Wealth Management
Dominion Securities

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RBC Dominion Securities Inc.

INTELLIGENT FARMER™

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Farm advisors helping your family make important decisions.

10 KEY QUESTIONS TO ASK

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RBC Dominion Securities Inc.

THE NEW RULES SURROUNDING CAPITAL COST ALLOWANCE

To operate a productive farming business, it is necessary to periodically upgrade or replace your equipment. Since this property wears out or becomes obsolete over time, the CRA allows you to deduct the cost of each item over a period of several years in an annual deduction known as the Capital Cost Allowance (CCA).

Thomas Blonde
Partner -
Baker Tilly GWD

The amount that you can write-off each year with the CCA depends on what "Class" the equipment falls within. For example, a tractor is classified as a "Class 10" asset which means that in a typical year you would get a 30% write-off of a declining balance but there is another rule that only allows you to claim half of this amount for new asset purchases in the first year (in this example 15%).

However, recently the Canadian government has announced changes to the CCA rules to allow you a larger write-off in that first year. Rather than cut the typical CCA you can claim in half, instead an additional 50% deduction can be claimed. For example, if you were to purchase a $100,000 Class 10 asset (such as a tractor), the 15% that would normally be available in the first year (a $15,000 write-off) would become 45% (a $45,000 write-off).

In light of these new rules, here are some key considerations for farmers to keep in mind.

Limited time only

This enhanced CCA is only available for a short period of time. It will apply to any capital asset purchased between Nov. 21, 2018 and Dec. 23, 2023. From the end of this window to Dec. 31, 2027, there will still be an enhanced CCA, but it won't be as lucrative.

Therefore, if you were thinking about making a major capital asset purchase, it would be advantageous to do this before Dec. 23, 2023.

100 per cent write-offs

Although the new CCA rules do allow an additional write-off for capital asset purchases, you should keep in mind that there are other things you could do to get a 100% write-off. For example, any tile drainage projects are typically allowed to be written off 100%. Before you rush into making a capital asset purchase just for the tax savings, make sure you take advantage of these other opportunities first.

Preparing for year-end

If you're close to your year-end and have already exhausted other ways to reduce your tax bill, you could proceed with the purchase of the expensive capital asset that you were planning. The asset only has to be available for use before the year-end to qualify for the deduction. This could offset any additional income with a sizeable CCA write-off in that first year, especially if you're purchasing a big-ticket item like a combine. Even if you're financing the asset and making payments over a period of five or 10 years, you would still receive the full 45 per cent write-off in the year you purchase a Class 10 asset.

Deferring tax vs. absolute tax savings

Lastly, especially for an incorporated farm, oftentimes increasing your expenses (through these enhanced CCA opportunities or other methods) to reduce your income will not save any tax but just defer it to another year.

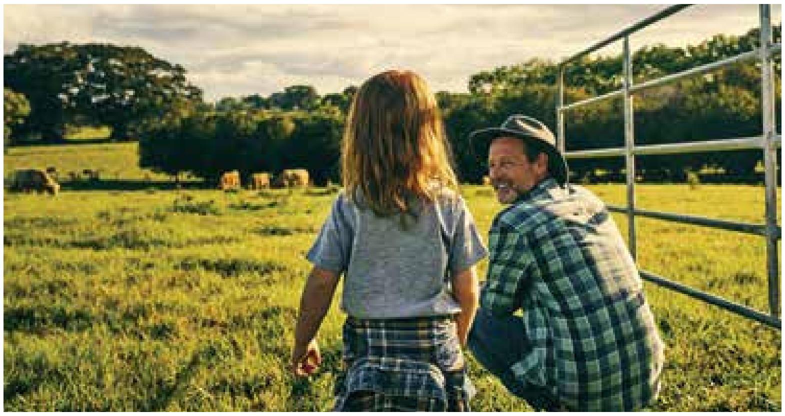
For example, most incorporated farmers have a flat rate of tax from zero income to $500,000. If your income this year is $200,000 and you spend $100,000 to bring that down $100,000 and your income next year is $200,000 again, you're going to pay the same percentage of tax. By taking advantage of the accelerated CCA opportunity and other opportunities to write off expenses faster, you're only deferring tax until a later year, at which point you'll pay that same rate of tax.

A corporation would only experience an absolute tax savings if a higher tax rate applies, which usually doesn't occur until its income exceeds $500,000.

In the case of proprietorships and partnerships, income is taxed personally with tax brackets that start at a much lower number (i.e. under $50,000) – therefore there are more opportunities for absolute tax savings as compared to corporations.

Conclusion

Although the new Capital Cost Allowance rules are appreciated, the overall tax savings may not be as big as you think. Before rushing into that capital purchase, you should make sure it makes sense for your overall business and not just do it to save tax. When in doubt, you should consult with a tax professional to do the full cost-benefit analysis before you proceed.



10 KEY QUESTIONS TO ASK

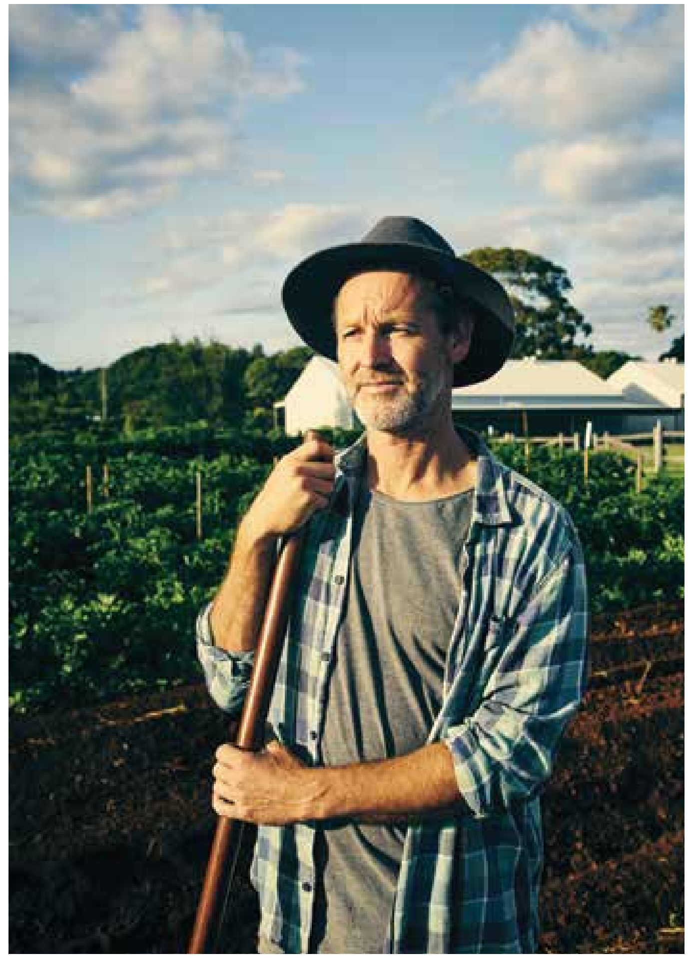
WHEN TRANSITIONING FARMING ASSESTS TO A CHILD OR CHILDREN

Every farm owner knows that someday their farming operation is going to be transitioned to a new owner. But for many farmers, thinking about or making plans to prepare for transitioning the farm feels like petting a porcupine. It's prickly and hard to approach – a creature one would just as soon avoid entirely.

Speaking from experience in helping many farm families with their farm succession plan, I can tell you with certainty that doing nothing and avoiding any type of planning is like giving the porcupine a mate and feeding them fertility drugs – the problem doesn't go away – it magnifies.

Each farm and family is so unique that there is no single cookie cutter approach that works for every farm owner. Your own farm succession plan needs to be personalized to you and your family's needs.

When a farmer decides to transition his or her farm, there is typically one major decision to be made: Do I sell to a neighbour or third party, or do I transfer the farm to my child or children? But before deciding that, there are several key questions to answer.

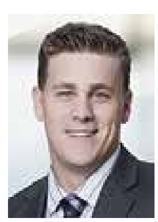


If you're considering transferring the farm to your children, there are a few other key questions to ask yourself:

1. What is the prerequisite to getting ownership in the farm operation?
2. Is ownership going to transfer to one child or multiple children?
3. How is compensation set for the owner or owners?
4. How are decisions made between multiple farming children?
5. Is the ownership going to be given or sold?
6. What happens if a child or all children want out of the agreement?
7. What will be your involvement in the operation be after transition?
8. Do you want to maintain control during transfer?
9. Where is your income going to come from after ownership is transferred?
10. What about the children that are not going to be farming?

If you don't have a plan, or haven't asked yourselves these types of questions, you're not alone. Many Ontario farmers don't adequately plan for their transition. There are often personal and family dynamics that may conflict with your succession planning. For this and other practical reasons, planning an exit requires you as the farmer to think strategically, and often requires the help of your professionals. In future articles posted on my website, I will address some of these questions in more detail and what possible solutions could be considered. In the meantime, if you would like to have a conversation about your own planning, give me a call.

I'm happy to discuss with you on the phone, or grab a coffee and have a chat.



Brent Dekoning

Associate Investment Advisor to Frank Lorkovic, Vice-President & Portfolio Manager

Lorkovic Wealth Management of RBC Dominion Securities

SELLING YOUR U.S. PROPERTY?

5 THINGS CANADIANS NEED TO KNOW

As you prepare to sell your U.S. property, make sure you know how U.S. and Canadian taxes come into play. Having all the facts can help you keep more of your profit in your pocket.

Maybe you're ready for a change of lifestyle, or perhaps you simply want to cash in on the appreciation you've seen on your United States property. Whatever your reason for selling, it's important to know what's ahead so you can prepare for the process. It can get complicated, so make sure you work with a real estate professional who is knowledgeable about the issues and a cross-border tax or legal expert who can help make sure you don't end up in hot water with the IRS or CRA.

1. You will have to pay U.S. tax[1] on your gains.

This may not come as a surprise, as the requirements are similar in Canada: If you sell your home for more than you paid for it, you're required to pay tax on the difference, minus some expenses — known as capital gains tax.

What you may not know is that when you sell property in the U.S., your tax obligation falls to the U.S. government first — even as a Canadian resident.

Filing and paying U.S. taxes is a fairly straightforward process – you need to report the gain (or loss) of your property on a U.S. Non-Resident Income Tax Return (1040NR). If you had funds withheld under FIRPTA (see point 4), then the tax owing will be deducted from that amount and you'll get a refund for the balance.

[1]Consult your financial, tax, legal and other professional advisors for advice on your individual situation

2. You need to report your gains to the Canadian government too.

As a Canadian resident, you're subject to income tax on your worldwide income – so the sale of your U.S. property, and any gains or losses incurred, has to be reported in Canada as well as the U.S.

3. The Canada-U.S. Tax Treaty is on your side.

Fortunately, the Canada-U.S. Tax Treaty is set up to avoid double taxation. Since the U.S. has the right to tax the capital gain first, that U.S. tax liability can be claimed as a foreign tax credit against your Canadian and provincial tax. Just remember, to qualify for the foreign tax credit, you must pay your U.S. taxes.

4. You'll be subject to withholding rules

If you're a Canadian resident and selling real estate in the U.S., you're subject to withholding rules under the Foreign Investment in Real Property Tax Act (FIRPTA). These rules require 15 per cent of the sale price be remitted to the IRS at the time of the sale. On the sale of a $500,000 property, that's a whopping $75,000.

This is not a tax, but a withholding against capital gains tax – basically, it's in place to ensure you meet your U.S. income tax obligations, as the IRS holds the funds until your U.S. tax return is submitted and processed and then refunds the balance to you.

Exceptions

The good news is, there are ways to reduce or eliminate this withholding requirement.

The first exception relates to the cost of the property and the intentions of the buyer. If the property sells for less than $300,000 — and the buyer intends to use it at least 50 per cent of the time for the next two years — then the withholding can be waived altogether

The second exception applies if you get a Withholding Certificate from the IRS. Generally speaking, your tax liability will be significantly less than the amount of withheld funds, as taxes are calculated on the difference between what you paid for your property (minus some expenses) and how much you sold it for, while the withholding rules apply to the full selling price.

If you expect your U.S. tax liability will be less than 15 per cent of the selling price, you can apply for a Withholding Certificate. Provided you apply with enough notice to the IRS, your escrow agent can hold the 15 per cent in escrow while the application is pending. The IRS typically processes the application within about 90 days, after which point the withheld funds will be released back to you, less any amount payable to the IRS. Typically this is a much quicker route to getting those funds in your hands than waiting for the IRS to issue a refund.

The application for a Withholding Certificate is a Form 8288-B and must be completed and sent to the IRS before closing.

5. Advance planning is key

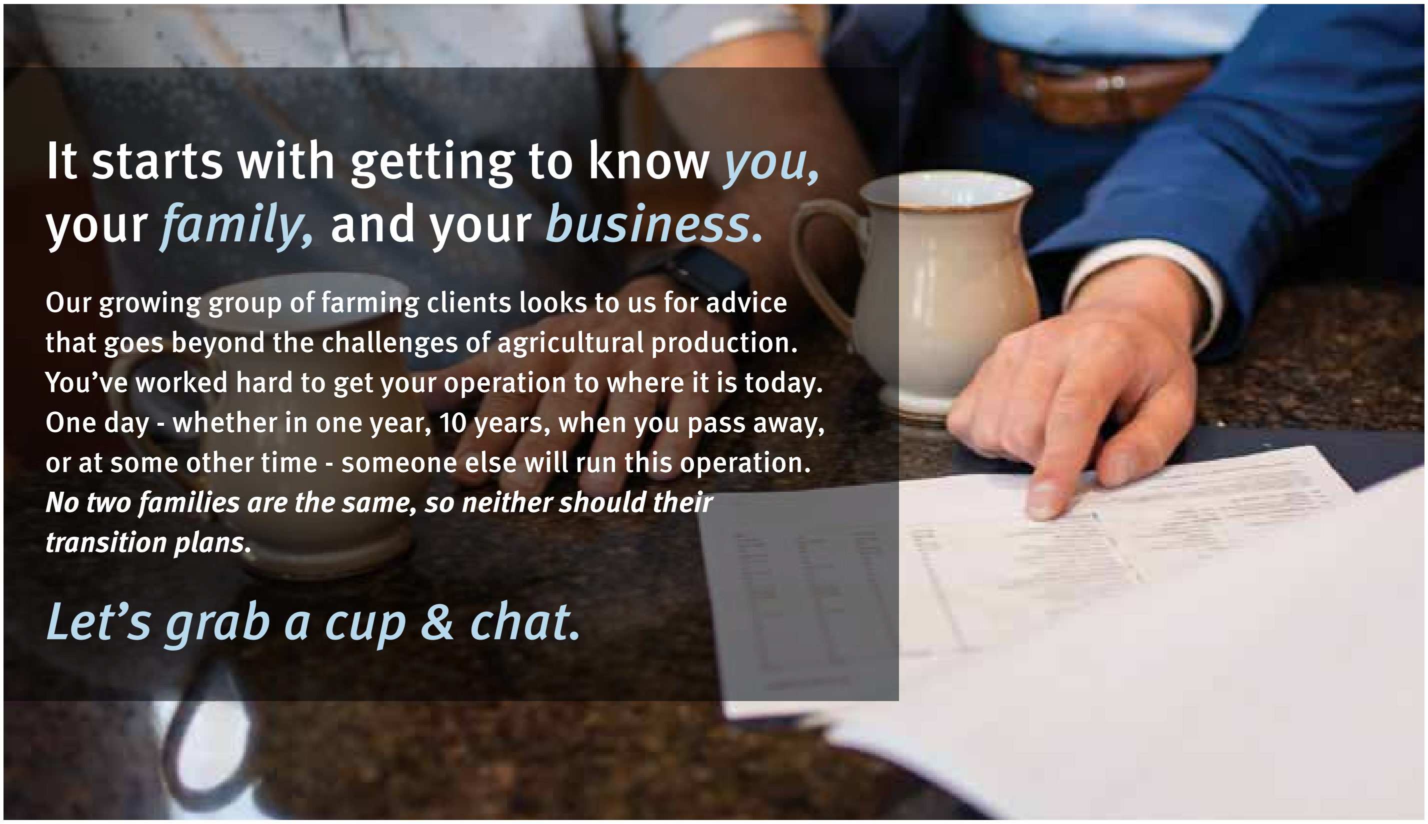
If you decide you want to apply for a Withholding Certificate, you'll need to plan ahead — this application takes time. Plus, you need to gather information about the property, get the buyer on board and secure an escrow agent who will handle the process for you.

If you don't take this step and funds are withheld at the time of the sale, you're out of pocket that 10 per cent or 15 per cent until you file your tax return and the IRS calculates your refund. It's important to note that while you're entitled to a refund, you may be waiting for some time — while some Canadians report getting their money back after a few months, others have waited up to two years for their money.

Selling your U.S. property requires you to follow a number of rules and make certain payments to the government. But done with enough time on your side, you can keep more money in your pocket and enjoy a smoother process from start to finish.

As always, it may be helpful to get professionals involved to assist you with the process. Having a real estate agent who is experienced in selling Canadian-owned property is a great place to start, and a tax expert or lawyer with cross-border expertise can be invaluable.

– BY DIANE AMATO
July 26, 2019



It starts with getting to know *you*, your *family,* and your *business.*

Our growing group of farming clients looks to us for advice that goes beyond the challenges of agricultural production. You've worked hard to get your operation to where it is today. One day - whether in one year, 10 years, when you pass away, or at some other time - someone else will run this operation. ***No two families are the same, so neither should their transition plans.***

Let's grab a cup & chat.

Lorkovic Wealth Management of RBC Dominion Securities believes that sound financial advice encompasses far more than just investment advice. Therefore we look at your total financial situation and offer you a comprehensive range of investment, financial, tax minimization, insurance, wills and estate planing, and legacy creation services.

An extended team of specialists supplements your core team of dedicated professionals. We draw upon the expertise of this group – on your behalf – as circumstances dictate.

Contact us today at 519-747-5541 or visit lorkovicwealth.com and find out how we can help you put a plan in place that you can be confident about.

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