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July 6, 2020

The Honourable Rod Phillips
Minister of Finance
Frost Building South
7th Floor
7 Queen's Park Cres.
Toronto, ON M7A 1Y7

Via minister.fin@ontario.ca

Dear Minister,

RE: Encouraging on-farm value-added activities

The Ontario Federation of Agriculture (OFA) is Canada's largest voluntary general farm organization, representing more than 38,000 farm family businesses across Ontario. These farm businesses form the backbone of a robust food system and rural communities with the potential to drive the Ontario economy forward.

OFA is writing to you today with recommendations to improve property tax policies for on-farm value-added activities such as wineries and cideries. The Russell County Federation of Agriculture recently submitted a resolution to OFA on this issue. Several farmers in Russell County have recently been reclassified and went from paying farm taxes to industrial taxes. This represents the largest possible increase in property taxes. This has added significant financial strain to these operations and highlights the importance of providing strong financial incentives for on-farm value-added activities.

Encouraging farmers to engage in value-added activities helps farmers diversify their income and stimulates economic activity within the municipality. In addition to the economic benefits, on-farm processing and retail increases the supply of local food and beverages.

On May 19, 2018, the provincial government amended O. Reg. 282/98 made under the Assessment Act to introduce the Small-Scale On-Farm Business Subclasses. These are optional subclasses under the commercial and industrial property tax classes.

Prior to these new property tax subclasses, any on-farm value-added activities would result in the on-farm building plus one acre of land being taxed at the full commercial or industrial tax rate. This resulted in thousands of dollars in additional taxes paid by the farmer engaging in value-added activities.

Table 1 shows the property tax consequences of a farmer using a building for value-added activities prior to the changes made in 2018.

Table 1: 1 Acre of land with value-added building in commercial class (old rules)

	Valuation	Tax Class	Tax Payable
Land	$10,000	Commercial	$159
Building	$490,000	Commercial	$7,796
Total	**$500,000**		**$7,955**

In municipalities that choose to enact the optional property tax sub-classes, eligible on-farm buildings, where value-added activities are taking place, will have the first $50,000 of assessed value taxed at 25% of the local commercial or industrial tax rate. Buildings with assessed values of greater than $1 million are not eligible.

As shown in Table 2, capping the benefit to only the first $50,000 of assessed value severely limits any financial incentive for farmers to engage in value-added activities. In this example, using tax rates from The Nation Municipality, **a farmer engaging in value-added activities where the building and land is valued at $500,000 would only save $597**.

Table 2: 1 Acre of land with value-added building in small-scale value-added (Current treatment)

	Valuation	Tax Class	Tax Payable
Land	$10,000	On-farm commercial	$40
Building	$490,000	On-farm commercial	$7,319
Total	**$500,000**		**$7,359**
Savings to farmer			**$597**

Given the significant financial investment required for a farmer to engage in a value-added activity like producing wine or cider, a few hundred dollars saved in property tax is not a significant incentive.

In fact, the current financial incentives are so insignificant that many municipalities have chosen not to enact these optional property subclasses. Not because they were worried about lost tax revenue, but because they felt the financial impact would not be worth the implementation cost and effort.

In January 2020, OFA and the Nation municipality met with Parliamentary Assistant, Stan Cho to discuss this issue. During the meeting, the Nation municipality put forward a proposal to eliminate the $50,000 assessment threshold under the current value-added subclasses.

While OFA supports removing the $50,000 assessment threshold, we view it as the minimum requirement to incentivise farmers to invest in value-added activities. OFA's standing position has been that **if at least 51% of the product is grown and value-added to by the same farmer or farmers and at least 90% of the product is grown in Ontario, then that should be considered an extension of the farm business and taxed at no more than 25% of the residential property tax rate.**

Our proposed property tax treatment would encourage more farmers to engage in value-added activities. Restricting this benefit to operations using the majority of commodities grown by the same farmer or farmers ensures that large operations that import commodities for processing still pay the full industrial tax rates. In an ideal situation, a farmer would start by processing their own commodities and be taxed at a lower rate. If they are successful and scale up their operation and begin importing commodities, they would move to the full industrial tax rate, which at that point they could afford to pay. This progressive tax policy would help Ontario expand its food and beverage processing capacity and generate significant economic activity in rural Ontario.

OFA and all our farm family businesses appreciate the support of the provincial government. We respectfully request amendments to O. Reg. 282/98 made under the Assessment Act to include our proposed property tax treatment of on-farm property used for value-added activities.

Sincerely,

Keith Currie
President

cc: Hon. Ernie Hardeman, Minister, OMAFRA
Mr. Michel Dignard, President, Russell County Federation of Agriculture
Ms. Gisèle Richard St-Denis, Administrator, Russell County Federation of Agriculture
OFA Board of Directors