



Wealth Management
Dominion Securities

FALL 2024 | ISSUE 15
RBC Dominion Securities Inc.

INTELLIGENT FARMER™

lorkovicwealth.com

Farm advisors
helping your family
make important
decisions.

FROM ONE GENERATION TO THE NEXT

FEATURE ON PAGE 4

4 Farm succession
planning

6 Pick the right structure
for your farmhouse

7 Soybeans, corn
& wheat update

Lorkovic DeKoning
Wealth Management of RBC Dominion Securities



FARM SUCCESSION PLANNING – IS IT TIME TO FORMULATE A PLAN?

Developing a succession plan for a farm operation is often a daunting task for many families.

In Ontario, farming is often a family affair, where everyone has invested their blood, sweat, and tears into the operation. This makes farming not just your typical business but can often make up your family's identity. As a farm owner, you may reach a point in your life, that you start asking yourself, "What's my next move?" or "Who will take over the operation?" Have you as a farm owner, given these questions any thought? or even better have you put formal plan in place? According to statistics Canada 2016 Census of Agriculture, 1 in 12 farm operations have a formal succession plan. That leaves 11 out of 12 farms operations without a formal succession plan. Answers to the above questions, and having a succession plan in place, can make the transition smoother for your family. Ideally, this planning should begin years before the actual transition date.

Our team has spent many years helping farm families formulate succession plans. We view farm succession planning as a way of preparing for the next chapter of your life and setting intentions for the future of your farm. There are many reasons a farmer might choose to transition their farm, but sometimes the decision is made for them. Too often, our farm communities are left scrambling when

an unexpected health event forces an involuntary transition, due to illness, an accident or even worse death of the farm owner. Therefore, having a documented plan is crucial – yet many farm families haven't taken this important step.

However, putting a plan in place doesn't have to be daunting. In fact, it can be an exciting opportunity for you, your family, and your operation. Many farm owners get bogged down in the technical details of how the transition will happen, such as tax and legal issues, or they worry about uncontrollable events, leaving them unsure of where to start. I encourage you to begin by thinking about the big picture and what matters most to you. Consider things like: How many more years do I want to farm? Who will be my successor? What will I do with my time after farming? What does this farm operation mean to our family? From experience, these should be the starting points. When it comes to the technical aspects of planning, there are plenty of farm professionals who can help and figure out the details once you know what's in your heart and what's most important for your future.



Brent DeKoning
Portfolio Manager & Wealth Advisor
Lorkovic DeKoning Wealth Management
of RBC Dominion Securities

brent.dekoning@rbc.com
519-747-5541

Farm Succession Planning

GUIDE

Succession planning is a critical step in ensuring the continuity of your farming business. Whether you're transitioning the farm to a family member or preparing for a third-party sale, having a comprehensive plan in place is essential. This guide will help you navigate the process, addressing key considerations for both current owners and successors.



1. Starting the Discussion

Initiating the conversation about succession is often the hardest part, but it is crucial for the future of your farm. Start by asking yourself:

- **Have you begun planning for the succession of your farm?** If not, it's time to start. Setting a timeline for the transition is important for creating a smooth handover of responsibilities and ownership.
- **Who will take over the farm?** Will it be a family member, or are you considering a third-party sale? If a family member is the successor, consider the dynamics among non-farming children. It's essential to address these relationships early in the process to prevent future conflicts.



2. Key Considerations for Current Owners

- **Gather critical paperwork:** Ensure that your tax returns, financial statements, insurance policies, mortgage and loan documents, wills, powers of attorney, partnership agreements, and a comprehensive financial plan are all in order. These documents will be crucial for a seamless transition.
- **Understand the value of your assets:** Knowing the value of the assets being transitioned is fundamental. This will help you determine whether to sell, gift, or use a combination of both when transferring ownership to the successor.
- **Plan for retirement:** Secure your financial future by completing a financial plan that accounts for your retirement needs. Consider how your succession plan will affect non-farming children and decide where you will live after the transition—whether on or off the farm.
- **Create a timeline for transferring responsibilities:** Establish a timeline for transferring labor, decision-making, and control of the farm. This timeline will guide both you and the successor through the transition process.



3. Consideration for Choosing the Successor(s)

- **Alignment with your timeline:** Ensure that the successor is aware of and agrees with the timeline for transferring labor, decision-making, and control. It's important for both parties to have clear expectations regarding when these transitions will occur.
- **Financial readiness:** Discuss whether the successor is prepared to take on debt, if necessary, as part of the transition.
- **Future plans for the operation:** Talk with your successor about their vision for the farm's future. Do they plan to expand, focus on paying down debt, or diversify the operations? Understanding their plans will help you gauge their readiness and ensure the farm's continued success.



Request an appraisal today!

Open your camera app and scan the QR code.



FROM ONE GENERATION TO THE NEXT

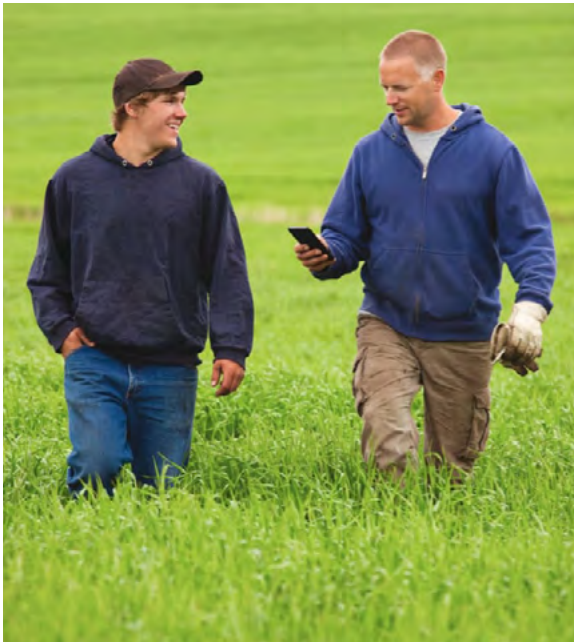
The critical role of farm appraisals in succession planning

The transition of a farm from one generation to the next is a significant event, and a process filled with emotion and significant financial implications.

A farm appraisal is central to this transition, particularly for tax planning and providing an unbiased third-party valuation.

Hearing that you need an appraisal might initially feel as daunting as being told you need a root canal. However, it's important to recognize that a farm appraisal can actually be used to your advantage.

This article will explore the critical role of farm appraisals in succession planning and highlight their importance in offering a neutral perspective in what can often be an emotionally charged transition.



An unbiased lens

An appraisal provides an impartial and professional assessment of the farm's value. This is crucial in succession planning, when subjective opinions and emotional attachments can significantly skew perceptions of value. A farm appraiser brings a necessary objective perspective, ensuring that the valuation is based on current market conditions, the state of the property and its individual characteristics. This impartiality is invaluable, especially when multiple parties — often family members with deep emotional ties to the farm — are involved. It aids in minimizing disputes and ensures that all parties have a common factual basis for discussions.

Tax planning

In the realm of farm succession, tax planning is a complex and critical component. The value assigned to the farm directly impacts the tax implications for the inheriting parties. In many scenarios, inheritance or estate taxes can be significant, and their calculation hinges on the appraised value of the farm. An accurate farm appraisal is vital to ensure that these taxes are fair and reflect the true market value of the property. Overvaluation can lead to excessively high taxes, potentially jeopardizing the financial viability of the farm under new management. Conversely, under-valuation could lead to legal complications or future disputes. Therefore, the farm appraiser's role extends beyond mere valuation — it's integral to the financial sustainability of the farm through the transition.



Kim Passmore,
AACI, P.App (Partner)

S.W. Irvine & Associates
519-763-5956

Mitigating emotional complexities

Farm succession is often an emotionally charged process. For many families, the farm is not just a business but a legacy. This emotional weight can lead to disagreements or unrealistic expectations about the farm's value. An unbiased appraisal brings detachment and clarity and provides a factual foundation that can help guide emotional decision-making. This is particularly important in situations where the successor might be taking over during challenging circumstances, such as the passing of a family member or during family disputes. The appraisal serves as a neutral ground, helping to navigate these emotional complexities and focus on the farm's actual worth.

Farm appraisals are a cornerstone of farm succession, offering an essential balance between emotional attachments and fiscal realities.

An unbiased third-party opinion of value from a farm appraiser is indispensable, particularly in the delicate interplay of family dynamics and financial planning. By ensuring the valuation is grounded in objective market realities, farm appraisals pave the way for a smoother transition, mitigate potential conflicts and set a firm foundation for future generations.

Engaging with a professional and experienced farm appraiser is not just a prudent step in farm succession planning — it's a vital one, ensuring that the legacy of the farm is honoured and preserved in both emotional and financial terms.



Brandon Wilcox,
AACI, P.App (Partner)

S.W. Irvine & Associates
www.brandonwilcox.ca
519-763-5956



PICK THE RIGHT STRUCTURE FOR YOUR FARMHOUSE



Bud Arnold,
Baker Tilly

(519) 822-7670
barnold@bakertilly.ca

When purchasing a farm, sometimes the property includes a house for the farm family to use as their primary residence. Families in this position often overlook the tax complications of buying a farmhouse that is part of their farm property, but how they decide to hold that farmhouse could significantly impact their tax obligations. This article outlines several farm business structures and the farmhouse tax obligations in each case.

Individual farmer

Being classified as an individual farmer is the most basic option available, but you should consider the GST/HST components of the property to ensure the residential portion is exempt. The income tax implication is also worth noting, as a principal residence exemption is available on a farmhouse and up to half a hectare of land connected to the house. In some cases, this could apply to more land, but defending this approach can be challenging.

Farm partnership

Tax issues get a little more nuanced with a farm partnership because the farmhouse could be looked at as either an asset of the partnership or an asset outside the partnership that's personally owned but happens to be on the same parcel of land as the partnership property. Again, it's important to consider the residential portion that is GST/HST exempt and eligible for the principal residence exemption for income tax purposes. There are two additional issues that are relevant for partnerships that individual farmers can ignore. First, you should consider the impact of the farmhouse on accessing the intergenerational farm rollover and capital gains deduction rules. Second, if a partnership owns the house, be sure to complete any necessary Underused Housing Tax (UHT) form.

Farm corporation

This is where things get much more complex. If a corporation owns the farmhouse, the farm business is obligated to charge fair market value rent to the farmer. This can create a significant cash flow issue if you have to pay rent to your corporation. If you are not paying rent, you have to pay tax on the value of that rent and address the same considerations related to the capital gains deduction and intergenerational farm rollover that apply to a partnership.

Keeping the farmhouse out of the corporation

Where it is not practical or desirable to hold the entire farm property personally, the farm couple may be able to isolate the house from the farm property by purchasing the farmhouse from the corporation at fair market value. Even without a severance, it may be possible to separate ownership of the farmhouse (by the farmers) from the land (owned by the corporation) with a lease agreement for the underlying land. Another possibility may be to acquire beneficial ownership of the farmhouse and related land from the corporation at fair market value. A trust agreement would be advisable to document that all rights of possession and alienation of the farmhouse pass to the farmers, although legal title remains with the corporation.

Consider all the angles

Regardless of how you choose to approach farm ownership, it's important to recognize this is more than a real estate transaction. With significant tax consequences involved in the way you structure a farmhouse purchase, you should also include your tax advisor in the process. For more on this topic, see the recent Farm Alert: "Tax issues at home: Farmhouses."



SOYBEANS, CORN & WHEAT UPDATE

As harvest approaches this year, global conflict headlines continue to take a back-seat to what has been a very friendly US growing season.

Back in the spring and summer, chances of a return to hot and dry conditions for much of the US were good unless we had a rapid onset of La Nina. This timing proved to be tough to pin down as expectations for La Nina's onset continued to get pushed back. In the end, the US Midwest enjoyed one of its best growing seasons on record. Both USDA and ProFarmer have set the tone going into fall with expectations for record corn and soybean yields.

Looking at corn, the US has remained relatively competitive in the world market through most of the year and heads into the fall with the cheapest corn on the world stage. This sets up for a solid rebound in exports year over year and expectations for continued growth into the 24/25 season. Although US corn is competitively priced, there is still stiff competition from the likes of Ukraine, Argentina and Brazil which has helped to keep price rallies limited as both world and US supplies are more than ample. Domestic demand is expected to remain on pace this year with good margins for ethanol helping drive the way. There remains plenty of debate regarding future uses for ethanol, including possible

applications in sustainable aviation. However, at the time of writing, this looks to still be a long way from becoming a reality for corn ethanol and continues to revolve around shifts in government policy.

On the soybean side of things, there was much debate at the start of the season on whether the US would be over-supplied or under-supplied. Unfortunately, lackluster demand paired with very good weather sent beans prices down to lows not seen since 2020. Projections are for a record world carry-out and the 2nd highest US carry-out in history. The trend of falling US bean exports has continued since 2020 as large Brazilian crops continue to erode US market share. Domestically, the crush industry remains a bright spot as use is once again expected to increase around 5% year over year. As always, one must be a bit careful with demand expectations in this space as the intricacies of the renewable fuel space and tax credit pricing of different products leaves a lot of room for political influence affecting future demand prospects. Heading into the new crop season, we have seen an uptick in US export sales as US prices are now competitive on the world stage which is a positive development for this market. Going forward, once the US harvest gets wrapped up, all eyes will shift back to the South American growing season, and the potential for a return of LA Nina and a Brazilian drought that can come with it.

Wheat followed a similar trend to beans as prices continued to slide lower since late spring. Large stored crops out of Russia has helped to keep the world market well supplied with wheat in this falling price environment. Conflict between Ukraine and Russia has ramped up as of late with Ukraine pushing into Russian territory. However, the market remains non-phased by war news unless it begins to translate into actual disruptions to the world wheat trade. The US pulled off good winter and spring wheat crops this year while other parts of the world struggled to produce. Specifically, the EU has seen its crop estimates fall sharply along with quality concerns due to persistent cold and wet weather. Russia has faced similar issues with its spring wheat production, and this could make things more interesting come the fall as high protein and high-quality wheat could be in tight supply. On top of this, world major exporters head into another year with their stocks-to-use projected at record tight levels. This on its own is not a bullish factor, but it could add fuel to the fire if a bullish catalyst arises this fall or into the new year.



**The Simpson/Caputo Group
of RBC Dominion Securities**

519-747-1013

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*.

MEET THE TEAM

Contact us today at 519-747-5541

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

Frank Lorkovic, FCSI, PFP
Senior Portfolio Manager & Wealth Advisor
frank.lorkovic@rbc.com

Brent DeKoning, CIM
Portfolio Manager & Wealth Advisor
brent.dekoning@rbc.com

Ryan Humphrey
Associate Advisor
ryan.humphrey@rbc.com

Farrah Amikons
Associate
farrah.amikons@rbc.com

Laura Stransky
Administrative Assistant
laura.stransky@rbc.com



Wealth Management
Dominion Securities

Lorkovic DeKoning
Wealth Management of RBC Dominion Securities

This publication is not intended as nor does it constitute tax or legal advice. Readers should consult their own lawyer, accountant or other professional advisor when planning to implement a strategy. This information is not investment advice and should be used only in conjunction with a discussion with your RBC Dominion Securities Inc. Investment Advisor. This will ensure that your own circumstances have been considered properly and that action is taken on the latest available information. The strategies and advice in this report are provided for general guidance. Readers should consult their own Investment Advisor when planning to implement a strategy. Interest rates, market conditions, special offers, tax rulings, and other investment factors are subject to change. The information contained herein has been obtained from sources believed to be reliable at the time obtained but neither RBC Dominion Securities Inc. nor its employees, agents, or information suppliers can guarantee its accuracy or completeness. This report is not and under no circumstances is to be construed as an offer to sell or the solicitation of an offer to buy any securities. This report is furnished on the basis and understanding that neither RBC Dominion Securities Inc. nor its employees, agents, or information suppliers is to be under any responsibility or liability whatsoever in respect thereof. The inventories of RBC Dominion Securities Inc. may from time to time include securities mentioned herein. Insurance products are offered through RBC Wealth Management Financial Services Inc. ("RBC WMFS"), a subsidiary of RBC Dominion Securities Inc.* RBC WMFS is licensed as a financial services firm in the province of Quebec. When providing insurance products in all provinces except Quebec, Investment Advisors are acting as Insurance Representatives of RBC WMFS. In Quebec, Investment Advisors and Estate Planning Specialists are acting as Financial Security Advisors of RBC WMFS. RBC Dominion Securities Inc., RBC WMFS and Royal Bank of Canada are separate corporate entities which are affiliated. *Member-Canadian Investor Protection Fund. RBC Dominion Securities Inc. and RBC WMFS are member companies of RBC Wealth Management, a business segment of Royal Bank of Canada. © / ™ Trademark(s) of Royal Bank of Canada. Used under licence. © 2022 RBC Dominion Securities Inc. All rights reserved. 22_90561_GZE_001