Wealth Management
Dominion Securities

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RBC Dominion Securities Inc.

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SOUTHWESTERN ONTARIO LAND VALUES

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RBC Dominion Securities Inc.

AGRISTABILITY CHANGES: IS IT TIME TO PARTICIPATE (AGAIN)?

In March 2021, the Canadian federal and provincial governments announced changes to the AgriStability program to improve income support for farm producers. Given the influx of federal and provincial government support programs announced because of the COVID-19 pandemic, producers may have overlooked the changes to the AgriStability program and its potential impact on their operations. As we look forward to 2022, producers who have never participated or have been out of AgriStability for several years should re-evaluate whether the AgriStability program would benefit their operations. ▶

AgriStability overview

AgriStability's purpose is to buffer farm producers from production margin declines. The AgriStability program calculates the producer's production margin as:

Allowable income - allowable expenses = production margin

Allowable income includes sales of agricultural commodities. Allowable expenses include, but are not limited to, such expenses as seed purchases, pesticides, machinery fuel and feed.

A payment is triggered if the program year margin falls below 70% of a reference margin that is based on an "Olympic average" of the last five years meaning the highest and lower margin years are dropped and the remaining three years are averaged.

Changes to the AgriStability program

Removal of the reference margin limit

The most significant change to the AgriStability program announced in March 2021 was the removal of the reference margin limit tied to allowable expenses. This reference margin limit affected those with low ratios of allowable expenses to allowable income. The reference margin limit made it difficult for those producers to predict whether they could qualify for payments, as the payment triggers could range from 70% to 49% of the reference margins.

Field crop production, in particular, was significantly affected by this reference margin limit.

The result of the reference margin limit was that many producers needed the current year margins to fall 49% below their reference margins to trigger payments.

Many field crop producers and other producers with low allowable expenses relative to allowable income decided to exit the AgriStability program after the reference margin limit was introduced back in 2013.

With the reference margin limit no longer a factor, low allowable expense ratio producers, such as field crop producers, may wish to consider participating in the program again.

Should your operation enroll in AgriStability going forward?

Producers should consider several factors when deciding whether to participate in the AgriStability program.

Payment trigger unchanged at 70%

The most significant AgriStability program change that was enacted in 2013 by the federal and provincial governments was the lowering of the payment trigger from 85% to 70%. This payment trigger factor remains unchanged, so producers are still not as likely to trigger payments as those who enrolled when the payment trigger was 85%.

Understanding gross margins

The lower a farm's gross margins, the more sensitive the operation will be to changes in factors such as market prices, production declines and rising expenses. With AgriStability, lower margin producers require a smaller percentage change in those factors to qualify for payments.

Producer administrative work and AgriStability fees

AgriStability fees are calculated as 0.3150% of the reference margin (plus $55).

However, the premiums may be only a small portion of the cost to participate in the AgriStability program. Participants must also complete annual applications detailing their production histories, accounts receivable and accounts payable, and must provide detailed reconciliations of their opening and ending inventories, among other requirements. Compiling this information often requires a significant amount of work for producers and their advisors, over and above preparing the basic annual financial statements and tax returns.

It is common for AgriStability administration to follow up with a producer with inquiries even after the application is submitted. And if the application is not processed as expected, the appeal process can add even further to the administrative burden.

To enroll in the AgriStability program, producers must provide historical financial and production information to calculate their reference margins. Provincial agencies do have a simplified enrollment process for those who are new to farming or have been out of the AgriStability program for more than four years.

Supply management sectors

Historically, the supply-managed sector rarely experiences margin declines under 70%. It is possible, however, that a disaster could cause a greater decline. The avian influenza outbreak that affected certain western-Canadian chicken producers more than 10 years ago is a good example. These types of producers should consider whether the costs to participate in AgriStability outweigh the insurance coverage provided. They may already have sufficient resources, including other insurance products, to deal with unforeseen disasters.

Get professional advice

The decision whether or not to participate in the AgriStability program can be complicated. Every case is different. The deadline to enroll in the 2022 AgriStability program is April 30, 2022. Contact your accountant and professional advisors before making any decisions. We can help you to understand your options.

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See Agriculture and Agri-Food Canada for a complete list of allowable income and expenses at https://agriculture.canada.ca/en/agricultural-programs-and-services/agristability/resources/agristability-program-guidelines-consolidated-version

THE RULES OF FAMILY FARM TRANSITIONS ARE CHANGING

When selling a farm corporation, there are more tax advantages selling to a stranger than to someone in your own family. It has always been difficult to transition corporate-owned farms to the next generation, because the sale of a corporation within a family is taxed at a higher rate – one that would be lower if the buyer was an unrelated person.

We've been aware of this challenge for a number of years, and many Members of Parliament have attempted to update the rules. Changes were finally made in recent months when Bill C-208, which amends sections 55 and 84.1 of the Income Tax Act, received Royal Assent and became law on June 29, 2021. While the rules are still in flux and additional updates are expected in the months ahead, the initial changes are now in effect.

Changes to section 55

Section 55 aims to stop businesses from stripping out value from one corporation to another, reducing a capital gain – and their tax bill. For those looking to avoid capital gains tax, section 55 effectively says, "No, you can't do that." However, there are rules that allow businesses to move value from one corporation to another if they're not selling the corporation. Bill C-208 expands those rules, allowing you to also move assets between eligible corporations owned by siblings. This is helpful in a situation where a farm corporation is owned by two siblings who want to split it in two and pass their respective share on to their children.

Changes to section 84.1

Some challenging components of Bill C-208 are the changes to section 84.1 of the Income Tax Act. This section aims to stop businesses from stripping value out of a corporation to an individual at capital gains tax rates, rather than the higher dividend tax rates. The recent changes allow share sales of eligible active business corporations – including farm corporations – to go from one person to a corporation controlled by their children or grandchildren at capital gains tax rates.

However, there are a few challenges with the legislation. The definitions aren't entirely clear, references to other sections of the act are problematic, and there are no filing deadlines, penalties or forms prescribed to do the relevant reporting. The biggest problem for the Department of Finance is the new rules do not require the share sales to be a true farm or business succession. A parent could sell their farm corporation shares to their child's corporation but continue running the farm for the next 20 years – and there's nothing the rules can do to prevent this. As a result, the Department of Finance is currently working to amend the bill, limiting the availability of this opportunity to true successions.

Following Québec's example

Québec has its own Income Tax Act, including some rules similar to what's been included in Bill C-208. In addition, there are rules requiring the owners selling shares to be actively involved before the sale and transitioning their management role to the successors as part of the transaction. In other words, some form of succession of management and operations is required. These rules also require a succession of share interests, so the original owner's shareholdings and interest in the farm corporation decrease over time, as the successor becomes increasingly involved. The Department of Finance plans to revise Bill C-208 to point in the same direction.

What now?

While we don't know exactly what changes are coming, revised rules will most likely apply as of the date of publication of the final draft legislation. Draft legislation may come with the 2022 federal budget or it may come as a separate release from the Department of Finance. With that in mind, you may have only a small window of opportunity to act on the current rules where possible.

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SOUTHWESTERN ONTARIO LAND VALUES

Breaking news is readily available at our fingertips these days, and it seems like there is always a new development in the works. Some examples would be: the Leafs are good, Convoy is more than a good country song and we are short on cereal, steel and fertilizer. However, it is also said that history repeats itself (slowly for the Leaf fans) and this has been the case with regards to the farmland market in 2021.

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In 2011-2012, we had historically low interest rates, historically high crop prices and, as a result, historically high land values. Fast forward to 2021, and – you guessed it – history has repeated itself. We are in an environment of very similar, if not better, interest rates and crop prices, and this past year, land values increased at a rate not seen since that 2011-2012 time period.

As I take stock of the farmland market, many of the factors that have been at play for at least the past decade continue to play a prominent role: the aforementioned interest rates and crop prices, as well as very good crop yields in successive years, livestock density and investor interest. However, one new element that was not as prominent in the past is urban influence. Urbanites have flocked to rural areas since the start of the pandemic, and many are buying small farms that used to be bought primarily by local farmers. This added demand has definitely had an impact on values.

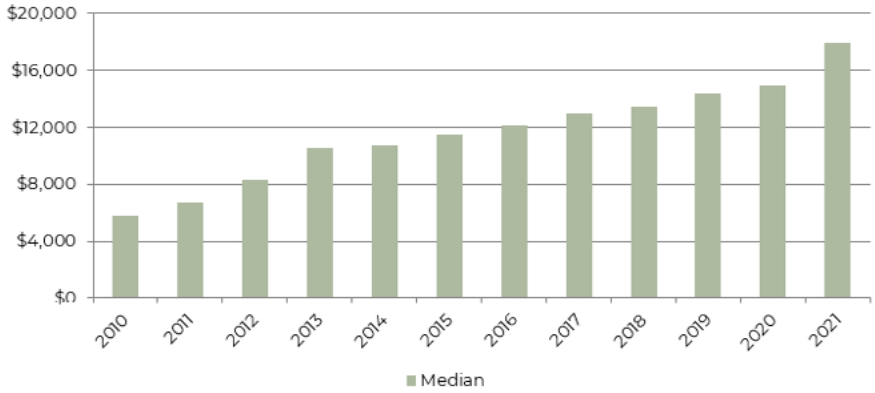
Looking into 2022, it appears that there is the potential for more new highs this spring. Very little inventory and sky-high demand is going to put pressure on prices for the foreseeable future. In fact, the entire real estate market appears to be experiencing sustained tailwinds, and this current inflationary atmosphere has only added to the demand for dirt.

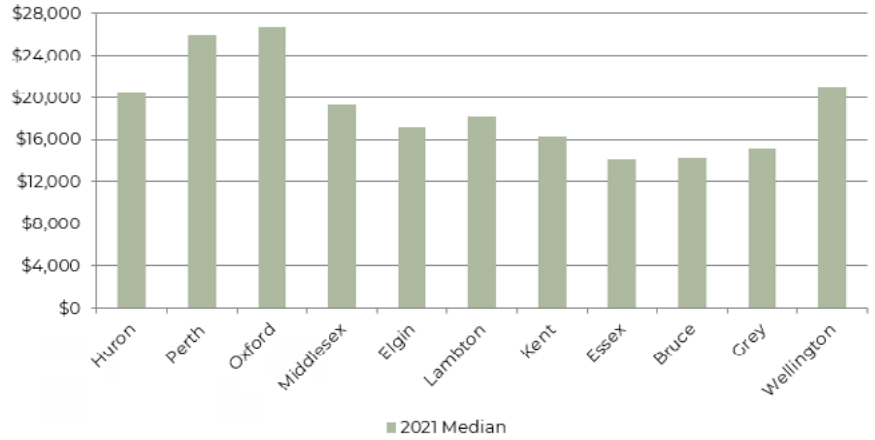
Given these factors, I expect farmland values to continue to increase at an elevated rate in 2022. However, since history can be repetitive, it is perhaps important to remember that one of the other times in history where Canadian farmland values and inflation both skyrocketed, the immediate aftermath for the industry was a fairly strong headwind.

Southwestern Ontario (11 Counties)

Average 2020 to 2021 change	25.63%
Average annual change from 2010 to 2021	12.08%
SW Ontario 2021 median land value	$17,953

Southwestern Ontario land values





The graph above shows the median 2021 land value for each county.

Change in Values

The table on the left shows the average annual change for all 11 counties. The table on the right shows the average annual change for each county from 2010 to 2021.

Years	Average annual change
2010 - 2011	19.60%
2011 - 2012	29.71%
2012 - 2013	20.85%
2013 - 2014	2.99%
2014 - 2015	5.75%
2015 - 2016	4.94%
2016 - 2017	9.73%
2017 - 2018	2.60%
2018 - 2019	6.02%
2019 - 2020	5.01%
2020 - 2021	25.63%

County	Average annual change
Huron	11.27%
Perth	10.33%
Oxford	9.64%
Middlesex	11.98%
Elgin	13.00%
Lambton	15.05%
Kent	9.60%
Essex	9.48%
Bruce	16.10%
Grey	14.77%
Wellington	11.61%

SOYBEANS, CORN & WHEAT UPDATE

Volatility remains high to start the year in the grains and oilseed space, with a combination of weather and political tensions at the forefront.

From the weather standpoint, soybeans have seen the largest swing as of late, as flash drought for southern Brazil and Argentina has had analysts aggressively paring back on yield estimates. All throughout fall, the market seemed content to price in near near-perfect crop out of South America, with estimates for 144+ million-metric-ton (mmt) crop for Brazil being the norm for the last six months. Trade has had to put a whole lot of risk back on the table in a small amount of time, due to changing weather conditions and estimates for some 20–30 mmt of crop losses. Key development periods for Brazilian soybeans are now past and focus going forward will rely on actual yield data as harvest progresses. Central Argentina weather will also be key through end of February, as crop remains in key development stages. Outside of supply, demand remains solid for soybeans going forward. Crush pace remains strong with margins still sitting at four-year highs. Old crop exports are likely to lag going forward, as Brazilian soybeans dominate world market. Although, continued interest from China is being seen for U.S. new crop beans. The next key event to watch will be planting intentions and the U.S. growing season. Tight world stocks will once again cause heightened attention this spring/summer season.

The corn market has also seen considerable risk premium built in over South American weather concerns. Estimates for Brazil's first crop corn, have seen reductions, however, of bigger importance to trade will be second crop corn which makes up the majority of Brazilian production. With the fast pace of soybean plantings last fall, it has so far led to a very quick planting pace for second crop corn. Typically, this corresponds to better yields, as it pulls the pollination period for the crop farther ahead of the dry season, which usually reduces the risk of drought stress. That being said, no two years of weather are the same, and tight world supply will still keep heightened focus on second crop corn weather.

On the demand side, ethanol production and exports remain strong in the U.S. and U.S. corn remains competitive in the world feed trade. World supplies are tight and the bulk of South American supply will not hit the market until summer. Focus will soon shift towards U.S. growing season and initial planting intentions. As of late, the ratio between beans and corn has favoured corn acreage expansion. However, since the start of the year, November 2022 soybeans have been gaining on December 2022 corn. Additionally, very expensive fertilizer costs may also make it tough to see much corn acreage expansion year-over-year.

The wheat market has not been spared the volatility after the major run-up seen in the fall on poor U.S. and Canadian crops. Prices, however, were able to find some relief on larger-than-expected Australian and Argentinian crops, which took some pressure off the world market. U.S. exports have remained lackluster, as the U.S. market has kept a high-enough premium to world prices to discourage non-traditional export business. Political risk is high in the wheat market, as tensions between Russia and Ukraine are keeping the market on edge. Outside of this, news for the wheat market will likely be quiet until crops begin to come out of dormancy across the U.S., and trade focuses on spring weather. Crop conditions for winter what in the U.S. are relatively low with the majority of the major growing states rated between only 7–36% good/ex. Typically, fall/winter crop conditions are not great indicators of final yield, as spring weather plays the largest key. But with over half the crop in areas experiencing drought, the large temperature swings throughout the winter and the inland hurricane across most of Kansas, some irreversible damage could have been done to this crop and likely warrants increased focus on spring weather this year.

The Simpson/Caputo Group
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Course opens April 1, 2022

RBC Future Launch

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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		
Annual CDSG limit	Income level from 2019	Max contribution to attract CESG	Max CDSG/ CDSB
	$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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