Ontario Federation of Agriculture

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Hon. Peter Bethlenfalvy
Minister of Finance
Frost Building S, 7th Floor
7 Queen's Park Crescent
Toronto, ON
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Dear Minister Bethlenfalvy,

On behalf of the Ontario Federation of Agriculture (OFA) and our rural communities across Ontario, we offer congratulations on your appointment as Ontario's Minister of Finance.

OFA is the largest general farm organization in Ontario, proudly representing more than 38,000 farm family members across the province. OFA has a strong voice for our members and the agri-food industry on issues, legislation and regulations governed by all levels of government. We are passionate and dedicated to ensuring the agri-food sector and our rural communities are included, consulted and considered in any new and changing legislation that impacts the sustainability and growth of our farm businesses.

Ontario's diverse and innovative agri-food sector is a powerhouse for the province – growing and producing more than 200 farm and food products, fuelling our rural communities and driving the provincial economy by generating more than 860,000 jobs and contributing over $47 billion to Ontario's annual GDP. We are the leading agricultural advocate for Ontario farmers, their businesses and their communities.

We would like to request a virtual meeting with you to discuss how Ontario agriculture can enhance its contribution to Ontario's economic recovery from the impacts of the Covid-19 pandemic. OFA has identified many investments and government policy changes to achieve this goal.

For example, OFA's recommendations to improve property tax policies for on farm value-added activities, such as wineries and cideries, could encourage farmers to engage in value-added activities. This would help farmers diversify their income as well as stimulate economic activity. In addition to the economic benefits, on farm processing and retail increases the supply of local food and beverages.

In 2020, OFA adopted a resolution calling for *Assessment Act* amendments to change the assessment classification of wineries and cideries from Industrial to Agricultural. This resolution originated from a situation faced by an OFA Member located in Russell County. After many years of operating an orchard and producing cider on their farm, the Member's cider operation was reclassified as industrial at the time when a 1,000 square-foot addition was added where apples are pressed, stored, and refrigerated. This resulted in the farm being subject to much higher property taxes, making it extremely challenging to operate a financially viable business. The Member paid $6,900 in property taxes in 2018. Whereas, the Member had to pay $13,000 for the 2019 property tax year.

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 sub classes under the commercial and industrial property tax classes.

Prior to these new property tax classes, 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: One 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: One 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 been choosing not to enact these optional property subclasses. Not because they were worried about lost tax revenue, but because they did not feel that it would have enough impact to be worth the time of implementing them.

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.**

This will encourage more farmers to engage in value-added activities. Restricting this benefit to operations using the majority of commodities grown by the same farmer 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 look forward to working with you on this and many other important initiatives to move Ontario's economy forward.

Sincerely,

Peggy Brekveld

Peggy Brekveld
President

cc: Mr. Michel Dignard, President, Russell Federation of Agriculture
Ms. Sonia Dignard, OFA Member Service Representative
OFA Board of Directors