



Ontario Federation of Agriculture

Ontario AgriCentre

100 Stone Road West, Suite 206, Guelph, Ontario N1G 5L3
Tel: (519) 821-8883 • Fax: (519) 821-8810 • www.ofa.on.ca

September 2, 2016

The Honourable William Francis Morneau
Minister of Finance
House of Commons
Ottawa, Ontario K1A 0A6

Dear Mr. Morneau,

RE: Proposed changes to Eligible Capital Property

The Ontario Federation of Agriculture (OFA) is Canada's largest voluntary general farm organization, representing more than 36,000 family farm businesses across Ontario. These farm businesses form the backbone of our robust food system and rural communities with the potential to drive the economy forward.

OFA is greatly concerned about the proposed changes to Eligible Capital Property (ECP) in Budget 2016 and the negative impact it will have on supply managed farm businesses.

Currently, capital gains from the sale of quota held in a farm corporation are taxed as active business income. For Canadian-controlled private corporations (CCPC's) the combined federal and provincial tax rate in Ontario is 26.5%, and only 15% for eligible small businesses.

Under the proposed ECP changes, gains from the sale of quota will be taxed at the corporate capital gains tax rate, which is approximately 50% in Ontario. While a portion of this higher tax rate is refundable, this refundable portion is only triggered when taxable dividends are paid by the corporation to its shareholders.

Succession planning for family farm corporations revolves around the tax deferred transfer of the corporation from one generation to the next. This typically results in family farm corporations not paying out their equity to shareholders through taxable dividends. This means farm businesses will be less likely to recover the refundable portion of the higher tax rate on the sale of quota. Farm businesses will be disproportionately impacted by the proposed changes to ECP.

Given the impacts this change would have on farm businesses, OFA recommends that if these proposed changes move forward, an exemption be created for ECP that is held by a farm business, and that the disposition of intangible farm assets such as quota continue to receive the current, more equitable tax treatment.

We thank you for your consideration and look forward to your response.

Sincerely,

A handwritten signature in black ink, appearing to read 'Don McCabe'.

Don McCabe
President