

Farmers

About this Guide

The information in this *Guide* explains how Retail Sales Tax (RST) applies to items purchased by farmers. Please note that this *Guide* replaces the previous version dated June 2001. Revisions have been identified by a bar (|).

Definitions

Person Engaged in Business of Farming

For RST purposes, a “person engaged in the business of farming” means a person who undertakes farming with a reasonable expectation of profit. Persons engaged in the business of farming are entitled to exemptions from RST on their purchase of eligible goods (i.e., farm implements, farm machinery, farm equipment, farm supplies, agricultural products, building materials, and repair parts), services and insurance that are to be used exclusively in the business of farming.

Note:

Many persons have gardens or small holdings and produce fruit, vegetables, or keep livestock for their own consumption or use. This is **not** considered to be farming for RST purposes. The RST exemptions for farmers are not available to these persons.

Farming

Farming includes:

- breeding of fur-bearing animals for the purpose of selling their pelts
- growing food for human or animal consumption
- growing plants within a hothouse, greenhouse or other similar structure designed for the protection of plants (see **Hoophouses** in this *Guide*)
- growing tobacco plants
- raising livestock (cattle, sheep, goats, hogs, poultry, horses, mules, ponies, donkeys, and bees)
- tillage of the soil for the purposes of growing sod, trees, shrubs, bushes, seeds and seedlings, flowers, flowers for use as cut flowers, plants and bulbs from which plants or flowers may be grown.

Specialty Farming

Fish Farming

People who produce fingerlings are farmers if they sell the fingerlings to others to stock ponds and rivers. They may purchase fish food exempt from RST by providing the seller with a valid | Purchase Exemption Certificate (PEC) or presenting their Farmer Identity (ID) card.

People who raise fish for sale to restaurants, food processors or food markets for human consumption are also farmers and are entitled to the exemptions available to farmers.

People who operate stocked recreational fishing areas are **not** fish farmers. They are required **to pay RST** on all equipment and supplies purchased.

Pheasant Farmers

Pheasants are considered domestic fowl or poultry when bred in captivity and later sold to individuals, restaurants, markets, etc., for human consumption. Pheasant breeders are not required to collect RST on pheasants sold for human consumption. They are entitled to the exemptions available to farmers.

Breeders who raise pheasants for sale to hunt clubs (including those clubs operated by municipalities or conservation organizations), zoos, municipalities for release, or as pets, are entitled to the farming exemptions. However, they are required to collect RST on the total selling price of the pheasants, including any charges for delivery. If a breeder charges a fee to allow the public to hunt pheasants on the breeder's farm, RST must be paid on the cost of raising the birds. The Ministry of Finance will allow breeders to use an estimate if the actual cost of raising the pheasants cannot be determined. As an example, the cost may be estimated using a percentage of the normal selling price of the pheasants. This method or any other method to establish the cost must be sent to the Ministry of Finance for written approval. Breeders requiring written approval should write to Tax Advisory Services Branch, Retail Sales Tax Section, 33 King Street West, Oshawa, ON, L1H 8H5.

Hunt clubs or municipalities who breed and raise game birds for hunting purposes do not qualify as farmers. As the birds are being raised for a sporting activity they are considered wild game rather than livestock, even though they may ultimately be consumed by the hunters. These organizations are required to pay RST on the purchase of game bird products (eggs, day-olds, poults, and adult birds) as well as feed and any equipment required in the raising or breeding operation.

Rabbit Farmers

A person engaged in the business of raising rabbits is a farmer, provided the rabbits are sold for human consumption or for the purpose of selling their pelts.

Sod Growers

Sod growers who install the sod they have grown are required to account for RST on the produced cost. To calculate the produced cost, growers may use 80 per cent of the **full field selling price** of harvested sod as an alternative to actual growing costs. These growers must apply for a Retail Sales Tax Vendor Permit. Once registered, regular RST return cards will be mailed. The RST calculated on growing costs is to be remitted on **Line 3** of the RST return card.

The **full field selling price** of harvested sod for a supply and install contract may be determined by one of the following methods:

- total contract price **less** actual freight and recorded labour to install, **or**
- most expensive field selling price of harvested sod used during the current year, **or**
- the weighted average of last year's field selling prices of harvested sod.

Once one method of calculation has been chosen, a grower may not switch to another method without obtaining written permission from the Tax Advisory Services Branch.

Custom Farming

Custom farmers are persons who contract with farmers to perform farming operations such as:

- custom planting, cultivating, harvesting, fertilizer spreading, or crop spraying
- installing drainage tiles and performing drainage work (see **Irrigation and Drainage** in this *Guide*).

Custom farmers are entitled to the exemptions available to farmers provided the machinery, equipment, etc., is used **exclusively** (90 per cent or more of the time) in the above services performed for farmers.

Farm Building Materials

Exemption

Farmers may purchase building materials, such as wood, nails, paint, etc., used to build or modernize structures **used exclusively** for farm purposes (e.g., barns, silos) exempt from RST. To claim the exemption, farmers must present the supplier with their Farmer ID card or provide the supplier with a valid Purchase Exemption Certificate (PEC.) Contractors performing construction contracts for farmers may also purchase building materials for farm structures exempt from RST by providing a valid PEC. Contractors should not refer to the farmer's identification card number when claiming tax exemption on the farmer's behalf. The contractor should use a PEC which states the farmer's name and address as well as the reason for claiming exemption.

Renovations and repair work are considered modernizing and qualify for the exemption. Also, polyethylene sheeting material qualifies when used in building farm structures, such as greenhouses and hoopouses.

Farmers may not claim an exemption from RST on the purchase, lease or acquisition of an existing structure, nor may they claim an exemption from RST on building materials used for the following structures:

- a dwelling house
- an office
- a residential garage
- a road, driveway, or sidewalk
- a bridge.

Where RST is paid in error on farm building materials, a refund of tax may be claimed from the Ministry of Finance by completing a *General Application for Refund of Retail Sales Tax* form. All refund claims must be received by the ministry within four years from the payment of tax.

Other Exemptions

Greenhouses

Building materials incorporated into greenhouse structures qualify for an exemption from RST. However, the exemption does not extend to building materials used in the construction of a retail outlet run by a greenhouse operator.

Farm Grain Storage Bins and Dryers

Materials used to construct farm grain storage bins and grain dryers may be purchased exempt from RST by farmers. To support a claim for exemption, a farmer must provide their supplier with a valid PEC.

Building contractors who buy the materials to construct bins or dryers on behalf of a farmer can purchase the materials exempt from RST. Contractors must provide a valid PEC to the supplier of the materials, stating the name and address of the farmer and the purpose of the purchase.

Irrigation and Drainage Materials

Materials and equipment required for irrigation purposes, when used exclusively in farming, may be purchased exempt from RST by farmers. This exemption also applies to materials used in the repair of such irrigation systems and drainage tiles. Contractors who perform irrigation contracts exclusively for farmers are considered to be custom farmers and are allowed the exemption when purchasing these materials and equipment.

Irrigation and Drainage Materials (continued)

Exempt materials include pumps, pipe, tiles, valves, fittings and other materials used to create, maintain or repair farm drainage systems. The tile can be of clay, perforated piping, or corrugated galvanized pipe, such as driveway culverts.

Drains installed by municipalities to drain farm lands qualify for exemption. To purchase these materials exempt from RST, a written statement signed by the farmer certifying that these materials will be used exclusively in the business of farming must be provided to the supplier. The written statement can also be signed by an official of a municipality when the materials, equipment or tiles are purchased by a municipality in order to carry out a municipal drainage project for the use of persons engaged in the business of farming

Hoophouses

The Branch considers a hoophouse to qualify for an exemption from RST provided **all** of the following conditions are met:

- it can be used **only** for crops that lie dormant in the winter
- it cannot be artificially or mechanically heated in any way
- it cannot be used for growing plants
- it must not be assessable for purposes of property taxes
- it must be sealed up completely for the winter months
- it must not house any fans for ventilation.

Hoophouses are not normally constructed on a permanent foundation.

Items Exempt To Farmers

Implements, machinery, and equipment designed for farm use, such as tractors, milking machines, farm wagons, feed grinders, threshing machines, etc., can be purchased by persons engaged in the business of farming without having to present their Farmer ID card or present a valid Purchase Exemption Certificate (PEC.) Repairs to these items also qualify for exemption.

Farmers must present their Farmer ID card or provide a valid PEC to suppliers when purchasing items that are not generally made for use exclusively in farming, such as:

- antifreeze
- calcium chloride
- electric motors
- fertilizers
- forms for recording animal weight and other data
- generators
- hand tools
- lubricating oil and grease
- pesticides
- watering systems and pumps
- all-terrain vehicles (ATVs) which, at the time of purchase, must
 - (a) have an engine displacement of 200 cc or more, and
 - (b) be equipped with a carrying platform or a carrying rack.

Using a Farmer ID Card to Claim Exemption from RST

Farmer ID Card

Effective April 1, 2005, farmers may use a Farmer ID card issued by a general farm organization (GFO) in lieu of a Purchase Exemption Certificate (PEC) to claim exemption from RST on eligible farm-related goods, services and insurance. Farmer ID cards are currently issued by three organizations: Ontario Federation of Agriculture, Christian Farmers Federation of Ontario, and the National Farmers Union.

Each time a farmer makes an eligible purchase using a Farmer ID card, he/she must show the card to the supplier. The Farmer ID card shows the farmer's name and Farm Business Registration number. The vendor is required to document these two pieces of information.

Farmers who do not hold a Farmer ID card, choose not to be members of a GFO, or fail to provide the supplier with a Farmer ID card at the time of purchase may issue a valid PEC to make eligible purchases exempt from RST.

Farmer ID cards may not be used to purchase goods or services for resale or for manufacturing purposes.

More information can be found in ***RST Guide 204 - Purchase Exemption Certificates***.

For repeated orders of the same goods, a rubber stamp certificate in the following form may be used:

| | |
|---|-------------------|
| <p>ONTARIO RETAIL SALES TAX PURCHASE EXEMPTION CERTIFICATE</p> | |
| <p>"I hereby certify that I am in the business of farming and that the goods shown on this invoice will be used exclusively in the conduct of that business."</p> | |
| Date: _____ | Print Name: _____ |
| Address of farm: _____ | |
| Vendor Permit / Identity Card Number : _____ | |

This certificate may be hand printed, typed or applied by rubber stamp on the supplier's copy of the purchase order or invoice.

Items Taxable to Farmers

The following are examples of items that are taxable to farmers. Farmer ID cards or PECs are not to be presented to the seller, as RST must be paid at the time the items are purchased.

- all-terrain vehicles with an engine displacement of less than 200 cc or those sold without a carrying rack or a carrying platform
- ammunition
- automobiles and parts
- automotive trailers *(see next page)
- bedding keepers
- computers and accessories used in the home or office

- clothing of all types (except children's sizes)
 - freezers and other equipment
 - furniture and furnishings
 - household refrigerators, stoves, dryers, washers
 - lawnmowers ******(see below)
 - light bulbs
 - pipes for home use
 - snowmobiles
 - trucks, light vans and parts.
- * Trailers which are exclusively devoted to farming, such as hay wagons or those used for the transportation of livestock, qualify as exempt farm equipment regardless of whether or not the trailers are licensed for road use. Automotive trailers that are general purpose trailers, such as a box, snowmobile or flatbed, are taxable. Vehicles that are self-propelled and licensed for highway use do not qualify for exemption.
- ** Riding lawnmowers used to mow grass are taxable to farmers. Lawn and garden tractors with facilities for attachments, such as Power Take-off units, 3-point hitch, hydraulic outlet, etc., may be bought exempt by farmers if these tractors are used to till soil, maintain crops or to pull small trailers or other farm equipment. If there are no facilities for attachments, the lawn and garden tractors are taxable.

Insurance

Agricultural Property

RST does not apply to insurance premiums for agricultural property provided the:

- **insured** is actively engaged in the business of farming, **or**
- agricultural property is being leased to a person actively engaged in the business of farming.

Agricultural property includes farm buildings, structures, equipment and livestock, as well as farm habitats, recreational equipment normally located on the farm and household property. If the property is not owned by, or leased to, a person who is **actively engaged** in the business of farming, RST must be paid on insurance premiums on the property even if it is on land zoned for agricultural purposes.

There may be instances in which a retired farmer lives on the property and leases the land to a person actively engaged in the business of farming. RST applies to the insurance premium on the residence of the retired farmer but the premium on the balance of property will qualify for exemption.

Other Property

Insurance premiums for contracts of insurance on property not considered to be agricultural property used by a person actively engaged in the business of farming, are taxable at 8 per cent.

RST on premiums for automobile insurance for motor vehicles that must be insured under the *Compulsory Automobile Insurance Act* have been completely phased-out as of April 1, 2004.

ATVs and Snowmobiles

Insurance premiums for contracts of insurance on snowmobiles purchased for farm use are exempt from RST. Because snowmobiles are not required to be licensed under the *Highway Traffic Act*, they are considered agricultural property under the *Insurance Act* when purchased by farmers. Similarly, qualifying all-terrain vehicles (ATVs) purchased by farmers are considered agricultural property under the *Insurance Act* if the ATV is registered under the *Off-Road Vehicles Act* (i.e., not licensed to travel on the highway). Insurance premiums on qualifying ATVs purchased by farmers are exempt from RST.

Refunds Available To Farmers

Farmers may claim a refund of the RST paid on vehicles, converted within 30 days from the date of purchase, into unlicensed self-propelled vehicles for specific use in farming. Repair parts for these vehicles also qualify for a refund. Converted means the installation of equipment for crop spraying, manure spreading, hay raking, etc., so that the vehicle becomes farm equipment and not a truck, etc. Unconverted vehicles remain taxable even if they are unlicensed.

Farmers may claim a refund where RST has been paid in error on goods, services or insurance premiums that qualify for exemption. All refund claims must be received by the ministry within four years from the date the RST was paid. See **RST Guide 700 - Refunds and Adjustments** for more details.

Legislative References

Retail Sales Tax Act: subsection 2.1 (8); paragraphs 7(1)13, 14,15,16, 17 and 19
paragraphs 2.1(8)b and 2.1(8) m

Regulation 1013 under the Act: section 1.1; section 3; subsection 9(2)

Regulation 1012 under the Act: section 3.2; section 6

For Further Information

The information contained in this publication is only a guideline. For further information, please contact the nearest Ontario Ministry of Finance Tax Office listed in the blue pages of your telephone directory, call our TAX FAX service at 1-877-4-TAX-FAX (1-877-482-9329), or visit our website at www.trd.fin.gov.on.ca.

*Ce guide est disponible en français sous le nom « Agriculteurs, n° 807F ».
Vous pouvez obtenir un exemplaire en appelant le 1-800-668-5821.*