Wealth Management
Dominion Securities

FALL 2022 | ISSUE 11
RBC Dominion Securities Inc.

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SMART FARMING

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RBC Dominion Securities Inc.

STRUCTURING A FARM BUSINESS TO INVOLVE THE NEXT GENERATION

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If you're thinking about farm succession planning, there are many areas to consider. One key consideration is determining how to include the next generation in the structure of a farm business while the parents are still involved. If you plan to include more than one generation at the same time, there are several ways you can include a child or successor as a partial owner.

When involving the next generation in the ownership of your business, it's always important to think through your goals. These could be focused on the management side or getting the kids more involved in financial matters, investing their resources in the business and sharing in its growth. Once your family's goals are clear, talk to your advisors about the structure that's best for your business.

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Corporation

A corporation is one of the more formal structures available when you start a business. However, some farmers are reluctant to start a corporation because it's expensive compared to some of the other options. It can also be somewhat complicated because a corporation is a separate legal entity, but it's worth noting this option offers full control of how we structure the shares of the corporation. We can completely separate the growth in the current value of assets, the voting control of the business and the operating or managerial control of the business – which includes signing authority – among different people in the corporation. Depending on your goals for the business, that can provide many helpful tools for your succession plan.

Partnership

When involving the next generation in a farm business, we generally need a little more formality, so we'll want a written partnership agreement outlining who's contributing what assets and how the income will be distributed out of the partnership. This agreement should also indicate how the value of the partnership assets will grow and how difficult decisions will be made. We still need to add some of the formality of a corporation, but one of the benefits of a partnership is it's not a separate person for tax purposes, so we can usually avoid filing a tax return for the partnership. The record-keeping requirements are a little less arduous for a partnership, and it can help keep more flexibility regarding the distribution of assets. Since a corporation is a separate legal entity, taking assets out is a taxable event. With a partnership, withdrawing cash is not taxable, because partners pay tax on their portion of the income each year. Taking capital assets out can be a taxable event, but when you take out a capital asset, each partner could have access to the capital gains deduction, which isn't available within a corporation.

Joint venture

When you form a joint venture, no additional entity is created for tax or legal purposes. It's just a contractual relationship in which two or more parties enter into a particular business function together. In some farm succession planning, certain farm assets are placed into a joint venture and different parties are involved in determining how the operations continue. In a joint venture, each party reports their proportion of gross revenue and expenses. This adds flexibility because now one of the venturers can sell their share of the assets to somebody else – whether another venturer, sibling, child or anyone else involved in the succession – without impacting the rest of the venture. If someone no longer wants to be involved with the family business, the easiest way for them to be removed is through this structure.

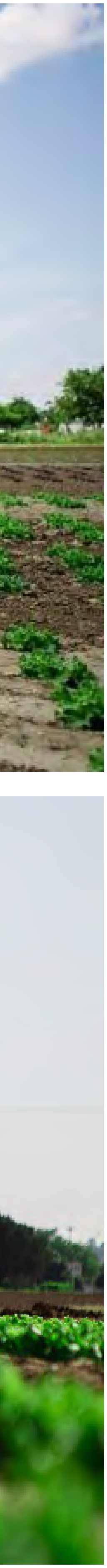
Family trust

Since 2018, tax on split income rules have limited some of the benefits of family trust planning, but one significant opportunity is still available. A family trust can hold farm property and the operations of the farm, while trustees of the trust control the property and distribution of any profits. That keeps control with the trustees (who are generally the parents) for the benefit of the beneficiaries (who generally include the kids). But where this becomes really helpful is when the trust owns the farm property and it's sold. The capital gain on that farm property can be distributed between all the beneficiaries, and we can use all their capital gains deductions on that sale. In a succession plan where parents are looking to sell the farm at some point in the future and the farm is owned by a family trust, they might be able to make use of more capital gains deductions and enjoy significant tax savings.

Legal advice

All of the structures outlined above have different legal implications with regard to family law, contract law and commercial law. In addition to tax advice, we recommend you seek competent legal advice before deciding how to structure your farm business for succession planning.

Change is needed to attract new people to the field. “It’s more than an economic imperative,” concluded a recent RBC study of the ag industry. “Our food security is at stake.”



SMART FARMING

It's still early days for smart farming technology, but a Southwestern Ontario firm is out in the fields, proving the feasibility and value of robotics and automation

CANADA IS IN the midst of a fourth agricultural ¬revolution, where advanced technology and automation are converging into a blossoming Internet of Farming — a potential revolution in the way Canadian farmers grow food and feed growing populations.

But this revolution is by no means assured. By 2025, one of every four farmers in this country will be over the age of 65, and farm productivity is plateauing. There's also a labour shortage of over 120,000 workers in Canada's agricultural sectors, with no sign of letting up.

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Haggarty AgRobotics, based in the town of Bothwell southwest of London, wants to see that agricultural revolution coming to life here, in Southwestern Ontario, on some of the most fertile farmland this country has to offer.

"When people used to farm 50 years ago, you would go into the field with your tractors and everything was manual. The way you drove was manual. The way you planted was manual. You had no information about the field," says Chuck Baresich, co-founder of Haggerty AgRobotics and Haggerty Creek, the parent agricultural company from which their new robotics company is being spun off.

"The next step is to remove the person out of the cab of the tractor," Baresich continues. "What we did — or, what we're doing — is we have brought together various pieces of autonomous equipment, and we have worked out a system to deploy those pieces of equipment on farmers' fields."

One of those car-sized robots, for instance, can drive through the field planting a crop, and then can turn around and weed the field around the crop without harming what it just planted.

"Tedious tasks," he notes. "That's what most people are asking for."

This year, their entire fleet of robots is being deployed, and they are using them in a kind of pilot capacity, studying how they work when implemented in the real world. What they've found, he says, is that the robots are a big hit on small, family-run farms, rather than big industrial operations where the automation imperative often seems the strongest.

The robots, he says, "become like a third hand to a small farm like that, and those farms are really struggling for labour," he says. "I think the market garden type farms, where people are growing a variety of berries and fruits — I think we're going to see adoption on those very quickly."

Baresich is aware that they won't get there overnight. The internet infrastructure is still lacking in many rural areas, and connection latency continues to be a problem for the industry to solve. Overcoming these challenges, he says, could have a huge upside for Southwestern Ontario. To that end, he has helped convene a working group, with the support of the Ontario Ministry of Agriculture, Food and Rural Affairs, to help guide how this industry develops both in Ontario and across the country. He's happy also to see growth in the advanced manufacturing sector in the region.

"The two- to three-year plan [for Haggarty AgRobotics] is to expand the number of robots, so they're more ¬commonplace for people to see them," Baresich says. "The five-year plan is to use what we're learning [now] to help establish an innovation hub here in Southwestern Ontario, where research, production and manufacturing of these robots is happening here. We see no reason why that shouldn't happen here."

Kieran Delamont
London Inc. Magazine

CUT YOUR TAX BILL BY SELLING FARMLAND STRATEGICALLY

Many farms are owned personally, often as a sole proprietorship or a partnership between two or more individuals. When a farm is transferred to the next generation or sold to a third party, the seller is taxed on the capital gain. Alternatively, if the land is owned inside a company, the individual may sell shares of the company that owns the land. In that case, there would also be a capital gain recognized personally on those shares. Based on the way increasing marginal tax rates currently work, if you sell everything at once and get taxed for it in a single year, you will creep into higher personal tax brackets than if you spread this sale out over multiple years.

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However, if you have enough to cover your cash needs each year, and you're willing to spread that gain over several years, you will be able to keep this income out of those higher tax brackets. Whereas a buyer would typically get financing from the bank and pay the full amount owing in one payment, the idea here is for the buyer to make payments to you over several years. For most buyers, this gradual payment approach is easier and therefore preferable, depending on the terms of the loan for annual financing. The more time you give the buyer to pay you back (up to five years), the smaller the gain and the lower your taxes will be each year. Still, there are some other complications to consider.

Alternative minimum tax

While this gradual payment approach has obvious benefits, some would argue the capital gains exemption could make it unnecessary to reduce your tax bill, as long as your gain falls below the $1 million exemption limit. However, it still might make sense to split the payment over several years because, even if the capital gain exemption protects you from paying tax, you could still end up paying alternative minimum tax (AMT). This arises in some cases where your net income is high, but your taxable income is quite low. The lifetime capital gains deduction reduces taxable income, but not net income. If you're able to split the gain over multiple years, you can sometimes lower the AMT or get rid of it altogether, depending on a variety of other factors.

Old Age Security

Another important issue to consider is the age of the person selling the farmland. If the seller is 65 or older, they might be receiving Old Age Security (OAS), which is roughly $7,500 a year, but there's a clawback on that OAS amount if your net income exceeds a certain threshold ($81,761 for 2022). Typically, in the year of a sale, there's a capital gain that pushes the seller's income higher for that year, forcing them to repay their OAS and miss out on this the following year. However, if we split that gain over multiple years and keep their income under that threshold annually, they might never have to repay their OAS.

Selling to the next generation

In farm succession situations, you sometimes have a seller who wants to sell to the next generation at a reduced price (less than fair market value). We often tell them to sell for the full price and pay tax on the capital gain, using the capital gain exemption, while also spreading payments over several years (up to 10 years in some cases), so it has no major impact on their personal income. The buyer would then get that higher cost base, which only helps them in the future. If the intention is to only ever collect a reduced amount, the seller can forgive part of the amount owing in their will as part of their estate plan. That would mean the amount never has to be paid by the successor, but they still benefit from the increase in cost base.

SOYBEANS, CORN & WHEAT UPDATE

Volatility in the grains and oilseed markets continues to be the main theme of the 2022 growing season. War, weather uncertainty and recessionary concerns have all had their influence and will likely continue to keep trade choppy into year-end.

Depending on final yield data, US soybean ending stocks are likely to come in near last year's levels. Price action through the year was dramatic, with beans just missing 2012 all-time highs at $17.94 ¾. Focus now shifts over to the demand side of the equation, which will be crucial to price direction moving into the fall. Crush is expected to be up year-over-year, but attention must be paid to competing world veggie oils. Specifically, palm oil price will be the main one to watch as palm oil makes up 35% of all vegetable oil produced globally. Production in both Malaysia and Indonesia is rebounding after COVID-19 restricted their access to foreign labour and hampered their ability to harvest the palm fruit. Export pace will also be important to watch into the fall as we have seen our seasonal slow down in sales for the summer. The extent of sales going forward likely depends on the shape of the Brazilian crop. World supplies of beans are expected to rebound year over year as well, but this expectation is based on a very large 2022/23 Brazilian crop. Estimates are around the 148 mmt mark on expanded acres and high prices. Over the past 2 years, we have seen crop size fall short due to drought. As such, all eyes will be on the pace of planting in October/ November as well as weather at the end of December into February, when the bulk of their soybean crop is flowering and filling pods.

US corn ending stocks are likely to come in near to slightly lower than last year's level. Yield data will be watched closely, especially after the variability of weather during the growing season. On the demand side, feed use is expected to be down on shrinking livestock herds, while exports are near last year's forecast. Front month corn futures also just missed the 2012 highs back in the spring at $8.43 ¾. Tight supply and uncertainty over the Russia/Ukraine war have been the biggest drivers to the upside. The size of Ukraine's harvest and how much of it may make the export market continues to be a moving target. Latest estimates sit around 65% for the size of the Ukrainian crop compared to last year. Outside of the Russia/ Ukraine front, trade needs to pay close attention to the pace of South American soybean planting in the fall. With the majority of the Brazilian corn acres being double cropped after beans, the later the planting season, the more risk there is for 2nd crop corn pollination to be pushed into the dry season.

US wheat ending stocks have been shrinking year over year since 2016, and that trend is estimated to continue into the 2022/23 marketing year. Winter wheat production this year was hampered by drought issues in the HRW growing regions. Final yield and acreage data will be important to watch as well for both US and Canadian Spring wheat as wet weather delayed the planting pace and caused the switching of crops back in the spring. War in Russia and Ukraine will continue to keep estimates for world supply and demand very dynamic over the next year. Like the corn, not only will the amount of grain harvested be in question, but also how much of it will actually be able to reach the export market. As well as this, as a whole, major exporting nations stocks to use ratio remains near record tight. The next growing regions to watch will be the southern hemisphere, specifically Australia and Argentina. The key time frame for yield development for these two crops will be Sept through October.

The Simpson/Caputo Group
of RBC Dominion Securities

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2022 HANDY FINANCIAL PLANNING FACTS

TFSA[1]

Maximum annual contribution limits	$5,000 each year 2009 – 2012 $5,500 each year 2013 – 2014 $10,000 for 2015 $5,500 for 2016 – 2018 $6,000 for 2019 – 2022
Maximum contribution limit since inception	$81,500 from 2009 – 2022, if born in 1991 or earlier and resident of Canada during those years

1) You automatically accumulate contribution room each year (starting in 2009) if you were a tax resident of Canada at any time during the year and you were at least 18 years of age at any time during the year.

RRSP / RRIF

RRSP maximum annual deduction limit	18% of the prior year's earned income to a maximum of: $29,210 for 2022 – deadline March 1, 2023 $27,830 for 2021 – deadline March 1, 2022		
Withholding tax on RRSP withdrawals or payments over the annual minimum for a RRIF	Amount	All provinces except Quebec	Quebec
	$0 – $5,000	10%	20%
	$5,001 – $15,000	20%	25%
	Over $15,000	30%	30%

SPOUSAL RRSP / RRIF

Spousal RRSP/RRIF attribution	• Attribution of a withdrawal from a spousal RRSP/RRIF to the plan annuitant's spouse (the "contributor") will apply if the contributor made a contribution in the year of withdrawal or in the two previous tax years. • An exception applies to RRIF minimum payments, which are not subject to attribution. • The amount attributed is limited to the total amount of the spousal RRSP contributions made by the contributor during the three-year period.

IMPORTANT PERSONAL TAX DEADLINES[2]

Personal income tax instalments	March 15, 2022 June 15, 2022 September 15, 2022 December 15, 2022
Personal income tax return filing	May 2, 2022
Self-employed income tax return filing	June 15, 2022
Balance owing for taxes payable	May 2, 2022

2) When the due date falls on a Saturday, a Sunday or a public holiday recognized by the CRA, your payment or return is considered on time if the CRA receives it or it is postmarked on the next business day.

OTHER DEADLINES

Prescribed rate loan interest payment due by	Jan. 30, 2022 for 2021 interest; Jan. 30, 2023 for 2022 interest[3]
Last trade date for Canadian and U.S. stocks	December 29, 2021, assuming a two-day settlement

3) January 30, 2022 falls on a weekend. Be sure to make arrangements to ensure the interest payments are made by the due date as the deadline is not extended to the next business day.

IPP

Employment earnings required to contribute the maximum	$171,000 for 2022; $162,278 for 2021

PENSION AMOUNTS

YMPE – yearly maximum pensionable earnings	$64,900
CANSIM rate	2.03%

U.S. THRESHOLDS

Lifetime U.S. estate and gift tax exemption[4]	US $12,060,000
Annual U.S. gift tax exemption – non-U.S. married spouse	US $164,000
Annual U.S. gift exemption – children / others	US $16,000

4) A Canadian resident (non U.S. person) with U.S. situs property US $60,000, and a worldwide estate US $12.06 million, may have exposure to U.S. estate tax. A Canadian resident with U.S. situs property US $60,000, must file a U.S. estate tax return.

RESP – per beneficiary:

Maximum contributions	Lifetime limit of $50,000. No annual limit.			
Maximum lifetime CESG limit	$7,200			
Contribution deadline	December 31			
	Income level from 2020	CESG%	Max contribution to attract CESG	Max CESG
Maximum annual basic CESG	Any	20%	$2,500	$500
Maximum annual basic CESG if unused carry-fwds	Any	20%	$5,000	$1,000
Maximum annual additional CESG	$50,197 or less	20%	$500	$100
	$50,197 to $100,392	10%	$500	$50

RDSP – per beneficiary:

Maximum contributions	Lifetime limit of $200,000. No annual limit.		
Maximum lifetime CDSG and CDSB limit	$70,000 for CDSG and $20,000 for CDSB		
Maximum annual CDSG and CDSB if unused carry-fwds	$10,500 for CDSG and $11,000 for CDSB		
Contribution deadline	December 31st		
	Income level from 2019	Max contribution to attract CESG	Max CDSG/ CDSB
Annual CDSG limit	$100,392 or less	$1,500	$3,500
	Above $100,392	$1,000	$1,000
	$32,797 or less	N/A	$1,000
	Between $32,797 and $50,197	N/A	$1,000 prorated
	Over $50,197	N/A	$0

CANADA PENSION PLAN and QUEBEC PENSION PLAN

Maximum amounts:	CPP	QPP
Retirement benefit at age 65	$1,253.59/mo	$1,253.59/mo
Post-retirement benefit at age 65	$36.26/mo	N/A
Retirement benefit supplement	N/A	$28.08/mo
Early retirement benefit at age 60 (36% max reduction or 0.6% per month)	$802.30/mo	$802.30/mo
Deferred retirement benefit at age 70 (42% max increase or 0.7% per month)	1,780.10/mo	$1,780.10/mo
Disability benefit	$1,464.83/mo	$1,463.83/mo
Survivor's benefit – younger than 65	$674.79/mo	See chart below
Survivor's benefit – 65 and older	$752.15/mo	$751.15/mo
Children of disabled CPP/QPP contributors	$264.53/mo	$83.99/mo
Children of deceased CPP/QPP contributors	$264.53/mo	$264.53/mo
Combined survivor's and retirement benefit at age 65	$1,257.13/mo	$1,253.59/mo
Combined survivor's and disability benefit	$1,467.04/mo	Undisclosed
Death benefit (one-time payment)	$2,500.00	$2,500.00
Employee and employer contributions	$3,499.80/yr	$3,776.10/yr
Self-employed contributions	$6,999.60/yr	$7,552.20/yr

QPP SURVIVOR'S BENEFIT – younger than 65

Age	Situation	QPP
Under 45	Without any dependent children	$605.68/mo
Under 45	With one or more dependent children	$958.43/mo
Under 45	Disabled, with or without dependent children	$995.92/mo
Between 45 and 64	All situations	$995.92/mo

OLD AGE SECURITY

Maximum benefits as of Q1:	OAS
Benefit at age 65	$642.25/mo
Deferred benefit at age 70 (36% max increase or 0.6% per month)	$873.46/mo
Clawback rate	$0.15 for every $1 of net income above $81,761; the full OAS is eliminated at a net income of $133,141, as of Q1

GOVERNMENT CONTACT INFORMATION

CRA general help line for individuals	EN: 1-800-959-8281; FR: 1-800-959-7383
Phone number for CPP and OAS queries	EN: 1-800-277-9914; FR: 1-800-277-9915
Phone number for QPP queries	1-800-463-5185

GUARANTEED INCOME SUPPLEMENT as of Q1

For those receiving a full OAS pension:	GIS[5]	Income cut-off
Single, widowed or divorced	$959.26/mo	$19,464/yr (individual)
If your spouse receives the full OAS pension	$577.43/mo	$25,728/yr (combined)
If your spouse does not receive an OAS pension	$959.26/mo	$46,656/yr (combined)
If your spouse receives the Allowance[6]	$577.43/mo	$46,656/yr (combined)
Allowance[6]: if your spouse receives GIS and the full OAS pension	$1,219.68/mo	$36,048/yr (combined)
Allowance for the survivor[7]: if you are a surviving spouse	$1,453.93/mo	$26,256/yr (individual)

Any reference to a spouse in this section also includes a common-law partner.
5) The GIS is a monthly non-taxable benefit to OAS recipients who have a low income. It is added to OAS.
6) The Allowance is available to low-income individuals aged 60 to 64 who are the spouse of a GIS recipient.
7) The Allowance for the Survivor is available to people aged 60 to 64 who have a low income, and whose spouse has died.

MARGINAL vs AVERAGE TAX RATE

Marginal tax rate	Tax rate applicable to the last dollar of income earned. It does not consider deductions and credits.
Average (or effective) tax rate	Actual tax rate paid. It considers deductions, credits and graduated tax brackets.

FEDERAL TAX CREDITS	BASE AMOUNT	TAX CREDIT
Basic personal amount[8]	$12,719 to $14,398	$1,908 to $2,160
Spouse or common-law partner amount	$12,421 to $13,808	$1,908 to $2,160
Age amount	$7,898	$1,185
Net income threshold for age amount	$0.15 for every $1 of net income above $39,826; the full age amount is eliminated at a net income of $92,479	
Disability amount	$8,870	$1,330
Disability supplement amount (for minors)	$5,174	$776
Pension income amount	$2,000	$300
Medical expense tax credit	Lesser of 3% of net income or $2,479	

8) The federal basic/spouse/common-law partner amounts range from $12,719 to $14,398 for taxpayers with taxable income below $155,625. The benefit of the increased amounts gradually declines until it is eliminated when taxable income reaches $221,708.

LIFETIME CAPITAL GAINS EXEMPTION (LCGE)	
For qualified small business corporation shares	$913,630
For qualified farm or fishing property	$1,000,000

FEDERAL DIVIDEND TAX RATES	GROSS-UP
Eligible dividends	38%
Non-eligible dividends	15%

FEDERAL CHARITABLE DONATIONS

Donation amount	For individuals not taxed at the highest federal rate of 33%[9]	For individuals taxed at the highest federal rate of 33%[10]
First $200	15%	15%
Excess over $200	29%	33% or 29%[9]

9) Highest federal rate begins when income is over $221,708.
10) A 33% donation tax credit is available for donations to the extent an individual has income that is subject to the 33% top marginal tax rate. A 29% donation tax credit is available on the remaining amount of the donation.

Farm succession planning services

Every farm tells a story, with each generation adding a chapter to the book.

1. Discovery

We listen and fully understand what is important to you and your family, as well as the future of your family's farm.

2. Deliverable

We create a highly personalized plan that incorporates the future of the farm, your personal wealth and most importantly, what you and your family want out of life.

3. Implementation

We work with your existing team of professionals to implement planning strategies, capturing every opportunity, so you and your family can enjoy greater financial peace of mind.

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

Let's connect & chat.

MEET THE TEAM

Contact us today at 519-747-5541

Your comfort is our priority. We're happy to meet virtually for your convenience.

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