



Ontario Federation of Agriculture

Ontario AgriCentre

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Mr. Andrew Thiele
Policy Analyst
Ontario Chamber of Commerce
180 Dundas Street West, Suite 1500
Toronto, ON
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Dear Mr. Thiele,

Re: Ontario Chamber of Commerce (OCC) Federal Pre-Budget Submission Consultation

The Ontario Federation of Agriculture (OFA) is Canada's largest voluntary general farm organization, representing more than 37,000 family farm businesses across Ontario. Agriculture and agri-food businesses are leading economic drivers for the province; contributing over \$37 billion in GDP and employing over 800,000 Ontarians.

Thank you for the opportunity to voice the crucial issues facing Ontario agri-food businesses in preparation for OCC's Federal Pre-Budget Submission.

In the 2017 Federal Budget, the agri-food sector was identified as one of six key priority areas with the greatest potential to drive economic growth in Canada, supported by a report commissioned by Minister Morneau, [*Unleashing the Growth Potential of Key Sectors*](#) (also known as the Barton Report). The Barton Report highlights agri-food's potential and calls for investments in agri-food to boost exports by 50% to bring the annual level to \$75 million.

OFA is very pleased to see the economic importance of the agri-food sector recognized nationally and hopes to provide further opportunities for the Ontario agri-food sector to drive national prosperity.

OCC Consultation

The OCC identified four priority areas for the Federal Pre-Budget Submission:

1. Workforce Development and Labour Market Information;
2. Tax and Trade Competitiveness;
3. Immigration; and
4. Pharmacare.

OFA supports these priority areas, with a specific focus on Workforce Development and Labour Market Information and Tax and Trade Competitiveness, as well as an overarching push for competitiveness by producing prosperity through distributed economic development.

Rural Challenges are National Opportunities

In May 2018, the Federation of Canadian Municipalities (FCM) released a report entitled [*Rural Challenges, National Opportunity – Shaping the Future of Rural Canada*](#). The report highlights the significant contribution that rural communities make to the national economy while identifying the unique challenges that they face.

In particular, rural municipalities have limited fiscal and administrative capacity, and tend to have low population density over vast geographies. The report highlights the need for infrastructure programs that provide long-term, predictable funding with flexibility to account for rural realities. The report also recommends applying a ‘rural lens’ to all federal policies and programs to better support rural competitiveness.

OFA supports the following recommendations from the FCM report for rural infrastructure funding:

- Support better roads and bridges, clean water, wastewater treatment and full range of rural transportation needs;
- Recognize the breadth of priority projects in rural communities and incorporate project categories that would be eligible in rural areas;
- Streamline the administrative process to help low-capacity communities access funds efficiently and fairly;
- Help municipalities leverage regional partnerships by providing flexibility and support for rural municipalities to bundle regional projects and achieve economies of scale; and
- Provide long-term, predictable funding programs to support capital priorities of local governments with flexibility for eligibility thresholds to be negotiated.

Rural Economic Development

Growing the Canadian agri-food sector requires affordable energy, the availability of rural broadband internet and access to innovative technologies, a skilled workforce, and more broadly, vibrant rural communities. Agriculture and food businesses will continue to enhance their competitiveness by adopting innovative solutions if they have the capacity to do so. Both provincial and federal governments must provide support for both the hard and soft infrastructure of rural communities to enable the agri-food sector and other key economic sectors to grow.

Investing in Natural Gas. Two-way natural gas pipelines are necessary across rural areas to bring a cheaper, cleaner, reliable, and uninterrupted fuel choice to farm businesses, food processing facilities, and businesses in many other key economic sectors. Access to natural gas in rural communities will significantly reduce energy costs and alleviate energy poverty. OFA estimates that achieving 60% coverage of rural Ontario with access to natural gas will provide **over \$1 billion in energy savings annually** for home heating and appliance costs alone. That is the equivalent of 25,000 full-time jobs in rural Ontario every year.

Expanding Broadband Internet. Today’s modern agricultural businesses require broadband internet to run effectively. Adopting new technologies are essential for agri-food competitiveness and environmental improvements, including on-farm technology (e.g. auto-steer technology on tractors, GPS-enabled yield monitors) and marketing of farm products. In December 2016, the Canadian Radio-television and Telecommunications Commission (CRTC) ruled that broadband access [*internet service is now considered a basic telecommunications service for all Canadians*](#). However, two out of three Ontario farmers surveyed had an unreliable internet connection, according to a recent survey of more than 1,000 OFA members. Results showed that more than 50% of respondents believed better internet access would boost their bottom line by

opening opportunities for domestic and international markets, and keeping pace with new innovations, technology and overall competitiveness. Rural residents should not be disadvantaged for living and working in rural areas and should have the same access, level and range of services as urban residents. Further investment both provincially and federally is needed to meet the basic telecommunications needs of rural communities.

Supporting Infrastructure. Hard infrastructure such as roads and bridges need to be maintained to ensure farm products can be transported quickly and efficiently throughout the province and beyond. Soft infrastructure, such as schools, health care and child care, are needed to ensure there is a rural community for farm businesses and the rural workforce to live in and participate in the economy. Rural communities have a disproportionately large stock of infrastructure compared to their local tax base. Federal infrastructure funding programs must recognize the unique needs of rural communities while providing flexible project categories and reduced administrative burden during the application process.

Workforce Development and Labour Market Information

The Agri-Food sector needs an adequate and reliable workforce. Labour shortages in primary agriculture and primary agriculture processing continues to be a major challenge in Canada. In 2014, the agriculture and agri-food system employed over 2.3 million Canadians and accounted for one in eight jobs in the Canadian economy (12% of total employment). The Canadian Agricultural Human Resource Council (CAHRC) reports that ten years ago the agriculture industry was 30,000 workers short, and today that figure has doubled to 59,000 workers with clear expectations that it will double again in ten years to 114,000 workers. On-farm job vacancies are exceptionally high (7%), the national average is 1.8%, and these vacancies are costing the farming industry \$1.5B each year.

Agri-Food employers attempt to hire Canadian workers to fill job vacancies. Unfortunately, not enough Canadian workers can be recruited to fill all the vacancies. Agriculture has unique labour challenges such as seasonal workforce needs, employment locations away from where Canadian workers reside, and the work involves handling live plants and animals.

To fill the labour gap, primary agriculture brings in approximately 45,000 temporary foreign workers each year (35,000 Seasonal Agriculture Worker Program workers and 10,000 Agricultural Stream workers), which represented 12% of the AgriWorkforce in 2014. Foreign labour has become an important part of the sector with the Temporary Foreign Worker Program (TFWP) Primary Agriculture Streams making up over 60% of the overall program. In 2016, temporary foreign workers accounted for 15.5% of the primary agriculture workforce (up from 13.5% in 2015) and 0.7% of the food and beverage manufacturing sector. CAHRC 2017 research reports that rural meat processing plants and mushroom farm job vacancy rates are approaching 10%.

Hiring temporary foreign workers is not without its challenges. Currently it takes months for the government to process Labour Market Impact Assessments (LMIAs) and work permits, even for employers who have been accessing the program for years, who have a clean record, and whose application details are the same as before.

The agriculture sector recommends the federal government implement a “Trusted Employers Program” to help streamline and standardize the LMIAs application process. Employers who have successfully used the TFWP/SAWP year after year should not have to re-submit all their paperwork with every application. Government verification and approval processes should be streamlined for these employers.

Promoting Agri-Food Careers. In 2017, Guelph's Ontario Agricultural College (OAC) study found that four jobs exist for every OAC graduate entering the agri-food sector. Nearly four out of five agri-food employers preferred to hire formally-trained staff, and a strong demand exists for co-op programs and experiential learning. OFA believes agriculture and agri-food skills development and training needs to be a priority for academic institutions and all levels of government to support Ontario's thriving agriculture and agri-food industry.

There are many opportunities for careers in agri-food, and they are not limited to agricultural degrees. Ontario needs skilled tradespeople, students educated in science, technology, engineering and mathematics (STEM) fields, culinary expertise, and other fields not typically associated with agriculture. There needs to be a concerted effort to promote the agri-food sector within other fields of study, and a recognition that there are high-skilled, well-paying careers in the agri-food sector. OFA believes that the provincial and federal government must work closely with its universities and colleges to ensure facilities and resources are available to meet agri-food skills demand, now and in the future.

Helping Agri-Food Employers. Agricultural employers require more flexibility in managing human resources than other businesses. Growing food in Canada is seasonal, with considerable variability as to when crops are planted and harvested. Agricultural production is subject to unpredictable weather and climate conditions, with a narrow window between emergence and harvest. Products are highly perishable and are sold in a competitive marketplace with tight margins.

By adopting new technologies, some farm owner/operators can decrease their labour demands, however there is still a need in many subsectors for the gentle hand and discerning mind of a person. It is essential that exemptions remain for agriculture to ensure that employers can continue to operate without costly delays or unmanageable financial conditions.

The recent ad hoc increases to the minimum wage in Ontario were very distressing to the agricultural sector, as it is essentially a legislated increase in our cost of production for which we have no mechanism to recover from the marketplace. This action can prompt a shift into less labour-intensive agricultural products or act as an incentive to shed labour costs through automation. In the worst case, farm operators faced with higher costs of production due to minimum wage may simply exit the industry. Provincial and federal governments should recognize the burden that restrictive labour regulations will place on agri-food businesses.

Supporting New and Beginning Farmers. Innovation is occurring on farms every day in Canada. While the average age of an Ontario farmer is 55 years old, there can be many generations living on the farm. New and beginning farmers are poised to try growing new crops and diversifying into on-farm value-added activities. There is a need to provide business services that are tailored to the unique needs of these farmers, including: whether they have off-farm income (e.g. time of day programs are scheduled); whether they have children (e.g. availability of child care); their business interests (e.g. on-farm diversification, specialty crops, online retailing).

Tax and Trade Competitiveness

The current wording of the Income Tax Act (ITA) provides a significant disincentive for Canadian farmers to transfer the shares of their farming corporations to their children. This poses a significant threat to maintaining the tradition of family-owned farms given the fact that more than 25% of farm businesses in Canada are incorporated.

As currently worded, subsection 84.1(2) of the ITA deems the seller and purchaser corporation to be dealing at non-arm's length if the purchaser corporation is controlled by a child of the seller.

Why Arm's Length Matters

Whether a buyer and seller are deemed to be dealing at arm's length or non-arm's length in this type of transaction has major tax implications for the seller.

Arm's Length Transactions: If you sell the shares of your farm corporation to a third party to whom you have no relationship (by blood, marriage or other business dealings) you are deemed to be at "Arms Length" and the sale of the shares would be treated as a capital gain.

Non-Arm's Length Transactions: If you sell the shares of your farm corporation to a family member, that is deemed to be a "Non-Arm's Length" transaction and the sale of the shares would be treated as a "dividend" rather than a capital gain.

Tax Considerations

- Capital gains are taxed much more favorably than dividends
- Being taxed as a dividend would negate the \$1 Million Life Time Capital Gains Exemption (LTCGE).

To understand the financial disincentives currently in place for a farmer to sell the shares of his or her family farm corporation to their child, consider the following example:

- *Farmer A* holds shares in his farming corporation that qualify for the Lifetime Capital Gains Exemption, currently set to a maximum of \$1 million. *Farmer A* has never used any of his Lifetime Capital Gains Exemption in the past.
- The shares of the farming corporation currently have a Fair Market Value (FMV) of \$5,000,001 and a cost base of \$1.

Scenario 1:

- *Farmer A* sells the shares of his qualified family farm corporation to an unrelated third party. A capital gain of \$5,000,000 will be realized.
- After subtracting the \$1 million LTCGE, *Farmer A* is left with a capital gain of \$4 million. As with all capital gains, 50% of the gain will be tax exempt and the remaining \$2 million will be added to *Farmer A's* taxable income and taxed at his marginal tax rate which in Ontario is approximately 53%.
- *Farmer A* will pay approximately \$1.03 Million to sell to a third party.

Scenario 2:

- *Farmer A* sells the shares of his qualified family farm corporation to a corporation controlled by his daughter.
- Current wording of section 84.1 of the Income Tax Act will deem *Farmer A* to have received a dividend of \$5,000,000 taxed at 35%.
- This would result in \$1,750,000 in taxes of personal tax.
- ***Farmer A* would have to pay over \$700,000 more in tax if he sold to his daughter as opposed to a stranger.**

Over \$50 billion in farm assets are set to change hands over the next 10 years as farmers age and succession plans are executed. To ensure the continuation of family farms in Canada, the

federal government must address the financial disincentives currently in place for intergenerational transfers to family members involving family farm corporations.

OFA Priority Areas

Producing Prosperity in Ontario

OFA's provincial election campaign, [*Producing Prosperity in Ontario*](#), calls for greater investment in Ontario's agri-food sector and rural communities as an effective strategy to deliver economic growth, enhance competitiveness and produce prosperity for all Ontarians. Distributing development dollars across Ontario is the solution to ongoing challenges facing rural and urban communities. New investments in rural communities will grow existing businesses, attract new companies and boost opportunities for regional economic development.

OFA appreciates OCC's support for the Producing Prosperity campaign and recognizes the benefits and synergies in OCC's Vote Prosperity campaign. Distributing economic development will boost economic growth, create new jobs, build new affordable housing options, ensure food security and contribute to environmental stewardship. This is good for rural communities and alleviates the stresses in our urban communities. It's a win-win.

OFA will continue to advocate for an even stronger, more vibrant sector and supporting the competitiveness of farming and agri-food production in Ontario.

Recommendations

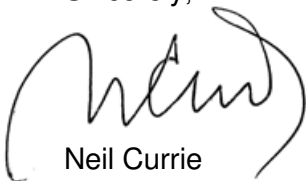
The federal government should work with industry and other partners to:

- Increase funding for rural infrastructure such as roads and bridges through increased federal transfers to municipalities;
- Expand rural access to natural gas and broadband internet;
- Help agri-food employers and new and beginning farmers by promoting careers in agriculture and food and reducing regulatory burdens; and
- Address the financial disincentives currently in place for intergenerational transfers to family members involving family farm corporations.

As FCM's Rural Forum Chair, Ray Orb, said, "As a key driver of economic growth, we know that investing in rural Canada means building a better country for everyone".

We are proud members of the Ontario Chamber of Commerce and we look forward to continuing to work with our partners toward an even stronger, more competitive Canadian agri-food sector that produces prosperity for all.

Sincerely,



Neil Currie
General Manager

cc: Errol Halkai, Executive Director, Canadian Federation of Agriculture