



# INTELLIGENT FARMER™

lorkovicwealth.com

Farm advisors  
helping your family  
make important  
decisions.

**GETTING BACK TO  
MAKING SMART  
FINANCIAL DECISIONS**  
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## FINANCIAL

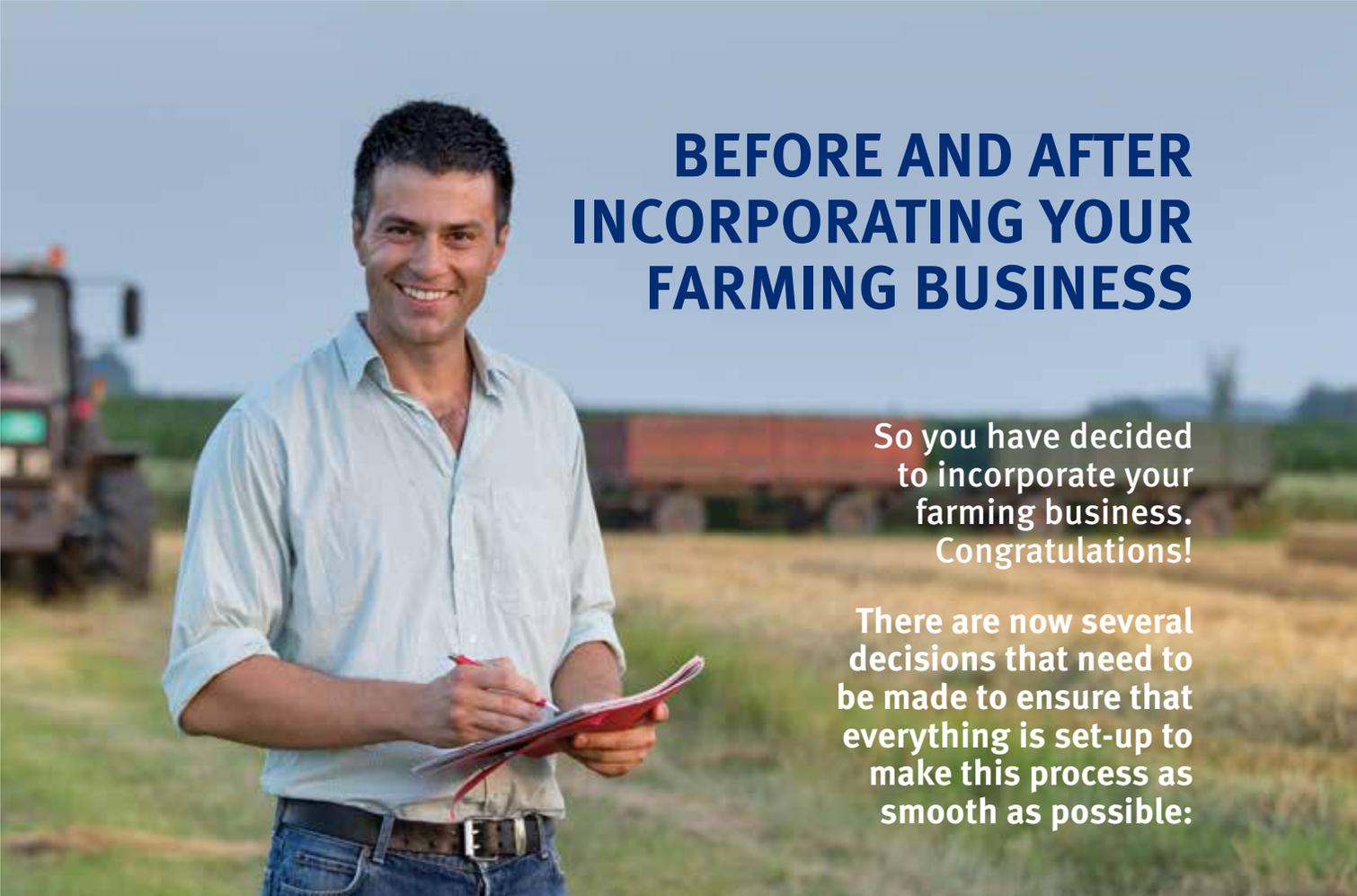
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# BEFORE AND AFTER INCORPORATING YOUR FARMING BUSINESS

So you have decided to incorporate your farming business. Congratulations!

There are now several decisions that need to be made to ensure that everything is set-up to make this process as smooth as possible:



**Thomas Blonde**  
Partner -  
Baker Tilly GWD

## CORPORATE YEAR-END

Corporations can opt for a year-end other than December 31 without incurring adverse tax consequences. You will need to determine whether a year-end date other than December 31 could be beneficial to your business.

For example, cash cropping operations may find that an October year-end would be beneficial as crops could be sold for cash in November and December but the tax on this income would not have to be paid until the following year. Additionally, an October year-end would make it easier to ensure financial statements are ready in time to obtain financing for the following spring's planting season.

## INCORPORATION DATE

You must also choose the date at which you will begin to report operations as a corporation, rather than a proprietorship or partnership.

Oftentimes a financial statement must be prepared for the period leading up to incorporation. To avoid having to prepare financial statements for a short year-end, it may make sense to consider delaying incorporation until your proprietorship's or partnership's year-end is nearly complete.

Alternatively, it may be beneficial to incorporate as soon as possible if there is a significant taxable income event coming up (for example, a higher-than-normal amount of inventory to sell). In this case, expediting incorporation will allow

you to transfer the tax liability to the corporation and avoid having to pay tax at higher personal rates.

Seasonal cash flows should also be considered. For example, cash crop operations often have substantial income and minimal expenses in the first few months of the year. Not taking these seasonal fluctuations into account before incorporating could expose you to a higher-than-expected personal tax bill.

Another thing to keep in mind when considering the date of incorporation is that inventory can be transferred to a corporation but accounts receivable cannot. Therefore, if you have a large amount of inventory it would be better to hold off selling it until after incorporation takes place.

## COMPANY NAME

When incorporating, you have the option of naming your company or using a numbered company. While incorporating a numbered company is slightly less expensive than a named company, it is greatly preferable from an administrative and marketing standpoint to opt for a named company.

If you decide to go with a name, the first name you choose may not be available, if it is legally registered to someone else. Therefore, it is important to have at least one other name in mind.

## DIRECTORS AND OFFICERS

Every corporation must have at least one listed director. Directors are legal representatives of the company who can be held personally liable for Canada Revenue Agency (CRA) debts, including income taxes, payroll deductions and harmonized sales tax (HST). Due to this personal liability, most corporations usually have no more than one director listed.

Corporations can also choose officers, legal representatives of the company who have limited liability. There are certain advantages to having officers, for instance, there is no requirement to pay Workplace Safety & Insurance Board (WSIB) premiums on the wages of active company officers. As such, you may wish to consider including your spouse and even some of your children as officers.

## TYPES OF SHARES

Two main types of shares can be issued by corporations: special shares and common shares.

Special shares are often issued to represent the value of equity you are transferring from the partnership or proprietorship to the corporation. This value remains fixed unless shares are redeemed by shareholders.

Common shares, sometimes called growth shares, represent the value of the company from the date of incorporation onwards. It is possible to issue a separate class of common shares for each shareholder. Having various common share classes increases flexibility in allocating dividends to optimize tax planning. Assets and liabilities at the incorporation date  
To properly document the transfer of assets

from a partnership or proprietorship to a corporation, your advisor will need a complete list of assets (both the current fair market value and their original cost) and liabilities as of the date of incorporation. Assets and liabilities include such items as cash, accounts receivable, prepaid expenses, inventory, farm equipment, investments, accounts payable and loans.

Ideally, your advisor would have access to statements supporting more significant balances, such as bank statements, invoices and loan statements.

For real estate, your advisor would require information on the cost, year purchased and estimated fair market value of any land, buildings and houses. A professional appraisal may be required.

For marketing quotas, they would require details on the year each quota unit was purchased, the amount of cumulative eligible capital (CEC) or class 14.1 capital cost allowance (CCA) claimed each year since inception (depreciation taken on the quota for tax purposes), the historical cost of the quota and its current fair market value. Your advisor would also need to be aware of the history of any quota obtained from family members for less than fair market value.

## TRANSFERRING LAND AND MARKETING QUOTAS TO THE COMPANY

It is not always necessary or desirable to transfer all proprietorship or partnership assets to your company. This applies particularly to land, homes and marketing quotas.

If land or marketing quotas are transferred to the company, you will have less flexibility in transferring these assets to the next generation at less than fair market value. It will also be more difficult to access your capital gains exemption when it comes time to sell these assets in the future. Additionally, the transfer of these assets to the company could have a significant immediate impact on your personal income tax (including refundable minimum tax) and the social benefits you receive, such as the Canada Child Benefit.

If you transfer your personal home to the corporation, you will lose your principal residence capital gains exemption and be subject to a personal taxable benefit for the

use of corporate-owned property.

Despite these negative consequences, you may still wish to transfer these assets to the company for a variety of reasons. For example, if you have debt that you want to transfer to the corporation, you will have no choice but to transfer enough assets to be able to assume this debt. Additionally, the negative consequences may not matter in situations where you have maximized your capital gains exemptions or have no desire to transfer assets to the next generation.

## GOVERNMENT FILINGS

Shortly after your lawyer files articles of incorporation, the Canada Revenue Agency (CRA) will mail you a letter with your new business number. On receipt of this letter, you must call the CRA to set up new corporate HST and payroll accounts, which will be used for your regular filings moving forward.

Another thing to keep in mind is that if there are any T4 slips to prepare for the old partnership or proprietorship, these will need to be filed by the end of the month following incorporation – not February of the following year when they are normally due.

## CUSTOMERS AND SUPPLIERS

After incorporation, you should contact all your customers and suppliers to ensure that payments and invoices are now made out in the name of your company rather than your old proprietorship or partnership. If invoices are not in the company's name, the CRA may deny deductions and HST credits to the company and/or include company income as personal income.

Please note that some customers, like quota marketing boards, may require you to complete a special administrative process before they can begin issuing payments to your corporation.

## CONCLUSION

The above article summarizes a few of the major planning items that need to be considered before and after incorporating a farm business. If you are interested in incorporating, it is suggested that you consult with your trusted advisor.



*“Compound interest is the eighth wonder of the world. He who understands it, earns it ... he who doesn’t ... pays it.”*

– Albert Einstein

## GETTING BACK TO MAKING SMART FINANCIAL DECISIONS



**Brent Dekoning**  
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Securities.

In a world with ultra-low interest rates, pervasive advertisements and the ability to consume at your fingertips, it’s no wonder Canadians and Canadian businesses are continuing to add record amounts of debt to the balance sheet. It seems like what previous generations taught us about the importance of saving hasn’t remained a priority for many Canadians.

A few months ago, my wife and I went to purchase a new phone. We had the option to either purchase the new phone outright and keep our monthly bill the same, or get the phone for zero dollars and increase our monthly bill by \$35 per month. Being in the finance industry, I had to crunch the numbers. It turned out that by opting for the second option, we would pay 20% more in the long run.

It got me thinking about how many people fall into these monthly payment traps. For example, for many farm operators, there is often a yearly call from their equipment dealer offering to trade in a piece of equipment for a brand new one and keep their monthly payment the same. But the part they aren't telling you about is the number of years you will have to continue to take cash flow from the business to keep paying for that piece of equipment.

**“Don't get me wrong, debt isn't the enemy — it can be a useful tool to build wealth, if handled responsibly and paid off in a reasonable amount of time.”**

I like to categorize debt into good debts and bad debts. Taking on a manageable (the key word here being “manageable”) amount of debt to purchase your first home would be considered good debt. Going out for dinner and buying new clothes with your credit card because you don't have the cash to pay for it would be considered bad debt, in my opinion.

I know it is not easy for many families and business owners, as costs keep going up and inflation is real. (If you don't believe that inflation is real, remember that you used to be able to get 20 Timbits for \$2.) But if you want to start making better financial decisions and keeping more of your hard-earned money in your pocket, it starts with making better choices and getting back to the basic principles that previous generations used to compound the wealth they have today. There are two very important strategies that families and businesses can employ to stop paying interest and start compounding it.

### Make a monthly budget

Creating a budget and financial plan is simply choosing where you want your money to go, instead of letting your money decide for you. No budget will be perfect right down to the dollar and that is okay — it will make you aware of where your money is going and help you identify where you can cut back.

Your budget starts with a calculation of your total after-tax income. Once you have calculated all of your income sources after-tax, it's time to list your expenses. Be sure to list all of your regular bills, such as your mortgage, heating costs, property tax, etc. After you've identified your regular bills, list your discretionary spending, such as meals out and entertainment. Once you have everything categorized, take the after-tax income and subtract your regular bills and discretionary spending. Be sure to track your progress to make sure you are sticking to the plan.

### Make saving a priority

Warren Buffet, widely regarded as one of the smartest investors of all time, has continued to preach the importance of building up a financial fortress of savings in his annual letter to Berkshire shareholders. He notes that he never wants to risk getting caught short on cash. Yes, he may have missed out on some opportunities as a result, but he believes it is foolish to risk what you have and what you need in order to obtain what you don't need. Every so often, economic progress will take a step back. It is during these periods of time that savers will be rewarded with opportunities to make purchases at bargain prices.

Start by saving for emergencies, so that when they occur (because they always do), you have the cash to cover them. After your savings safety net is built, start saving for your retirement, children's education or a business acquisition.

Don't forget that people sitting in the shade today are there because someone planted a tree many years ago.



Approximately how many different fruit and vegetable crops are grown in Canada from coast to coast?

- A) 50
- B) 100
- C) 125
- D) 175



Question C/O Form & Food Care:  
[www.farmfoodcareon.org/resources/did-you-know-resources](http://www.farmfoodcareon.org/resources/did-you-know-resources)

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# 2020 REAL ESTATE UPDATE

– BY PHIL SPOELSTRA  
*Farm Ontario*

2020 brings about a new decade, and a sharp reminder it was already 20 years ago that we rang in the new century! Now that I have aged you, why not double down and remind you just how different things were before Y2K almost ended the world?



## Hog:

2019 was one of the most volatile years for the hog market in some time. The 2020 outlook appears to be much better as relations improve with China regarding the import of hog products. The jury is still out as to whether that is because the Chinese like us again or are just plumb out of pigs! China imposed a ban in June 2019 on Canadian pork, which was lifted again in November as the Chinese market is reportedly 20 – 30 million tonnes of pork on their annual demand of 50 million tonnes. The shortage in China, along with African Swine Flu, is expected to last up to 3 years and could mean a strong market for Ontario producers during this period.



## Dairy:

At the moment there is a shortage of ongoing dairy operations available on the market. There also remains a significant number of farmers looking for ongoing dairy farms for a variety of reasons, which should result in 2020 being a sellers' market for dairy farmers. Strong demand for dairy farms may also drive the prices for quota on these ongoing farms higher than it has been in the past two years. One major market factor that is still somewhat unknown is the result of the United States–Mexico–Canada Agreement (USMCA) deal and how that will impact our milk production, as well as how the government will distribute the \$1.31 billion that it plans to spend on compensating dairy producers. All in all, it looks like a strong year for selling ongoing dairy farms.

*Wishing you all the best in your 2020 and hope you have a safe and productive year!*

## Back in the year 2000....

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- an Ontario acre of land sold for an average of under \$3000/acre
- you had to milk your own cows
- Fuel was \$.68 per litre
- No social media farm groups!
- you had to drive your own tractor
- \$40 per unit of Broiler quota
- your phone had real buttons (sorry if it still does)
- and lastly... hamburgers were made with.... hamburger



### Chicken:

2020 is predicted to experience more moderate growth in chicken consumption (2%) after more significant growth in 2017 and 2018. The spillover from the past few years is still evident though, as demand remains strong for both ongoing chicken farms with quota as well as farms with functional one- and two-storey barns that buyers can fill with their own quota. Sellers are able to sell empty facilities and still get paid well for their chicken barns, providing they are in good repair and will comply with modular loading without too many renovations. 2020 should be another strong year for demand for ongoing chicken farms, as well as farms with empty facilities that could be used for chicken production.



### Crop land:

Land in Ontario will no doubt remain relatively stable if livestock markets mentioned above are strong. We expect the aforementioned markets to remain stable and recent sales in the goat industry continue to point to a recovery in that market as well. We don't expect any substantial increases in farm prices though. The last two to three years have offered moderate increases in land prices but our experience has been that the majority of markets in Ontario have seen prices hold steady rather than increase or decrease. We expect this to continue in 2020 with a few exceptions here and there. There remains a demand for land and we anticipate sales will remain strong, however, cash crop farms may take slightly longer to sell than they did in the past few years, depending on location.



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

Our growing group of farming clients look 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 that is in one year, 10 years, when you pass away, or another time – someone else will run this operation. *Just as no two families are the same, neither are 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, Will and estate planning, 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 – to customize your all-encompassing wealth strategy.

Contact us today at **519-747-5541** or visit **lorkovicwealth.com** and find out how we create a personalized plan that will grant you financial peace of mind.



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**Wealth Management  
Dominion Securities**

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