowance if there is a **positive** balance in your CEC account at the end of your 2016 fiscal period. You do not have to claim the full amount of the maximum annual allowance for a given year. You can deduct any amount you want, up to the maximum allowable of 7%. If your fiscal period is less than 365 days, you have to prorate your claim. Base your claim on the number of days in your fiscal period compared to 365 days.

If there is a **negative** balance in your CEC account, see "Sale of eligible capital property – Fiscal period ending in 2016" on this page.

The following is an example of how to calculate the annual allowance and account balance.

Example
Heather started her farming business on January 1, 2016. Her business has a December 31 year-end. During 2016, she bought a milk quota for $135,000. To calculate her annual allowance and her CEC account balance at the end of her fiscal year, she completes the chart as follows:

Heather's CEC account

Balance at the start of her 2016 fiscal period	$ 0	**1**
Eligible capital expenditure Milk quota cost during her 2016 fiscal period ....$135,000 × 75%	$ 101,250	**2**
Line 1 **plus** line 2	$ 101,250	**3**
Heather has not sold any eligible capital property during the 2016 fiscal period. Therefore, she will **not** have any amounts on lines 4 to 8.		
Maximum annual allowance 7% × line 3	$ 7,087	**9**
Balance at the end of 2016 Line 3 **minus** line 9	$ 94,163	**10**

Sale of eligible capital property – Fiscal period ending in 2016

When you sell eligible capital property, you have to subtract part of the proceeds of disposition from your CEC account.

You have to do this calculation if you sold eligible capital property:

- in your 2016 fiscal period; or
- before June 18, 1987, and the proceeds of disposition become due to you in your 2016 fiscal period.

For 2016, the amount you have to subtract is 75% of the **total** of these amounts:

- the proceeds of disposition of all the eligible capital property you sell in your 2016 fiscal period (include the total amount from a sale even if you get any or all of the proceeds after 2016); and
- the amount of any proceeds that become due to you in your 2016 fiscal period from eligible capital property you sold before June 18, 1987.

There may be a negative amount (excess) in your CEC account after you subtract the required amount. In this case, you will have to include part of the negative amount in your farming income.

Multiply by 2/3 the part of the negative amount in your CEC account that exceeds the annual allowances deducted. To that result, add whichever is less, the excess or annual allowances deducted. This is the amount to include in your farming income. The following example shows how to calculate the amount to include in your farming income.

Example
Carol started her farming business on January 1, 2010, with a December 31 year-end. In 2010, Carol bought an egg quota for $25,000. Carol sold her farming business on September 1, 2016.

She sold her egg quota for $60,000, and she does not have any other eligible capital property in her farming business.

She deducted annual allowances each year as follows:

2010	$ 1,313
2011	$ 1,220
2012	$ 1,135
2013	$ 1,056
2014	$ 982
2015	$ 913
Total	$ 6,619

The amount included in Carol's farming income on line 9600, "Other (specify)," is the total of amounts A and C:

Calculation of amount A
Excess amount calculated as follows:

Proceeds of disposition × 75%		
$60,000 × 75%	$ 45,000	
Plus		
Total annual allowances deducted	$ 6,619	**(i)**
	$ 51,619	
Minus		
Eligible capital expenditures × 75%		
$25,000 × 75%	$ 18,750	
Excess amount	$ 32,869	**(ii)**
The **lesser of** (i) or (ii)	$ 6,619	**A**

Calculation of amount B

Excess amount	$ 32,869	
Minus		
Total annual allowances deducted	$ 6,619	
	$ 26,250	**B**

Calculation of amount C

Line B × 2/3	$ 17,500	**C**

Taxable amount from the sale of the egg quota

Line A **plus** line C	$ 24,119

Carol includes $24,119 on line 9600, "Other (specify)."

If the property is considered to be a qualified farm or fishing property, part of the farming income may be eligible for the capital gains deduction. For more information, read the following section.

Farming income from the sale of eligible capital property eligible for the capital gains deduction

Part of your farming income from the sale of eligible capital property (ECP) that is **qualified farm or fishing property** (QFFP) may be eligible for the capital gains deduction. You will find the definition on QFFP on page 63. If you have more than one business, do a separate calculation for each business.

The restricted farm loss rules will not apply if your main source of income is a combination of farming and manufacturing or processing in Canada of goods for sale, and all or substantially all of the output from your farming businesses is used in the manufacturing or processing. In this situation the manufacturing and processing is not subordinate to your farming source of income.

Fill out the chart on the following page to calculate the amount eligible for the capital gains deduction from the sale of ECP.

Farming income eligible for the capital gains deduction

Farming income from the sale of ECP (other than recapture of annual allowances deducted in previous years) for 2016			______ 1
All proceeds of disposition from the sale of ECP that is QFP during fiscal periods that began after 1987 and ended before February 28, 2000		______ 2	
All eligible capital expenditures made or incurred for QFP sold during fiscal periods that began after 1987 and ended before February 28, 2000	______ 3		
Outlays and expenses related to dispositions described on line 2 not deducted in calculating income	______ 4		
Line 3 **plus** line 4		______ 5	
Line 2 **minus** line 5		______ 6	
Amount from line 6 ______ × 3/4 =			______ 7
All proceeds of disposition from the sale of ECP that is QFP during fiscal periods ending after February 27, 2000, and before October 18, 2000		______ 8	
All eligible capital expenditures made or incurred for QFP sold during fiscal periods ending after February 27, 2000, and before October 18, 2000	______ 9		
Outlays and expenses related to dispositions described on line 8 not deducted in calculating income	______ 10		
Line 9 **plus** line 10		______ 11	
Line 8 **minus** line 11		______ 12	
Amount from line 12 ______ × 2/3 =			______ 13
All proceeds of disposition from the sale of ECP that is QFP or QFFP during fiscal periods ending after October 17, 2000		______ 14	
All eligible capital expenditures made or incurred for QFP or QFFP sold during fiscal periods ending after October 17, 2000	______ 15		
Outlays and expenses related to dispositions described on line 14 not deducted in calculating income	______ 16		
Line 15 **plus** line 16		______ 17	
Line 14 **minus** line 17		______ 18	
Amount from line 18 ______ × 1/2 =			______ 19
Line 7 **plus** line 13 **plus** line 19			______ 20
All taxable capital gains from the disposition of ECP for the farming business that is QFP for fiscal periods that began after 1987 and ended before February 23, 1994		______ 21	
Farming income eligible for the capital gains deduction from the sale of ECP that is QFP or QFFP for fiscal periods that began after February 22, 1994, and ended before January 1, 2016		______ 22	
Line 21 **plus** line 22			______ 23
Line 20 **minus** line 23			______ 24
Farming income eligible for the capital gains deduction for 2016 (the lesser of line 1 and line 24)			______ 25
If you are **a sole proprietor**, **claim** the amount on line **25**			______ 26
If you are a **partner**, **claim your share of** the amount on line **25**			______ 27

Enter the amount from line **26** or line **27** (above) on line 173 of Schedule 3, *Capital Gains (or Losses) in 2016*.
To claim the capital gains deduction, use Form T657, *Calculation of Capital Gains Deduction for 2016.*

Election

Under certain conditions, you can elect (choose) to treat the disposition of eligible capital property (ECP), (other than goodwill), as a capital gain instead of including it in the "Calculating your annual allowance and your CEC account balance at the end of your 2016 fiscal period" chart, on page 54.

If you make the election, the proceeds of disposition on lines 5 and 6 of the chart are considered to be equal to the original cost.

You can then declare a capital gain equal to your actual proceeds of disposition **minus** the cost of acquisition. Report the details on the "Real estate, depreciable property, and other properties" line of Schedule 3, *Capital Gains (or Losses) in 2016*. This election will benefit you if you have unused capital losses to apply against the capital gain.

The election is only available if you meet all of the following conditions:

- you disposed of an eligible capital property other than goodwill;
- the cost of the eligible capital property can be determined;
- the proceeds of disposition exceed the cost; and
- you do not have an exempt gains balance.

The election may also help if you would otherwise be eligible for a capital gains deduction and you disposed of an ECP.

If this is the case, report the details on the "Qualified farm or fishing property" line on Schedule 3, *Capital Gains (or Losses) in 2016*, instead of the "Real estate, depreciable property, and other properties" line. See "Qualified farm or fishing property and cumulative capital gains deduction" on page 63.

Attach a note to your income tax return stating you are electing under subsection 14(1.01) of the *Income Tax Act*.

Replacement property

If you dispose of an eligible capital property and replace it with another one for the same or similar use, you can elect to postpone all or part of any gain on the disposition. This happens if you acquire a replacement eligible capital property within a certain period of time. To do this, you have to replace the property no later than one year after the end of the tax year in which you dispose of the original property. For more information, see the latest archived Interpretation Bulletin IT-259R4, *Exchange of Property*.

For more information about eligible capital expenditures, see the latest archived Interpretation Bulletin IT-143R3, *Meaning of Eligible Capital Expenditure*.

Eligible capital property of a deceased taxpayer

At death, a taxpayer is deemed to have disposed of eligible capital property, just before death, for proceeds of disposition equal to 4/3 of the cumulative eligible capital property at that time.

The person who acquires the eligible capital property from the deceased is deemed to acquire it as stated in the previous paragraph.

Chapter 6 – Farm losses

When the expenses for your farming business are more than the income for the year, you have a net operating loss. However, before you can calculate your net farm loss for the year, you may have to increase or decrease the loss by certain adjustments explained at "Line 9941 – Optional inventory adjustment – current year," and "Line 9942 – Mandatory inventory adjustment – current year" on page 38.

If you have a net farm loss for the year, read this chapter for information on how to treat your loss. For more information on farm losses, see the latest archived Interpretation Bulletin IT-322R, *Farm Losses.*

The amount of the net farm loss you can deduct depends on the nature and extent of your business. Your farm loss may be:

- fully deductible;
- partly deductible (restricted farm loss); or
- non-deductible.

Fully deductible farm losses

If you made your living from farming, we consider farming to be your main source of income. As long as farming was your main source of income, you can deduct the full amount of your net farm loss from other income. Farming can still be your main source of income even if your farm did not show a profit. Other income could come from investments, part-time employment, and so on.

To determine if farming was your main source of income, you need to consider such factors as:

- gross income;
- net income;
- capital invested;
- cash flow;
- personal involvement;
- your farm's ability to make a profit (both actual and potential); and
- plans to maintain or develop your farm and how you carried them out.

Although you may have been a partner in a farming business, you still have to determine if farming was your own main source of income.

When farming is your main source of income and you show a net farm loss in 2016, you may have to reduce the loss when you have other income in 2016. Any loss that is left is your farm loss for 2016.

Example
Rick's farming business, which is his main source of income, has a December 31 fiscal year-end. His farm loss before adjustments is $50,000. He wants to reduce his loss by the optional inventory adjustment (OIA). Rick kept the following records for 2016:

Net farm loss before adjustments	$ 50,000
Optional inventory adjustment	$ 15,000
Other income	$ 2,000

To reduce the loss amount, Rick adds back his OIA. He determines his farm loss for 2016 as follows:

Farm loss before adjustments	($ 50,000)
Add optional inventory adjustment	$ 15,000
Farm loss after adjustments	($ 35,000)
Add other income	$ 2,000
Farm loss for 2016	($ 33,000)

Applying your 2016 farm loss

You may have a farming loss in 2016. If you do, you can carry it back for up to 3 years or carry it forward for up to 20 years for all non-capital losses incurred after 2005.

In both cases, you can deduct it from all your sources of income in those years.

If you choose to carry back your 2016 farm loss to your 2013, 2014, or 2015 income tax returns, fill out Form T1A, *Request for Loss Carryback*, and file one copy of the form with your 2016 income tax return. Do not file an amended return for the year to which you apply the loss.

Applying your farm losses from years before 2016

On your 2016 income tax return, you may be able to apply farm losses you had in any year from 2006 to 2015. You can apply these losses if you did not already deduct them and you have net income in 2016. To apply these losses to 2016, you must apply the loss from the earliest year first. Enter the amount you wish to deduct on line 252 on your income tax return.

Restricted farm losses (partly deductible)

You may have run your farm as a business. For your farm to be considered a business, you must have carried on activities with the intention of making a profit and there must be evidence to support that intention.

However, if farming was neither your main source of income (for example, you did not rely on farming alone to make your living) nor was it your main source of income in addition to some other subordinate source of income (for example, where the other source of income was a side-line employment or business) you may only be able to deduct a part of your net farm loss.

Each year you have a farm loss, review your situation carefully to see if farming was either your main source of income or it was your main source of income in addition to some other subordinate source of income. It is important to do this, since a farming loss may be restricted in one year, but not in another year.

How to calculate your restricted farm loss

If farming was neither your main source of income nor your main source of income in addition to some other subordinate source of income and you had a net farm loss, the loss you can deduct depends on the amount of your net farm loss.

For tax years that end after March 20, 2013, the annual maximum deduction used in the calculation for restricted farm losses is $17,500.

When your net farm loss is $32,500 or more, you can deduct $17,500 from your other income. The rest of your net farm loss is your restricted farm loss.

When your net farm loss is less than $32,500, the amount you can deduct from your other income is the **lesser of**:

A) your net farm loss for the year; or

B) $2,500 **plus** 50% × (your net farm loss **minus** $2,500).

The amount remaining is your restricted farm loss.

> **Note**
> When the farm loss you deduct is different from your actual farm loss because of the restricted farm loss calculation, you should indicate this on your income tax return on line 168, "Farming Income." For example, you can do this by noting "restricted farm loss," "RFL," or "Section 31" to the left of line 168.

Example
Sharon ran a cattle farm with the intention of making a profit. However, farming was neither her main source of income, nor her main source of income in addition to some other subordinate source of income in 2016. In 2016, she had employment income and a net farm loss of $9,200, which she calculated on line 9946 of Form T1163.

The part of Sharon's net farm loss she can deduct from her other income in 2016 is either amount A or amount B, whichever is **less**:

A) $9,200; or

B) $2,500 **plus** 50% × ($9,200 – $2,500)
$2,500 **plus** 50% × $6,700

Therefore, B = ($2,500 + $3,350) = $5,850.

Since Sharon can only deduct A or B, whichever amount is **less**, she enters $5,850 on line 141 of her income tax return and deducts this amount from her other income in 2016. Her restricted farm loss is the amount that remains, which is $3,350 ($9,200 **minus** $5,850). Sharon prints "Section 31" to the left of line 168 on her income tax return to show that the loss she is deducting is the result of a restricted farm loss calculation.

Applying your 2016 restricted farm loss

You can carry back your 2016 restricted farm loss up to 3 years. You can also carry it forward up to 20 years.

The amount you deduct in any year cannot be more than your net farming income for that year. If you have no net farming income in any of those years, you cannot deduct any restricted farm loss.

To carry back your 2016 restricted farm loss to your 2013, 2014, or 2015 income tax returns, use Form T1A, *Request for Loss Carryback*, and file one copy of the form with your 2016 income tax return. Do not file an amended return for the year to which you would like the loss applied.

Applying your restricted farm losses from years before 2016

You may have net farming income in 2016. If so, you may be able to apply to your 2016 income tax return restricted farm losses you had in any year from 2006 to 2015. You can apply these losses as long as you did not already deduct them from your farming income. Also, you can only apply them up to the amount of your net farming income in 2016. You have to apply the loss from the earliest year first before you apply the losses from other years. Claim this amount on line 252 of your income tax return.

You may have sold farmland at a time when you had restricted farm losses you did not claim. When this happens, you may be able to reduce the amount of your capital gain from the sale. In this case, see "Restricted farm losses" on page 63.

Non-deductible farm losses

If you did not run your farm as a business, you cannot deduct any part of your net farm loss.

The size and scope of your farm may make it impossible for the farm to make a profit, either now or in the near future. In this case, you cannot deduct your farm loss. We consider this kind of farm to be personal. Therefore, any farm expenses are personal expenses and non-deductible.

Non-capital losses

You may have incurred a loss in 2016 from a business other than farming. If this loss is more than your other income for the year, you may have a non-capital loss. Use Form T1A, *Request for Loss Carryback* to calculate your 2016 non-capital loss.

You can carry back your non-capital loss up to 3 years. You can carry forward non-capital losses incurred before March 23, 2004, up to 7 years. Non-capital losses incurred after March 22, 2004, and before 2006 can be carried forward 10 years. Non-capital losses incurred after 2005 can be carried forward up to 20 years.

If you choose to carry back your 2016 non-capital loss to your 2013, 2014, or 2015 income tax returns, fill out Form T1A and attach one copy of the form to your 2016 return. Do not file an amended return for the year to which you apply the loss.

For more information about non-capital losses, see the latest archived Interpretation Bulletin IT-232R3, *Losses – Their Deductibility in the Loss Year or in Other Years*. You can view carry-over amounts at **cra.gc.ca/myaccount** or **cra.gc.ca/representatives**.

Chapter 7 – Capital gains

This chapter explains the capital gains rules for people who farm. General capital gains rules are covered in Guide T4037, *Capital Gains*.

Throughout this chapter, we use the terms **sell**, **sold**, **buy**, or **bought**. These words describe most capital transactions. However, the information in this chapter also applies to deemed dispositions or acquisitions. When reading this chapter, you can use the terms **sold** instead of **disposed of,** and **bought** instead of **acquired**, if they more clearly describe your situation.

List the dispositions of all your properties on Schedule 3, *Capital Gains (or Losses) in 2016*. You can get this schedule and other forms and publications at **cra.gc.ca/forms**, or by calling **1-800-959-5525**.

You may be a partner in a partnership that provides you with a T5013 slip, *Statement of Partnership Income*. If the partnership has a capital gain, the partnership will allocate part of that gain to you. The gain will be reported on the partnership's financial statements or on your T5013 slip.

What is a capital gain?

You have a capital gain when you sell, or are considered to have sold, a capital property for **more** than its adjusted cost base **plus** the outlays or expenses you incurred to sell the property. To calculate your capital gain, subtract the adjusted cost base of your property from the proceeds of disposition. From this amount, subtract any outlays or expenses you incurred when selling your property.

In most cases, capital property includes land, buildings, and equipment that you used in your farming business. Therefore, capital property includes depreciable and non-depreciable property.

You must include your taxable capital gain in income. Not all your capital gain is taxable. For 2016, generally, your taxable capital gain is one-half of your capital gain.

A disposition of depreciable property may result in a recapture of capital cost allowance (CCA). We explain recapture on page 46.

What is a capital loss?

You have a capital loss when you sell, or are considered to have sold, non-depreciable capital property for **less** than its adjusted cost base **plus** the outlays or expenses you incurred to sell the property. To calculate your capital loss, subtract the adjusted cost base of your property from the proceeds of disposition. From this amount, subtract any outlays or expenses you incurred when selling your property.

Not all your capital loss is deductible. For 2016, your allowable capital loss is one-half of your capital loss. You can only deduct an allowable capital loss from a taxable capital gain.

A loss on a disposition of depreciable property may only result in a terminal loss. We explain terminal loss on page 46.

Definitions

Before you can determine your capital gain or capital loss, you will need to know the following terms.

Proceeds of disposition – in most cases means the sale price of the property, see page 43.

Adjusted cost base (ACB) – the original cost of the property (including amounts you paid to buy it, such as commissions and legal fees). ACB includes other costs such as the cost of any additions, or the cost to renovate or improve the property.

Outlays and expenses – amounts you incurred to sell your property. They include costs such as commissions, surveyors' fees, transfer taxes, and advertising costs.

Fair market value (FMV) – generally the highest dollar value you can get for your property. We define this term on page 43.

How to calculate your capital gain or loss

To calculate your capital gain or loss, use the following formula:

Proceeds of disposition	$________	1
Adjusted cost base	$________	2
Line 1 **minus** line 2	$________	3
Outlays and expenses	$________	4
Line 3 **minus** line 4 = capital gain (loss)	$________	5

Note
You must calculate the capital gain or loss on each property separately.

Did you sell in 2016 capital property you owned before 1972?

If you did, you have to apply a special set of rules when you calculate your capital gain or loss because you did not have to pay tax on capital gains before 1972. To help you calculate your gain or loss from the sale of property you owned before 1972, use Form T1105, *Supplementary Schedule for Dispositions of Capital Property Acquired Before 1972.*

Disposing of farmland that includes your principal residence

Your home is usually your principal residence. If your home was your principal residence for every year you owned it, you generally do not pay tax on any capital gains when you dispose of it. Therefore, if you sold farmland that included your home in 2016, only part of the gain is taxable.

The sale must be reported, along with any principal residence designation, on Schedule 3, *Capital Gains (or Losses) in 2016*, under "Qualified farm or fishing property" or "Real estate, depreciable properties, and other property." Under proposed changes, the CRA will be able to accept a late designation in certain circumstances, but a penalty may apply. For more information, see Guide T4037, *Capital Gains*.

You can choose one of two methods to determine your taxable capital gain. Try both methods to see which one is best for you.

We usually consider approximately one acre of land on which your residence is located to be part of your principal residence. We will allow you more if you can prove you needed more land to use and enjoy your principal residence.

Method 1

Separately calculate the capital gain on your principal residence and each of your farm properties. To do this, apportion the proceeds of disposition, the ACB, and any outlays and expenses between your principal residence and each of your farm properties.

Then, calculate the **taxable** capital gain on your principal residence, if any, and each of the farm properties.

Value the land that is part of your principal residence at one of the following two amounts, whichever is **more**:

- the FMV of the land; or
- the FMV of a comparable residential building site in the area.

Note
If your home was **not** your principal residence for every year you owned it, there could be a capital gain on it you have to include in your income. Form T2091(IND), *Designation of a Property as a Principal Residence by an Individual (Other Than a Personal Trust)*, will help you to calculate the number of years you are entitled to designate your home as your principal residence and calculate the part of your gain, if any, that is taxable

Example

On February 1, 2016, Helena sold her 32-acre farm, which included her principal residence. One acre of land is part of her principal residence. Helena has these details:

Value of land when she bought her farm		
FMV of similar farmland per acre	$	3,750
FMV of a typical residential building site in the area	$	15,000
Value of land when she sold her farm		
FMV of similar farmland per acre	$	6,250
FMV of a typical residential building site in the area	$	25,000
Adjusted cost base (ACB) – actual purchase price		
Land	$	120,000
House		60,000
Barn		16,000
Silo		4,000
Total	$	200,000
Proceeds of disposition – actual sale price		
Land	$	200,000
House		75,000
Barn		20,000
Silo		5,000
Total	$	300,000

Proceeds of disposition	**Principal residence**	**Farm properties**	**Total**
Land	$ 25,000 *	$ 175,000	$ 200,000
House	75,000	$	75,000
Barn		20,000	20,000
Silo		5,000	5,000
	$ 100,000	$ 200,000	$ 300,000
Minus ACB			
Land	$ 15,000 *	$ 105,000	$ 120,000
House	60,000		60,000
Barn		16,000	16,000
Silo		4,000	4,000
	$ 75,000	$ 125,000	$ 200,000
Gain on sale	$ 25,000	$ 75,000	$ 100,000
Minus			
Gain on principal residence**	25,000		25,000
Capital gain	$ 0	$ 75,000	$ 75,000
Taxable capital gain (1/2 × $75,000)			$ 37,500

* Helena uses the value of a typical residential building site for the land that is part of her principal residence, since the FMV of a typical site in the area is more than the FMV of one acre of farmland.

** Because Helena's home was her principal residence during all the years she owned it, the capital gain is not taxable.

Method 2

Determine the capital gain on your land and your principal residence. Then subtract $1,000 from the gain. Subtract an additional $1,000 for each year after 1971 that the property was your principal residence and you were a resident of Canada. Using Method 2, you can reduce a gain to nil, but you cannot create a loss.

To calculate your capital gain, use the following formula:

Proceeds of disposition	$________	**A**
Adjusted cost base	$________	**B**
Line A **minus** line B	$________	**C**
Outlays and expenses	$________	**D**
Capital gain before reduction (Line C **minus** line D)	$________	**E**
Method 2 reduction	$________	**F**
Capital gain after reduction (Line E **minus** line F)	$________	**G**

Note

Transfer the entries on lines A, B, D, and G to the relevant columns on Schedule 3, *Capital Gains (or Losses) in 2016*, under "Qualified farm or fishing property" or "Real estate, depreciable property, and other properties."

If you choose this method, attach a letter to your income tax return that includes the following information:

- a statement that you sold your farm and are electing under subparagraph 40(2)(c)(ii) of the *Income Tax Act*;
- a description of the property you sold; and
- the number of years after 1971 that the farmhouse was your principal residence while you were a resident of Canada (if you purchased your farm after 1971, give the date you purchased it).

As proof of the value of your property, regardless of which method you choose, keep documents that have the following information:

- a description of the farm, including the size of the buildings and construction type;
- the cost of the property and date of purchase;
- the cost of any additions or improvements you made to the property;
- the assessment for property tax purposes;
- any insurance coverage;
- the type of land (arable, bush, or scrub); and

- the type of farm operation.

For more information, see Income Tax Folio S1-F3-C2, *Principle Residence*.

Restricted farm losses

You may have a capital gain from farmland you sell in 2016. You may also have restricted farm losses from previous years you have not yet used. In this case, you can deduct part of these losses from the gain. The part you can deduct is the property taxes and the interest on money you borrowed to buy the land, if you included these amounts in the calculation of the restricted farm loss in question.

You cannot use the restricted farm loss to create or increase a capital loss on the sale of your farmland.

Qualified farm or fishing property and cumulative capital gains deduction

The following is a list of updated definitions effective January 1, 2014:

- the new definition **qualified farm or fishing property** (QFFP) replaced the two previous definitions:
  - qualified farm property (QFP); and
  - qualified fishing property (QXP);
- the new definition **interest in family-farm or family-fishing partnership** replaced the two previous definitions:
  - interest in family-farm partnership; and
  - interest in family-fishing partnership;
- the new definition **share of the capital stock of a family-farm or family-fishing corporation** replaced the two previous definitions:
  - share of the capital stock of a family-farm corporation; and
  - share of the capital stock of a family-fishing corporation.

What is qualified farm or fishing property?

Qualified farm or fishing property (QFFP) is certain property you, your spouse, or common-law partner own. It is also certain property owned by a family-farm or fishing partnership in which you, your spouse or common-law partner holds an interest. We define spouse and common-law partner in the "Identification" area of your *General Income Tax and Benefit Guide*.

Qualified farm or fishing property includes:

- a share of the capital stock of a family-farm or family-fishing corporation that you, your spouse, or common-law partner owns;
- an interest in a family-farm or family-fishing partnership that you, your spouse, or common-law partner owns;
- real property, such as land and buildings; and
- eligible capital property used in the course of carrying on a farming or fishing business, such as milk and egg quotas.

Cumulative capital gains deduction

If you have a taxable capital gain from the sale of qualified farm or fishing property (QFFP), you may be able to claim a capital gains deduction.

For dispositions in 2016 of QFFP, the lifetime capital gains exemption is $824,176.

The lifetime capital gains exemption (LCGE) for QFFP sold after April 20, 2015 increases to $1,000,000. The additional deduction is the difference between $500,000 (50% of $1,000,000) and the amount of the existing maximum base capital gains deduction for qualifying properties ($412,088 for 2016). The value of this new deduction will phase out as the maximum base capital gains deduction for qualifying properties increases through indexation.

This additional deduction for taxable capital gains from the disposition of QFFP can only be used after the existing maximum base capital gains deduction that applies to both QFFP and qualified small business corporation shares ($412,088 for 2016) is used.

Existing rules on the base capital gains deduction also apply to the additional deduction for taxable capital gains from the disposition of QFFP.

Where a trust determines and designates an amount as a beneficiary's taxable capital gain from the disposition after April 20, 2015 of QFFP, the beneficiary is deemed to have a taxable capital gain of that amount from the disposition after April 20, 2015 of QFFP. Therefore the additional deduction for taxable capital gains from the disposition of QFFP is available to the beneficiary.

For more information on how to calculate your capital gains deduction, see Form T657, *Calculation of Capital Gains Deduction for 2016*, and Form T936, *Calculation of Cumulative Net Investment Loss (CNIL) to December 31, 2015*.

You may be a partner in a partnership that sold capital property. In this case, the partnership would allocate any taxable capital gains or allowable capital losses to the partners. If you are allocated a share of a taxable capital gain on QFFP, you may be entitled to claim a capital gains deduction.

The LCGE rules on certain farming or fishing property, shares or interests include taxpayers involved in a combination of farming and fishing businesses.

- Property held directly or through a partnership:
  - Where an individual carries on a farming or fishing business as a sole proprietor, or through a partnership, in order to be eligible for the LCGE, the qualifying property must be used mainly in a farming business or a fishing business. Eligibility for the LCGE extends to property of an individual used mainly in a combination of farming and fishing.
- Shares or partnership interests:

– In order for an individual's shares in a family corporation or interest in a family partnership to qualify for the LCGE, all or substantially all (generally interpreted as 90% or more) of the fair market value of the property of the entity must be property used mainly in a farming business or a fishing business. A property held by a family-farm corporation or partnership that is used in a combination of farming and fishing must be used mainly in farming in order to count towards the "all or substantially all" test. A similar rule applies for a property held by a family-fishing corporation or partnership.

– Also, throughout any 24-month period ending before that time, more than 50% of the fair market value of the property of the entity was attributable to property. That property must have been used principally in the course of carrying on a farming or fishing business in Canada in which a qualified user was actively engaged on a regular and continuous basis, by:

- you, your spouse or common-law partner, or any of your parents or children (we define children on page 65);
- the beneficiary of a personal trust, or the spouse or common-law partner, parent, or child of such a beneficiary;
- a family-farm or family-fishing corporation where any of the above persons owns a share of the corporation; or
- a family-farm or family-fishing partnership where any of the above persons (except a family farm or family fishing corporation) owns an interest in the partnership.

Eligibility for the LCGE extends to an individual's shares in a corporation, or interest in a partnership, where the corporation or partnership carries on both a farming business and a fishing business. In particular, if a property of the corporation or partnership is used mainly in either business, or is used mainly in a combination of farming and fishing, the property will count towards the all or substantially all test.

Real property or eligible capital property

Real property or eligible capital property is qualified farm or fishing property only if it is used to carry on a farming or fishing business in Canada by **any** of the following:

- you, your spouse or common-law partner, or any of your parents or children (we define children on page 65);
- the beneficiary of a personal trust, or the spouse or common-law partner, parent, or child of such a beneficiary;
- a family-farm or family-fishing corporation where any of the above persons owns a share of the corporation; or
- a family-farm or family-fishing partnership where any of the above persons (except a family-farm or family-fishing corporation) owns an interest in the partnership.

You may have bought or entered into an agreement to buy real or eligible capital property before June 18, 1987. We consider you to have used this property in carrying on a farming business in Canada if you meet **one** of the following conditions:

- in the year you disposed of it, the property or the one it replaced was used in a farming business in Canada by any of the above persons, a family-farm partnership, a corporation, or by a personal trust from which one of the above individuals acquired the property; or
- the property, or the property it replaced, was used in a farming business in Canada for at least five years by any of the above persons, a family farm partnership, or corporation, or by a personal trust from which one of the above individuals acquired the property. During this time, the property was owned by any of the above persons or a family-farm partnership or corporation.

We will consider real or eligible capital property to be used to carry on a farming or fishing business in Canada if you meet the following conditions:

- throughout the 24 months before the sale, you, your spouse or common-law partner, any of your children or parents, a personal trust from which one of these persons acquired the property, or a family-farm or family-fishing partnership (in which any of these persons has an interest) must have owned the property; and
- you meet **one** of the following two conditions:
  – while the property was owned by any of the above persons in at least two years; the property or the property it replaced was mainly used in a farming or fishing business in Canada in which any of the above persons was actively engaged on a regular and ongoing basis. Also, while the property was owned by any of the above persons in at least two years; the person's gross income from the business was larger than the person's income from all other sources in the year; or
  – a family-farm or a family-fishing partnership or corporation used the property for at least 24 months, to carry on a farming or fishing business in Canada. Also, during this time, you, your spouse or common-law partner, any of your children, or your parents must have been actively engaged on a regular and ongoing basis in the business.

Transfer of farm or fishing property to a child

You may be able to transfer Canadian farm or fishing property to your child. When you do this, you can postpone tax on any taxable capital gain and any recapture of capital cost allowance until the child sells the property. To do this, **both** of these conditions have to be met:

- your child is a resident of Canada just before the transfer; and
- the farm or fishing property was land in Canada, depreciable property in Canada of a prescribed class, or eligible capital property in respect of a farming or fishing business carried on in Canada, and has been used in a

farming or fishing business in which you, your spouse or common-law partner, or any of your children were actively engaged on a regular and ongoing basis before the transfer.

The rules on intergenerational transfers of certain farming and fishing property from an individual to the individual's child include taxpayers involved in a combination of farming and fishing businesses.

Where an individual carries on farming or fishing business as a sole proprietor, or through a partnership, in order to be eligible for the intergenerational transfer, the qualifying property must be used mainly in a farming business or a fishing business. Eligibility for the intergenerational transfer extends to property of an individual used mainly in a combination of farming and fishing.

Your **children** include:

- your natural child, your adopted child, or your spouse's or common-law partner's child;
- your grandchild or great-grandchild;
- your child's spouse or common-law partner; or
- another person who is wholly dependent on you for support and who is, or was immediately before the age of 19, in your custody and under your control.

The following types of property qualify for this transfer:

- farmland;
- depreciable property, including buildings; or
- eligible capital property.

Furthermore, a share of the capital stock of a family-farm or family-fishing corporation and an interest in a family-farm or family-fishing partnership also qualify for this transfer if your child is a resident of Canada just before the transfer.

The rules on intergenerational transfers of certain farming and fishing property from an individual to the individual's child include taxpayers involved in a combination of farming and fishing businesses.

- Shares or partnership interests:
  - In order for an individual's shares in a family corporation or interest in a family partnership to qualify for the intergenerational transfer, all or substantially all (generally interpreted as 90% or more) of the fair market value of the property of the entity must be property used mainly in a farming business or a fishing business. Eligibility for the intergenerational transfer extends to an individual's shares in a corporation, or interest in a partnership, where the corporation or partnership carries on both a farming business and a fishing business. In particular, if a property of the corporation or partnership is used mainly in either business, or is used mainly in a combination of farming and fishing, the property will count towards the all or substantially all test.

For most property, the transfer price can be any amount between the adjusted cost base (ACB) and its FMV. For depreciable property, the transfer price can be any amount between its UCC and its FMV. For eligible capital property, the transfer price can be any amount between:

- its FMV; and
- $4/3 \times \text{your cumulative eligible capital property from the business} \times \dfrac{\text{FMV of the property}}{\text{FMV of all your eligible capital property from the business}}$

Example
Wade wants to transfer these farm properties to Vicky, his 19-year-old daughter.

Land	ACB	$ 85,000
	FMV at the time of transfer	$100,000
Combine	FMV	$ 9,000
	UCC at the time of transfer	$ 7,840

Therefore, Wade can transfer:

- the land at any amount between $85,000 (ACB) and $100,000 (FMV); and
- the combine at any amount between $7,840 (UCC) and $9,000 (FMV).

If Wade chooses to transfer the land at its ACB and the combine at its UCC, he postpones any taxable capital gain and any recapture of CCA. Also, if he does this, we consider that Vicky acquires the land at $85,000 and the combine at $7,840. When Vicky disposes of the land and the combine, she includes in her income any taxable capital gain and recapture that Wade postpones.

For more information about transfers of eligible capital property, see the latest archived Interpretation Bulletin IT-268R4, *Inter Vivos Transfer of Farm Property to Child*, and its Special Release.

Transfer of farm or fishing property to a child if a parent dies in the year

We allow a tax-free transfer of a deceased taxpayer's Canadian farm or fishing property to a child if **all** of these conditions are met:

- the child was resident in Canada just before the parent's death;
- the property was used under the current law, mainly in a farming or fishing business on a regular and ongoing basis by the deceased, the deceased's spouse or common-law partner, or any of the children before the parent's death; and
- the property was transferred to the child no later than 36 months after the parent's death. In some cases, we may allow the transfer even if it took place later than 36 months after the parent's death.

Note
The rules under "Transfer of farm or fishing property to a child" also apply in this section.

The following types of farm or fishing property qualify for this transfer:

- land and buildings, or other depreciable property used mainly in a farming or fishing business;
- eligible capital property related to a farming or fishing business; and
- a share of the capital stock of a family-farm or family-fishing corporation, and an interest in a family-farm or family-fishing partnership.

For most property, the transfer price can be any amount between the ACB and its FMV.

For depreciable property, the transfer price can be an amount between the property's FMV and a special amount. For more information, see Chapter 4, "Deemed Disposition of Property," in Guide T4011, *Preparing Returns for Deceased Persons*.

The deceased's legal representative will choose the amount in the year of death. We consider the child to acquire these properties at the amount chosen.

Similar rules apply for property that a deceased person leased to the family-farm or family-fishing corporation or partnership.

For eligible capital property, the transfer amount is equal to 4/3 of the cumulative eligible capital property at that time. See "Eligible capital property of a deceased taxpayer" on page 58.

If a child gets a farm or fishing property from a parent and the child later dies, the property can be transferred to the surviving parent based on the same rules.

Shares or other property of a family-farm or family-fishing holding corporation can also be transferred based on the same rules, from a spouse or common-law partner trust to a child of the settlor. The settlor is the person who sets up a trust, or the person who transfers property to a trust.

For more information on these transfers, see the latest archived Interpretation Bulletin IT-349R3, *Intergenerational Transfers of Farm Property on Death*.

Transfer of farm or fishing property to a spouse or common-law partner

A farmer can transfer farm property to a spouse or common-law partner or to a spouse or common-law partner trust during the farmer's lifetime. At the time of transfer, the farmer can postpone any taxable capital gain or recapture of CCA.

If the spouse or common-law partner later disposes of the property, the farmer generally has to report any taxable capital gain, not the spouse or common-law partner. This rule applies where the farmer is living at the time the spouse or common-law partner sells the property. However, there are exceptions to this rule. For more information, see the latest archived Interpretation Bulletin IT-511R, *Interspousal and Certain Other Transfers and Loans of Property*.

A transfer of farm property can also occur after the farmer dies. For more information, see Chapter 4, "Deemed Disposition of Property," in Guide T4011, *Preparing Returns for Deceased Persons*.

The rollover provisions available for farm properties also applies to land and depreciable property used mainly in a woodlot farming business. They will apply where the deceased, the deceased's spouse or common-law partner, or any of the deceased's children were engaged in the woodlot operation as required by a **prescribed forest management plan** for the woodlot.

Other special rules

You may also be able to postpone paying tax on capital gains in the following situations.

Reserves

When you dispose of a capital property, you usually receive full payment at that time. However, sometimes you receive the amount over a number of years. Generally, a reserve allows you to defer reporting part of the capital gain to the year in which you receive the proceeds.

For example, you may sell a capital property for $50,000 and receive $10,000 at the time of the sale. You receive the remaining $40,000 over four years. In this situation, you can claim a reserve. However, there is a limit to the number of years you can do this.

For more information on reserves, see Guide T4037, *Capital Gains*, and Form T2017, *Summary of Reserves on Dispositions of Capital Property*.

Exchanges or expropriations of property

There are special rules that apply when you dispose of a property and replace it with a similar one, or when someone expropriates your property. For more information, see the latest archived interpretation bulletins IT-259R4, *Exchange of Property,* and IT-491, *Former business property*, and its Special Release.

Information reporting of tax avoidance transactions

Taxpayers, advisors and promoters who engage in or who are entitled to certain fees in relation to certain tax avoidance transactions are subject to new reporting requirements.

The measures apply to certain avoidance transactions entered into after 2010, and avoidance transactions that are part of a series of transactions that started before 2011 and were completed after 2010.

A transaction will be reportable if it is an avoidance transaction as defined in subsection 245(3) of the *Income Tax Act* for purposes of the general anti-avoidance rule (GAAR) and has at least two of the following three characteristics:

- the advisor or promoter has or had an entitlement to certain types of fees;
- the advisor or promoter has or had confidential protection with respect to the transaction;
- the taxpayer or the advisor or promoter (including any non-arm's length parties) has or had contractual

protection for the transaction (other than as a result of certain types of fees).

A reportable transaction does not include a transaction that is, or is part of, a series of transactions that includes the acquisition of a tax shelter or issuance of a flow-through share for which an information return has been filed with the minister under subsections 237.1(7) or 66(12.68), respectively.

Information return RC312, *Reportable Transaction Information Return*, must be filed on June 30 of the calendar year following the calendar year in which the transaction first became a reportable transaction for the person.

An extended reassessment period is allowed under paragraph 152(4)(*b*.1) of the *Income Tax Act*.

Failure to report could result in suspension of the tax benefit and a penalty for failure to report.

File this return separately from your tax return. Before you file it, make a copy for your records. Send the original return, amended return, or any additional information to:

Other Programs Unit
Validation and Verification Section
Ottawa Technology Centre
875 Heron Road
Ottawa ON K1A 1A2

Commodity list

COMMODITY	CODE
GRAINS, OILSEEDS, AND SPECIAL CROPS	
Barley	003
Beans (Dry Edible)	004
Borage	006
Buckwheat	007
Camelina	282
Canadian Wheat Board Payments	002
Canary Seed	008
Canola	010
Chick Peas/Garbanzo Beans	023
Corn	011
Faba Beans	012
Field Peas	013
Flaxseed	014
Forage (Including Pellets, Silage)	264
Forage Seed	015
Grain (Pellets, Screenings, Silage)	039
Hemp	030
Kenaf	317
Khorasan Wheat/Kamut	036
Lathyrus	040
Lentils	041
Lupins	042
Millet	043
Mixed Grain	024
Mustard Seed	044
Niger Seed/Niger Thistle	283
Oats	045
Oilseed Radish	038
Prepared Feed and Protein Supplements (Itemized)	046
Quinoa	047
Rice	048
Rye	049
Safflower	050
Soybeans	053
Spelt	037
Straw	267
Sugar Beets (Including Molasses)	268
Sunflowers	054
Tobacco	269
Triticale	055
Vegetable Seed (Seed Production Only)	051
Wheat	056
EDIBLE HORTICULTURE	
Flowers (Edible)	180
Mushrooms (Including Spawn)	131
Nuts (All)	140
Weeds (Edible)	211
Berries	
Blackberries	066
Blueberries	067

COMMODITY	CODE
Cranberries	068
Currants (Black, Red)	065
Elderberries	074
Gooseberries	069
Haskap	075
Loganberries	070
Raspberries	071
Saskatoon Berries	072
Seabuckthorn	076
Strawberries	073
Fruit	
Apples	060
Apricots	091
Cantaloupe	168
Cherries (Sweet, Sour)	092
Fruit Juice	081
Grapefruit	082
Grapes	083
Kiwi Fruit	084
Lemons	085
Melons	185
Nectarines	093
Oranges	086
Peaches	094
Pears	095
Plums	096
Prunes	097
Watermelon	087
Wine	088
Herbs and Spices	
Anise	101
Basil	102
Caraway Seed	103
Chervil	158
Chives	104
Cilantro	105
Comfrey	106
Coriander	107
Cumin	144
Dill	108
Echinacea	142
Fennel	110
Fenugreek	111
Fireweed	377
Garlic	113
Gingko Biloba	380
Ginseng	114
Lavender	379
Lemon Balm	378
Marjoram	115
Mint	116
Monarada	117

COMMODITY	CODE
Oregano	118
Parsley	119
Pepper	120
Rosemary	121
Sage	122
Salsify	123
St. Johns Wort	381
Summer Savory	125
Tarragon	126
Thyme	127
Watercress	128
Vegetables	
Artichokes	160
Arugula/Rocket	195
Asparagus	161
Beans, Fresh	025
Beets	162
Bok Choi	163
Broccoflower	164
Broccoli	165
Brussels Sprouts	166
Cabbage	167
Carrots	169
Cauliflower	170
Celery	171
Chinese Vegetables	173
Collards	174
Cucumbers	175
Eggplant	176
Endive	177
Fiddleheads	179
Gherkins	221
Green Peas	223
Horseradish	181
Kale	214
Kohlrabi	182
Leeks	183
Lettuce	184
Mustard Leaves	186
Okra	227
Onions	187
Parsnip	190
Peppers	191
Potatoes and By-Products	147
Pumpkins	192
Radish	193
Rhubarb	194
Rutabagas	197
Shallots	198
Spinach	201
Squash	202
Stevia	230
Sweet Corn	203
Sweet Peas	204

COMMODITY	CODE
Sweet Potatoes/Yams	205
Swiss Chard	206
Tomatoes	207
Turnips	208
Vegetable Marrow	209
Witloof Chicory	212
Zucchini	213
Vegetables – Greenhouse	
Cherry Tomatoes	233
Cucumbers	234
Lettuce	235
Peppers	236
Tomatoes	237
NON-EDIBLE HORTICULTURE	
Bedding Plants	132
Flowers and Ornamental Foliage	133
Fruits and Vegetables (Non-Edible)	134
Seeds and Bulbs	135
Shrubs	136
Sod	137
Trees (Cultivated Christmas)	138
Trees (Fruit and Ornamental)	139
INCOME FEED	
Custom Feedlot Operator Income	
Custom Feedlot Operator Income (Itemized Invoices) – Qualifying Feed and Protein Supplements	243
Other Custom Feeding Income (Itemized)	576
Custom Feedlot Operator Income (Non Itemized Invoices) – Qualifying Prepared Feed	246
EXPENSE FEED	
Livestock Owners and Custom Feedlot Operators with Prepared Feed Purchases	
Prepared Feed and Protein Supplements (Itemized)	046
Other Feed Charges (Itemized)	570
Prepared Feed and Purchases (Non Itemized)	571
Livestock Owners and Custom Feeding Expense	
Livestock Owners Custom Feeding Expense (Itemized) – Qualifying Feed and Protein Supplements	577
Other Custom Feeding Expenses (Itemized)	572
Custom Feeding Expenses (Non Itemized)	573
Ranch Fur Operators with Prepared Feed Purchases	
Prepared Feed and Protein Supplements (Itemized)	046
Ranch Fur Operators Other Feed Expenses (Itemized)	310
Ranch Fur Operators Feed Purchases (Non Itemized)	574
POULTRY, FOWL, RATITES	
Chickens	366
Chickens (Non-Supply Managed)	590
Chickens, Eggs (Non-Supply Managed)	589
Chickens, Eggs for Consumption	343
Chickens, Eggs for Hatching	344

COMMODITY	CODE
Ducks	332
Emus	373
Geese	333
Ostriches	371
Partridge	323
Pheasants	338
Pigeons	327
Quail	324
Rheas	372
Silkies	326
Taiwanese Chickens	325
Turkeys	334
Turkeys (Non-Supply Managed)	591
Turkey Eggs	342
PRESCRIBED DROUGHT REGION (PDR)/PRESCRIBED FLOOD REGION (PFR)/CFIA LIVESTOCK CODES	
Deferred Bison	151
Deferred Bovine Cattle	150
Deferred Deer	154
Deferred Elk	155
Deferred Goat	152
Deferred Horse for PMU Sales	156
Deferred Other Breeding Animals	157
Deferred Sheep	153
LIVESTOCK	
Alpacas	370
Bees, Leaf Cutter	312
Bees, Honey	374
Bison	350
Cattle, Calves	719
Cattle, Cows and Bulls	706
Cattle, Fat/Slaughter	720
Cattle, Feeder	721
Cattle, Purebred Breeding	722
Chinchilla	240

COMMODITY	CODE
Deer	352
Dogs (Kennels and Pet Breeding Excluded)	313
Donkeys/Mules	367
Elk	353
Fox	241
Goats	354
Groundhogs/Hedgehogs	369
Horses	316
Llamas	355
Mink	242
Pot Bellied Pigs	239
Rabbits	356
Reindeer	244
Sheep, Lambs	723
Sheep, Ewes and Rams	734
Swine	341
Wild Boar	247
OTHER PRODUCTS	
Bee By-Products	375
Elk Velvet	764
Fish Meal	263
Honey	129
Manure	318
Maple Products	130
Milk and Cream (Cattle)	319
Milk and Cream (Non-Supply Managed)	592
Pollination Services Fee	376
Pregnant Mare Urine (PMU)	322
Semen and Embryos	712
Wool	328
Wood	259

Note
For more information on any commodities not included in this listing, contact your administration.

Program payment list A

See the following lists to determine the correct code to report the program payment on Form T1163 or Form T1164.

For AgriStability, program payments received from programs on the following list are included when calculating your AgriStability program year production margin. For AgriInvest, only program payments on the following list that are received directly for the loss of an allowable commodity (for example, AgriInsurance/production or crop insurance, hail insurance, private insurance for eligible commodities or wildlife damage compensation) are included when calculating your Allowable Net Sales.

PROGRAM PAYMENT	CODE
Bovine Spongiform Encephalopathy Recovery Program (BSE)	468
Canada-British Columbia Excess Moisture Initiative	624
Canada-British Columbia Feed Assistance and Pasture Restoration Initiative	625
Canada-Manitoba Avian Influenza Assistance Initiative	621
2010 Canada-Manitoba Excess Moisture Assistance Program	611
2011 Canada-Manitoba Forage Shortfall and Restoration Assistance Initiative	660
2014 Canada-Manitoba Forage Shortfall and Transportation Assistance Initiative	671
Canada-Manitoba Feed and Transportation Assistance Initiative	617
Canada-New Brunswick Excess Moisture Initiative	659
Canada-New Brunswick Honey Bee Revitalization Initiative	578
2016 Canada-Nova Scotia Fire Blight Initiative	673
2013 Canada-Nova Scotia Strawberry Assistance Initiative	668
2012 Canada-Ontario Forage and Livestock Transportation Assistance Initiative	662
Canada-Saskatchewan Excess Moisture Program	612
Canada-Saskatchewan Pasture Recovery Initiative (CSPRI)	613
Canadian Food Inspection Agency (CFIA) Payment for allowable commodities	663
Canadian Food Inspection Agency (CFIA) Payment for supply managed commodities	664
Canadian Food Inspection Agency (CFIA) Payment for other amounts	665
Circovirus Inoculation Program (CIP) (all provinces)	579
Cost of Production Payment	426
Cover Crop Protection Program	473
AgriInsurance/production/crop/Hail insurance	
Grains, oilseeds, and special crops	401
Edible horticulture crops	402
Non-edible horticulture crops	470
Other commodities	463
Cull Breeding Swine Program (all provinces)	582
Farm Income Payment Direct (FIP)	485
Farm Income Payment General (FIP)	484
Fed Cattle Set-Aside Program (all provinces)	483
Feeder Calf Set-Aside Program (all provinces)	482
Grain and Oilseed Program Payment (GOPP)	486
Insurance proceeds for allowable expense items	406
Livestock Feed Insurance Program	412
2011 Manitoba AgriRecovery Program (allowable income)	626
Manitoba Assiniboine Valley Producers Flood Assistance Program	564
Manitoba Cull Animal Program	492
Manitoba Drought Assistance Program	489
Manitoba Feeder Assistance Program	480
Manitoba Flood: Building and Action Recovery Program (allowable income)	623
Manitoba Forage Assistance Program (MFAP)	597
Manitoba Forage Restoration Assistance Program	595
Manitoba Interlake Unseeded Land Restoration Program	609
Manitoba Livestock Feed Assistance Program	594
Manitoba Other Ruminant Industry Transitional Program	488

PROGRAM PAYMENT	CODE
Manitoba Slaughter Deficiency Program	481
Manitoba Spring Blizzard Livestock Mortalities Assistance Program	628
New Brunswick Potato Storage Assistance Program	615
Nova Scotia Modified BSE Recovery Program	491
Nova Scotia Ruminant Industry Support Program	487
Ontario Juice Grape Transition Program	551
Ontario Special Beekeepers Fund	552
Ontario Tornado Assistance Initiative	614
Orchard and Vineyards Transition Program	583
Other AgriRecovery Program (allowable income)**	627
PEI Potato Assistance Program	598
Plum Pox Eradication	600
Private Insurance Proceeds for Allowable Commodities	661
Saskatchewan Cattle and Hog Support Program	593
Saskatchewan Cull Animal Program	494
Saskatchewan Feed and Forage Program	616
Saskatchewan Herd Retention Program	493
Shoal Lakes Agriculture Flooding Assistance Program (allowable income)	622
Transitional Industry Support Program (TISP)	498
Waterfowl/Wildlife Damage Compensation	
Grains, oilseeds, and special crops	418
Horticulture	419
Other commodities	425
Western Livestock Price Insurance Program (WLPIP)	667

**** "This code should only be used for AgriRecovery programs (allowable income for AgriStability) not specifically listed above."**

Program payment list B

Program payments received from programs on the following list of are not included in calculating your AgriStability program year production margin or your Allowable Net Sales for AgriInvest.

PROGRAM PAYMENT	CODE
Alberta Spring Price Endorsement	495
Alternate Land Use Services ALUS	557
Apple Industry Growth and Efficiency Program	669
BC Bovine Tuberculosis Assistance Program	596
2014 Canada-British Columbia Avian Influenza Assistance Initiative	670
Canada-Manitoba Farm Stewardship Program	563
2016 Canada-Nova Scotia Maple Sector Initiative	672
Canada-Ontario Grain and Oilseed Payment	410
Canada-Ontario Grain Stabilization Payment	410
Canadian Agricultural Skills Service CASS	561
Canadian Farm Business Advisory Service	562
Canadian Farm Families Options Program	420
Canadian Food Inspection Agency (CFIA) Payments – Compensation for Non-Allowable Commodities	587
CAIS Inventory Transition Initiative	421
Dairy subsidies	435
Green Plan, Farm-Based Program	
Permanent cover practices	466
Hog Farm Transition Program	607
Industry Transition Production Assistance Program	478
Management Training Credit	558
2011 Manitoba AgriRecovery Program (non-allowable income)	630
Manitoba Farmland School Tax Rebate Program	556
Manitoba Flood: Building and Action Recovery Program (non-allowable income)	631
Manitoba Ruminant Assistance Program	584
Market Revenue Insurance (MRI)	
Qualifying Grains, Oilseeds, and Special Crops	410
Qualifying Edible Horticulture	411
Non-edible Horticulture Crops	474
New Brunswick Honey Bee Revitalization Initiative (provincial payment)	604
Nova Scotia Hog Transition Program	555
Nova Scotia Margin Enhancement Program	554
Nova Scotia Transitional Assistance Program for Ruminant Livestock and Hogs	585
Ontario Cattle, Hog and Horticulture Payment	581
Ontario Cost Recognition Top-Up	553
Ontario Duponchelia Assistance	602
Ontario Edible Horticulture Crop Payment	475
Ontario Grain and Oilseed Program Payment	471
Ontario Inventory Transition Payment	441
Ontario Risk Management Program (including the Self-Directed Risk Management Program)	565
Other AgriRecovery Program (non-allowable income)**	632
Production Insurance Premium Adjustment	499
Saskatchewan Crop Insurance Premium Adjustment	619
SK Farm and Ranch Water Infrastructure Program (FRWIP)	601
Shoal Lakes Agriculture Flooding Assistance Program (non-allowable income)	629
Special Farm Assistance	560
Tobacco Transition Program	606
Transitional Financial Assistance Program (TFA)	427
Young Farmer Rebate	559

**** "This code should only be used for AgriRecovery programs (non-allowable income for AgriStability) not specifically listed above."**

Capital cost allowance (CCA) rates

In this list, you will find the more common depreciable properties a farming business may use. The CCA rates appear at the end of the list. **For more information on the CCA rates for Classes 13, 14, 34, 43.1, and Part XVII of the *Income Tax Act*, call 1-800-959-5525.**

Depreciable property	Class No.
Aircraft – Acquired before May 26, 1976	16
Aircraft – Acquired after May 25, 1976	9
Automobiles	10
Bee equipment	8
Boats and component parts	7
Breakwaters (cement or stone)	3
Breakwaters (wood)	6
Brooders	8
Buildings and component parts	
Wood, galvanized, or portable	6
Other:	
Acquired after 1978 and before 1988*	3
Acquired after 1987	1
Fruit and vegetable storage (after Feb. 19, 1973)	8
Casing, cribwork for water wells	8
Chain-saws	10
Cleaners – grain or seed	8
Combines (drawn)	8
Combines (self-propelled)	10
Computer equipment and systems software	
Acquired before March 23, 2004	10
Acquired after March 22, 2004	45
Acquired after March 18, 2007	50
Acquired after January 27, 2009 and before February 2011	52
Coolers – Milk	8
Cream separators	8
Cultivators	8
Dams (cement, stone, wood, or earth)	1
Diggers – All types	8
Disc harrows	8
Docks	3
Drills – All types	8
Dugouts, dikes, and lagoons	6
Electric-generating equipment – portable	8
Electric motors	8
Electronic office equipment and data network infrastructure equipment	8, 45, 46, 50, 52
Elevators	8
Engines – Stationary	8
Fences – All types	6
Forage harvesters (drawn)	8
Forage harvesters (self-propelled)	10
Graders – Fruit or vegetable	8
Grain-drying equipment	8
Grain loaders	8
Grain separators	8
Grain-storage building	
Wood, galvanized steel	6
Other	1
Greenhouses (all except as noted below)	6
Greenhouses of rigid frames covered with replaceable flexible plastic	8
Grinder	8
Harness	10
Harrows	8
Hay balers and stookers (drawn)	8
Hay balers and stookers (self-propelled)	10
Hay loaders	8
Ice machines	8
Incubators	8
Irrigation equipment – Overhead	8
Irrigation ponds	6
Leasehold interest	13
Manure spreaders	8
Milking machines	8
Mixers	8
Mowers	8
Nets	8
Office equipment including photocopiers, fax machines	8
Outboard motors	10
Passenger vehicles (see Chapter 3)	10 or 10.1
Piping – Permanent	2
Planters – All types	8
Ploughs	8
Pumps	8
Rakes	8
Roads or other surface areas – Paved or concrete	17
Silo fillers	8
Silos	8
Sleighs	10
Sprayers	8
Stable cleaners	8
Stalk cutters	8
Swathers (drawn)	8
Swathers (self-propelled)	10
Threshers	8
Tillers – All types	8
Tools, less than $500	12
Tools, $500 and more	8
Tractors	10
Trailers	10
Trucks	10
Trucks (freight)	16
Wagons	10
Water towers	6
Weeders	8
Welding equipment	8
Well equipment	8
Wharves, Cement, steel, or stone	3
Wharves, Wood	6
Wind chargers	8
Wind-energy conversion equipment	
Acquired before February 22, 1994	34
Acquired after February 21, 1994	43.1

* You may add to or alter a class 3 building after 1987. In this case, there is a limit on the amount you can include in class 3. The most you can include in class 3 is $500,000 or 25% of the building's cost on December 31, 1987, whichever is less. In class 1, include any costs you incur that are over this limit.

Class	Rates
Class 1	4%
Class 2	6%
Class 3	5%
Class 6	10%
Class 7	15%
Class 8	20%
Class 9	25%
Class 10	30%
Class 10.1	30%
Class 12	100%
Class 16	40%
Class 17	8%
Class 45	45%
Class 46	30%
Class 50	55%
Class 52	100%

How to calculate the mandatory inventory adjustment (MIA)

For instructions on how to complete the following charts, see page 40 in Chapter 3.

Chart 1
Cash cost of purchased inventory

Enter the amount you paid by the end of the 2016 fiscal period for the specified animals you bought:

Fiscal period	Cash cost	
■ in your 2016 fiscal period	$________	1
■ in your 2015 fiscal period	$________	2
■ in your 2014 fiscal period	$________	3
■ in your 2013 fiscal period	$________	4
■ before your 2013 fiscal period	$________	5

Enter the amount you paid by the end of your 2016 fiscal period for all other inventory you bought:

■ in your 2016 fiscal period	$________	6
■ in your 2015 fiscal period	$________	7
■ in your 2014 fiscal period	$________	8
■ in your 2013 fiscal period	$________	9
■ before your 2013 fiscal period	$________	10

Chart 2
Value of purchased inventory for specified animals

Inventory bought in your 2016 fiscal period
Enter an amount that is not more than the amount on line 1 but not less than 70% of this amount. $________ 11

Inventory bought in your 2015 fiscal period
Enter an amount that is not more than the amount on line 2, but not less than 70% of the total of the value at the end of your 2015 fiscal period plus any amounts you paid in your 2016 fiscal period toward the purchase price. $________ 12

Inventory bought in your 2014 fiscal period
Enter an amount that is not more than the amount on line 3, but not less than 70% of the total of the value at the end of your 2015 fiscal period plus any amounts you paid in your 2016 fiscal period toward the purchase price. $________ 13

Inventory bought in your 2013 fiscal period
Enter an amount that is not more than the amount on line 4, but not less than 70% of the total of the value at the end of your 2015 fiscal period plus any amounts you paid in your 2016 fiscal period toward the purchase price. $________ 14

Inventory bought before your 2013 fiscal period
Enter an amount that is not more than the amount on line 5, but not less than 70% of the total of the value at the end of your 2015 fiscal period plus any amounts you paid in your 2016 fiscal period toward the purchase price. $________ 15

Chart 3
Value of purchased inventory for all other inventory

Inventory bought in your 2016 fiscal period
Enter the amount on line 6 or the fair market value, whichever is less. $________ 16

Inventory bought in your 2015 fiscal period
Enter the amount on line 7 or the fair market value, whichever is less. $________ 17

Inventory bought in your 2014 fiscal period
Enter the amount on line 8 or the fair market value, whichever is less. $________ 18

Inventory bought in your 2013 fiscal period
Enter the amount on line 9 or the fair market value, whichever is less. $________ 19

Inventory bought before your 2013 fiscal period
Enter the amount on line 10 or the fair market value, whichever is less. $________ 20

Chart 4
Calculation of MIA

Enter the amount of your net loss from line 9969 of Form T1163 or T1164. $________ 21

Enter the value of your inventory from Chart 2 and Chart 3:

■ the amount on line 11	$________		
■ the amount on line 12	$________		
■ the amount on line 13	$________		
■ the amount on line 14	$________		
■ the amount on line 15	$________		
■ the amount on line 16	$________		
■ the amount on line 17	$________		
■ the amount on line 18	$________		
■ the amount on line 19	$________		
■ the amount on line 20	$________		
Total value of inventory	$________	$________	22
MIA – enter the amount on line 21 or line 22, whichever is less.		$________	23

GST/HST rates

Farm goods and services **subject to** GST or HST include:

- crop dusting;
- contract work, including field clearing, tilling, harvesting done by one farmer on behalf of another;
- road-clearing services;
- stud or artificial insemination services;
- storing goods (for example, storing grain in a grain elevator);
- beeswax;
- maple sugar candy;
- canary seed, lawn seed, and flower seed;
- bedding plants, sod, cut flowers, living trees, and firewood;
- furs, animal hides, and dead animals not suitable for human consumption;
- fertilizer in bulk quantities of less than 500 kg, or any quantities of soil or soil mixture whether or not it contains fertilizer;
- gravel, stones, rock, soil, and soil additives;
- livestock or poultry not normally raised as food or to produce food for human consumption (for example, horses, mules, rabbits, exhibition poultry, and mink); and
- processed wool, feathers, and down.

Many farm products and purchases, such as milk sales and feeder-cattle purchases, are taxable, but at 0%. We refer to these as zero-rated. You do not pay GST/HST when you buy these products and you do not charge GST/HST when you sell them to your customers.

Zero-rated farm products are:

- fruit and vegetables;
- grains or seeds in their natural state, treated for seeding purposes or irradiated for storage purposes, hay or silage, or other fodder crops, when they are sold in quantities larger than ordinarily offered for sale to consumers, **except** grains and seeds sold to use as feed for wild birds or pet food;
- feed sold by a feedlot operator, as long as the price is separately identified on the invoice or written agreement;
- hops, barley, flaxseed, straw, sugar cane, or sugar beets;
- livestock such as cattle, hogs, poultry, bees, or sheep that are raised or kept to produce food, or to be used as food, for human consumption, or to produce wool;
- poultry or fish eggs that are produced for hatching;
- rabbits, except those that are to be sold as pets;
- frozen, salted, smoked, dried, scaled, eviscerated or filleted fish, or seafood sold for human consumption;
- fertilizer sold in individual bags of at least 25 kg when the total quantity is at least 500 kg;
- wool that is not further processed than washed; and
- tobacco leaves that are not further processed than dried and sorted.

Zero-rated farm purchases are:

- large farm tractors (60 PTO hp. and over);
- pull and self-propelled combines, swathers, and wind-rowers;
- headers for combines, forage harvesters, swathers or wind-rowers;
- combine or forage harvester pickups;
- forage harvesters, and self-propelled, tractor-mounted, or pull-type mechanical fruit or vegetable pickers or harvesters;
- mouldboard and disc ploughs (3 or more furrows), and chisel ploughs and subsoil chisels (at least 8 feet or 2.44 metres);
- discers, rod weeders, or bean rods (at least 8 feet or 2.44 metres);
- field and row crop cultivators (at least 8 feet or 2.44 metres);
- combination discer-cultivators (at least 8 feet or 2.44 metres);
- rototillers and rotovators (at least 6 feet or 1.83 metres);
- harrows sold in complete units and pulverizers (at least 8 feet or 2.44 metres);
- land packers, mulchers, and rotary hoes (at least 8 feet or 2.44 metres);
- airflow seeders, grain and seed drills (at least 8 feet or 2.44 metres), and farm-type row-crop or toolbar seeders or planters designed to seed two or more rows at a time;
- mower conditioners, hay balers, hay cubers, hay rakes, hay conditioners, hay crushers, hay crimpers, hay tedders, swath turners, and wind-row turners;
- bale throwers, elevators, or conveyors, silage baggers and round bale wrapping machines;
- grain bins or tanks with a capacity of 181 m or less (5,000 bushels);
- transportable grain augers, utility augers, elevators and transportable conveyors with belts less than 76.2 cm (30 inches) wide and 0.48 cm (3/16 inch) thick;
- bin sweep or cleaner attachments for portable grain augers;
- tractor-powered pneumatic grain conveyors;
- feed mills, including roller mills and hammer mills;
- feed mixers, grinders, grinder mixers, and tub grinders;
- ensilage mixers, and self-propelled feed or ensilage carts;
- grain toasters to use in livestock feed production;

- grain dryers;
- farm bulk milk coolers;
- assembled and fully operational milking systems or individual components of these systems;
- automated and computerized farm livestock or poultry feeding systems or individual components of these systems;
- self-propelled, tractor-mounted, or pull-type agricultural wagons or trailers designed for off-road handling and transporting of grain, forage, livestock feed, or fertilizer, and to be used at speeds not exceeding 40 km per hour;
- mechanical rock or stone pickers, rock or root rakes, and rock or root wind-rowers, forage blowers, silo unloaders, and shredders with an operational width of at least 3.66 m or 12 feet;
- tractor-mounted, self-propelled, or pull-type field sprayers with tank capacities of at least 300 litres or 66 gallons;
- granular fertilizer or pesticide applicators with an operational capacity of at least 0.2265 m or 8 cubic feet;
- liquid box, tank, or flail manure spreaders and injection systems for liquid manure spreaders;
- leafcutter bees;
- complete feeds, supplements, micro-premixes, macro-premixes, and mineral feeds other than trace mineral salt feeds, labelled in accordance with the *Feeds Regulations*, and designed for rabbits or a specific type of farm livestock, fish, or poultry ordinarily raised or kept for human consumption or to produce wool, and sold in bulk quantities or bags of 20 kg or more;
- feed sold in bulk quantities or bags of 20 kg or more and designed for ostriches, rheas, emus, or bees;
- food processing by-products sold in bulk quantities or bags of 20 kg or more and used as feed or as ingredients in feed for farm livestock, fish, or poultry that is ordinarily raised or kept for human consumption or to produce wool, or for rabbits, ostriches, rheas, emus, or bees;
- pesticides used for agricultural purposes labelled by the *Pest Control Products Regulations* and not designed for domestic use;
- sales of quotas between farmers for zero-rated products (including dairy, turkey, chicken, eggs, and tobacco leaves); and
- farmland rented to a registrant under a sharecropping arrangement, where a share of the production that is zero-rated is part of the price (any other extra payments are taxable).
- GST/HST registrants can claim an **input tax credit** for the GST/HST they paid or owe for expenses used to provide taxable goods and services at the rates of 0%, 5%, 13%, 14%, or 15%.

A limited number of goods and services you purchase are exempt from GST/HST. Since you do not pay GST/HST on these goods and services, there is no input tax credit to claim.

Examples of **exempt** goods and services include:

- insurance services sold by insurance companies, agents, or brokers;
- most services provided by financial institutions, such as arranging loans or mortgages; and
- most health, medical, and dental services.

Eligible registrants can file their GST/HST returns online, by using GST/HST NETFILE, or the “File a return” service at **cra.gc.ca/mybusinessaccount**. For more information about GST/HST, go to **cra.gc.ca/gsthst**.

Online services

My Account

Using the CRA's My Account service is a fast, easy, and secure way to access and manage your tax and benefit information online, seven days a week.

To register for My Account, go to **cra.gc.ca/myaccount**. Registration is a two-step process. You will be asked to enter some personal information and create a user ID and password or use a Sign-in Partner. Be sure to have your current and previous year's personal tax returns on hand. To register, a return for one of these two years must have been assessed. After you complete step one, you will have instant access to some of your tax and benefit information. Step two includes the mailing of the CRA security code. We will mail it to the address we have on file for you. The separate mailing of the security code is a measure used to protect you from identity theft and to ensure the security of your personal information. You will have access to the full suite of services available in My Account once you enter your code.

An authorized representative can access most of these online services through Represent a Client at **cra.gc.ca/representatives**.

MyCRA – Mobile app

Getting ready to file? Use MyCRA to:

- check your RRSP deduction limit;
- look up a local tax preparer; and
- see what tax filing software the CRA has certified.

Done filing? Use MyCRA to:

- check the status of your tax return; and
- view your notice of assessment.

Use MyCRA throughout the year to:

- view your personalized benefit and credit payment amounts;
- check your TFSA contribution room;
- update your contact details;
- manage your direct deposit and online mail information; and
- request your proof of income (option C).

To get more details on what you can do with MyCRA and to access the CRA's web-based mobile app, go to **cra.gc.ca/mobileapps**.

Handling business taxes online

Save time using the CRA's online services for businesses. You can:

- authorize a representative, an employee, or a group of employees, who has registered with Represent a Client, for online access to your business accounts;
- request or delete authorization online through Represent a Client, if you are a representative;
- change mailing and physical addresses, as well as the address where you keep your books and records;
- file a return electronically without a web access code;
- register for online mail, get email notifications, and view your mail online;
- enrol for direct deposit, update banking information, and view direct deposit transactions;
- authorize the withdrawal of a pre-determined amount from your bank account;
- request additional remittance vouchers;
- transfer payments and immediately view updated balances, without having to calculate interest;
- stop or restart the mailing of the GST/HST return for registrants package;
- add another business to your profile;
- view answers to common enquiries, and if needed, submit account-related enquiries;
- view the account balance and instalment balance, including the corresponding transactions (for example, payments); and
- do much more.

To register or log in to our online services, go to:

- **cra.gc.ca/mybusinessaccount**, if you are a business owner; or
- **cra.gc.ca/representatives**, if you are an authorized representative or employee.

For more information, go to **cra.gc.ca/businessonline**.

Receiving your CRA mail online

You, or your representative (authorized at a level 2), can choose to receive most of your CRA mail for your business online.

When you or your representative registers for online mail, an email notification will be sent to the email address(es) provided when there is new mail available to view in My Business Account. Correspondence available through online mail will no longer be printed and mailed. To register, select the "Manage online mail" service and follow the steps.

Using our online mail service is faster and easier than managing paper correspondence.

Authorizing the withdrawal of a pre-determined amount from your bank account

Pre-authorized debit (PAD) is an online, self-service, payment option. Through this option, you agree to authorize the CRA to withdraw a pre-determined amount from your bank account to pay tax on a specific date or dates. You can set up a PAD agreement using the CRA's secure My Business Account service at **cra.gc.ca/mybusinessaccount**. PADs are flexible and managed by you. You can view historical records, modify, cancel, or skip a payment. For more information, go to **canada.ca/payments** and select "Pre-authorized debit."

Electronic payments

Make your payment using:

- your financial institution's online or telephone banking services;
- the CRA's My Payment service at **cra.gc.ca/mypayment**; or
- pre-authorized debit at **cra.gc.ca/mybusinessaccount**.

For more information on all payment options, go to **canada.ca/payments**.

For more information

What if you need help?

If you need more information after reading this guide, visit **cra.gc.ca** or call **1-800-959-5525**.

Direct deposit

Direct deposit is a fast, convenient, reliable, and secure way to get your CRA payments directly into your account at a financial institution in Canada.

You can view your direct deposit information and online transactions at **cra.gc.ca/mybusinessaccount**.

To enrol for direct deposit or to update your banking information, go to **cra.gc.ca/directdeposit**.

Forms and publications

To get our forms and publications, go to **cra.gc.ca/forms** or call **1-800-959-5525**.

Electronic mailing lists

We can notify you by email when new information on a subject of interest to you is available on our website. To subscribe to our electronic mailing lists, go to **cra.gc.ca/lists**.

Tax Information Phone Service (TIPS)

For personal and general tax information by telephone, use our automated service, TIPS, by calling **1-800-267-6999**.

Teletypewriter (TTY) users

If you have a hearing or speech impairment and use a TTY call **1-800-665-0354** during regular business hours.

Service complaints

You can expect to be treated fairly under clear and established rules, and get a high level of service each time you deal with the Canada Revenue Agency (CRA); see the *Taxpayer Bill of Rights*.

If you are not satisfied with the service you received, try to resolve the matter with the CRA employee you have been dealing with or call the telephone number provided in the CRA's correspondence. If you do not have contact information, go to **cra.gc.ca/contact**.

If you still disagree with the way your concerns were addressed, you can ask to discuss the matter with the employee's supervisor.

If you are still not satisfied, you can file a service complaint by filling out Form RC193, *Service-Related Complaint*. For more information, go to **cra.gc.ca/complaints**.

If the CRA has not resolved your service-related complaint, you can submit a complaint with the Office of the Taxpayers' Ombudsman.

Reprisal complaint

If you believe that you have experienced reprisal, fill out Form RC459, *Reprisal Complaint*.

For more information about reprisal complaints, go to **cra.gc.ca/reprisalcomplaints**.

Tax information videos

We have a tax information video series for new small businesses that provides an introduction to topics such as registering a business, GST/HST, and payroll. To watch our videos, go to **cra.gc.ca/videogallery**.

Cancel or waive penalties or interest

The CRA administers legislation, commonly called the taxpayer relief provisions, that gives the CRA discretion to cancel or waive penalties or interest when taxpayers are unable to meet their tax obligations due to circumstances beyond their control.

The CRA's discretion to grant relief is limited to any period that ended within 10 calendar years before the year in which a request is made.

For penalties, the CRA will consider your request only if it relates to a tax year or fiscal period ending in any of the 10 calendar years before the year in which you make your request. For example, your request made in 2017 must relate to a penalty for a tax year or fiscal period ending in 2007 or later.

For interest on a balance owing for any tax year or fiscal period, the CRA will consider only the amounts that accrued during the 10 calendar years before the year in which you make your request. For example, your request made in 2017 must relate to interest that accrued in 2007 or later.

To make a request, fill out Form RC4288, *Request for Taxpayer Relief – Cancel or Waive Penalties or Interest*. For more information about relief from penalties or interest and how to submit your request, go to **cra.gc.ca/taxpayerrelief**.