

May 31, 2024

The Honourable Chrystia Freeland
Deputy Prime Minister and Minister of Finance
90 Elgin Street
Ottawa, Ontario
K1A 0G5

Sent via email: chrystia.freeland@fin.gc.ca

Dear Deputy Prime Minister Freeland,

Re: Proposed Changes to Capital Gains Taxation

The Ontario Federation of Agriculture (OFA) proudly represents more than 38,000 farm family members across the province, supporting our members and the agri-food industry on issues, legislation and regulations administered by all levels of government. OFA is passionate and dedicated to ensuring that the agri-food sector and rural communities are considered and consulted with for any new or changing legislation that would impact the sustainability and growth of our farm businesses.

Since the Federal Budget 2024 was tabled, OFA has heard from many Ontario farmers expressing their concerns regarding the proposed changes to the capital gains inclusion rate as announced in the budget. **We respectfully request that the government pause the implementation of the higher capital gains inclusion rate, scheduled to take effect on June 25th, and instead initiate an extensive consultation period that runs until January 1st, 2025.**

The proposed changes to increase the capital gains inclusion rate to 67% for individuals with capital gains over \$250,000 and the first dollar of capital gains on incorporated businesses would add a significant tax burden at a time where farmers can least afford it. Ontario farmers are facing cashflow challenges from high input costs, such as for fertilizer, seed treatments and fuel. Combined with the unpredictability of climate change, labour shortages, and ongoing geopolitical tensions, cash flow and financial stability remains a top concern for farmers across Canada and Ontario.

The average age of farmers in Canada is 56, highlighting the urgent need for effective succession planning as we transition family farm businesses from one generation to the next. The proposed increase in capital gains inclusion rates poses a significant threat to the viability of these succession plans. By imposing higher taxes on the transfer of farm assets, these changes could place undue financial strain on both retiring farmers and their successors. This could lead to a decrease in the number of family farms able to continue operations, undermining the stability and sustainability of Canada's agricultural sector.

OFA is in favor of increasing the lifetime capital gains exemption to \$1.25 million starting in 2024. This adjustment will provide significant relief to farmers and help facilitate farm successions plans, ensuring that the tradition of the family farm continues in Canada.

However, we believe that shares of the stock of family farm corporations, as well as interests in family farm partnerships, should be eligible for the Canadian Entrepreneurs' Incentive—which allows for the inclusion of non-exempt capital gains at a rate of 33.33%.

Unfortunately, the current eligibility criteria for this incentive do not reflect the realities of agricultural businesses. For example, the proposed criteria limit access to this measure to sales made by a founding shareholder. In farm families, it is common for the next generation to receive shares through a parent's donation, disqualifying them as founding shareholders and denying them access to this incentive. Additionally, the requirement that the selling shareholder must have obtained their shares for consideration equal to the fair market value excludes beneficiaries of donated shares.

We urge the government to make modifications to the calculation of the Alternative Minimum Tax (AMT). The application AMT forces individuals disposing of their shares to pay a significant tax, even when all the gain may be exempted. Although the tax can be recovered by applying it against taxes payable in the following seven years, this is only possible if the seller has sufficient income during this period. To prevent this from becoming a permanent tax burden, we propose that any capital gain eligible for the lifetime capital gains exemption should be excluded from the calculation of AMT.

These adjustments are essential to ensure that the agricultural community is not unfairly burdened by the proposed changes. We believe that a thorough consultation process, extended until January 1st, 2025, will allow for the necessary dialogue and adjustments to be made, ensuring that the final policy is equitable and supportive of Canadian farmers.

OFA appreciates the opportunity to provide our feedback and perspectives on farm taxation. We look forward to working with the federal government to find policy solutions that support the agri-food sector.

Sincerely,



Drew Spoelstra
President

cc: The Honourable Lawrence Macaulay, Minister of Agriculture and Agri-Food
The Honourable Lisa Thompson, Minister of Agriculture, Food and Rural Affairs
Mr. Keith Currie, President of the Canadian Federation of Agriculture
OFA Board of Directors