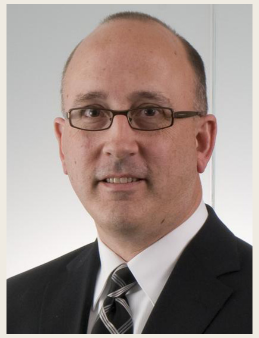
RBC Dominion Securities Inc.

August, 2015

Just For Farmers

A PUBLICATION FOR THE FARMERS OF LAMBTON, MIDDLESEX AND KENT COUNTIES



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Specializing in the investment, retirement and estate planning needs of local farmers since 1995.

Opening Notes…

Welcome to issue five of our bi-annual “Just for Farmers” publication. This issue will once again focus on the topic of farm succession - in particular, passing your farm assets to your intended beneficiaries through the use of your Will(s).

Our last farm succession seminar in February of this year yielded our biggest crowd yet with more than 60 attending. Interest like that confirms that many of you are thinking about this topic and how to best accomplish your succession plans. We hope that publications like this together with our farm succession seminars and follow-up discussions can help provide clarity for you around this important topic.

Farm Succession seminar

Please join us for our next **Farm Succession seminar on Wednesday, September 2nd at 2:00 pm featuring Rick Squires, our RBC Estate Planning Specialist.** We will also have representatives from **RBC Ag Banking** and **RBC Royal Bank Petrolia** to answer any questions you may have on financing your succession plans.

Investments to think about right now…

With interest rates at rock bottom levels, it is difficult to find good investment alternatives. Here are a couple of timely ideas that we are recommending right now:

Preferred Shares – Preferred shares are a hybrid vehicle offering both fixed income and equity characteristics. Many preferred shares have annual tax-efficient dividend yields north of 4-5% and are trading near lows.

U.S. market – We still like the relative strength and increased diversification offered by U.S. equity markets. Many investors are under-invested in this area.

Contact Kevin for information and specific recommendations around both of these options.

RBC Wealth Management
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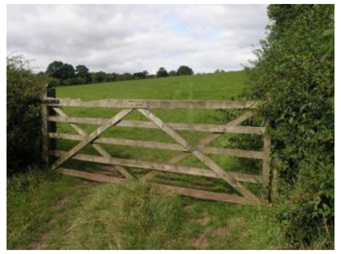
Please join us for a special free *seminar* on:



Family Farm Succession

- Selling options & implications
- Financing your succession plans
- Structuring farm holdings for the future

Special Guest Speaker:
Rick Squires, CLU, CHFC, TEP
RBC Estate Planning Specialist

Special Guests:
Representatives from **RBC Ag Banking and RBC Royal Bank Petrolia** will be on hand to answer questions on financing your succession.

Date:	**Wednesday, September 2nd, 2015**
Place:	**Victoria Playhouse** 411 Greenfield Street Petrolia, ON
Time:	**2:00 pm**

Light refreshments will be provided. Seating is complimentary, but limited. ***Please RSVP with Michelle at 519-337-3316 or michelle.deane@rbc.com***

Wealth Management Services

- Personal investment advice
- Portfolio management
- Discretionary money management
- Insurance planning
- Financial planning
- Saving for education
- Retirement planning
- Maximizing your retirement income
- Will and estate planning
- Protecting your wealth
- Charitable giving
- Creating a legacy

Investment Solutions

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- Segregated funds
- Investment pools
- Equity-linked notes

The Family Farm & Will Planning

The 2011 Census of Agriculture indicated that nearly half of all farmers in Canada are 55 years of age or older. Combine this demographic reality with the significant increase in land values over the past number of years and you can quickly see that the need for good planning advice has never been greater. This explains why I continue to focus on the topic of succession in these 'Just for Farmers' publications.

You may want to retain ownership of your farm property during your lifetime and gift it to your family members as part of your estate. The first step in ensuring your farm assets pass to your intended beneficiaries is to draft your Will. There are different tax implications and opportunities depending on who you name as beneficiary of your farming assets.

- Leaving farm assets to your spouse
- Leaving farm assets to your child/children
- Leaving farm assets to others

Leaving Farm Assets to your Spouse – Can transfer at Adjusted cost base OR Fair market value (no in between)

Choosing to leave farm assets to your spouse is a fairly straightforward way to achieve a tax efficient transfer of your farming assets. Upon your passing, your spouse would receive your farm property at your adjusted cost base (ACB) with no immediate tax consequences. The taxes payable would be deferred until your spouse passes away or sells the farm.

Your executor, however, may elect to transfer certain qualified farm property, such as land for example, to your spouse at its fair market value (FMV). This may make sense where you have capital gains exemption available to offset the taxes payable. Keep in mind that your executor can choose to make this election for each qualifying farm property ie: some assets could be rolled over to your spouse at cost and others at fair market value. For those with quota, this planning is not available for your quota. There is an automatic rollover of these assets at cost.

Testamentary Spousal Trust

If you wish to have your spouse inherit the farm on your passing, but then have your children inherit the farm once your spouse passes away, it may make sense to use a testamentary spousal trust. This is a trust established for the benefit of your surviving spouse through the provisions of your Will. Your spouse can then receive income from the farm during his or her lifetime, but upon their death the trust could distribute the farm property to your children (based on directions from your Will) at a value between cost (ACB) and fair market value on the date of death of the surviving spouse.

There has always been a big tax advantage to testamentary trusts as income earned was taxed at graduated rates (like a separate individual). Keep in mind, however, that after December 31, 2015, testamentary trusts will generally be subject to flat top-rate taxation, so you will need to weigh the estate planning advantages against the high tax rates charged on these types of accounts.

Please ask us for a copy of the article **The Testamentary Spousal Trust** for additional details regarding this structure.

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Leaving Farm Assets to your Child/Children/Grandchildren – If eligible, can transfer at any price between Adjusted cost base and Fair market value

Discussed in more detail in my February, 2015 issue of 'Just for Farmers', this opportunity is referred to as the Family Farm rollover. This rule essentially allows you to rollover the farm to your child/children/grandchildren at any price between cost and fair market value. There are conditions around the use of the farm property and the Canadian residency of your child that must be met, but if onside with these rules, it is a great opportunity to defer tax and utilize your available capital gains exemption as the property rolls down within the family.

The definition of child includes stepchildren, adopted children, grandchildren, great grandchildren and sons or daughters-in-law.

What conditions must be met to utilize the family farm rollover opportunity?

The following conditions must be met in order for the tax-deferred transfer to apply:

- The farm property was, before the transfer, used principally (generally means more than 50% of the time) in the business of farming (active farming income as opposed to passive rental income).
- The taxpayer, parent, spouse or common-law partner, or any child was actively engaged on a regular and continuous basis in that business.
- The child must be a resident of Canada at the time of the transfer.

Leaving Farm Assets to Others

Leaving your farm property to anyone other than your spouse or children/grandchildren will result in a disposition of the assets at fair market value on your terminal or final tax return. Provided that some of the farm assets are qualified farm property, your executor may be able to claim any remaining capital gains exemption (currently $1 million per individual) on your final return. Your beneficiary would receive the farm assets with an adjusted cost base equal to the fair market value of the farm assets on the date of death.

Keep in mind that if significant taxes are owed, there will need to be enough money in the estate to cover this tax liability. You will want to get some advice around this before you pass away if you don't want assets sold to cover taxes owing.

Probate Tax

If your farm assets pass through your Will, they will generally be subject to probate. Probate is the process that the province utilizes to ensure the validity of your Will and the authority of your executor. In Ontario, the probate fee is $5 per $1,000 (0.5%) on the first $50,000 of assets. This increases to $15 per $1,000 (1.5%) on anything above $50,000.
One way to avoid probate tax on your farm assets is to transfer your farm property to your intended beneficiaries during your lifetime. This way they will not form part of the estate and therefore not be subject to probate. <End>

Increase in the Capital Gains Exemption for 2015 to $1 million

The 2015 federal budget proposes to increase the lifetime capital gains exemption to $1 million on the capital gains realized on the disposition of qualified farm property that occurs on or after April 21, 2015.

For taxation years after 2015, the capital gains exemption will be maintained at $1 million until the indexed lifetime capital gains exemption applicable to capital gains realized on the disposition of qualified small business shares ($813,600 in 2015) exceeds $1 million. At that time, the same lifetime capital gains exemption limit, indexed to inflation, will once again apply.

Keep in mind that the 2015 budget still needs to be passed into law this Fall. If the incumbent government does not get back into power, these proposals are subject to change.