# Canadian Agricultural Income Stabilization (CAIS) Program

## Handbook

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Manitoba

Newfoundland Labrador

NOVA SCOTIA
NOUVELLE-ÉCOSSE

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# 1.0 Introduction to the CAIS Program

CAIS and Production Insurance are the two primary programs under the Business Risk Management component of the Agricultural Policy Framework (APF). CAIS and Production Insurance work together to assist producers in managing their farm business risks.

The CAIS program is designed to help participants protect their farming operation from both small and large drops in income. Generally, individuals or entities that derive income from the primary production of agricultural commodities, as defined by the program, are eligible to participate in CAIS. Program benefits are triggered when a participant's income in the Program Year falls below their average income from previous years. The greater the decline in income, the greater the payment.

To participate, you must provide the Administration with the information necessary to calculate your payment. This includes selecting a protection level for your farm, paying your program fee, and submitting your application. To ensure that you understand how the CAIS program works, and what you must do in order to participate, please read this Handbook carefully. For a glossary of the terms used in this Handbook, see Section 8.0.

You can contact the Administration by calling toll-free **1-866-367-8506**, or visit the CAIS web site at **www.agr.gc.ca/caisprogram**. Participants can find a variety of valuable resources and tools on the CAIS web site:

- Business Risk Management links
- Publications and Forms
- Calculators and Tools
- Fact Sheets
- Deadlines
- Frequently Asked Questions
- Schedules for CAIS Information Sessions and Exhibits
- Latest Program Updates
- Program Delivery Statistics

***Note: Where a discrepancy exists between the information in this Handbook and the program authorities (the Implementation Agreement and related Program Guidelines) the program authorities will take precedence in all cases.***

# 2.0 Eligibility

## *2.1 Eligibility Requirements*

If you derive income from the primary production of agricultural commodities, as defined by the program, you are eligible to participate in CAIS, provided you have (in the Program Year):

- carried on the business of farming in Canada and reported farming income (or loss) for income tax purposes*;
- completed a minimum six consecutive months of farming activity**;
- completed a production cycle**; and
- submitted the necessary information by the required deadlines.

A **production cycle** includes one or more of the following activities:

- the growing and harvesting of a crop;
- the process of rearing livestock;
- the purchase and sale of livestock within a Program Year in the case of feeding or finishing enterprises.

*You must have filed farming income for tax purposes in the Program Year, and in all reference years in which you farmed, in order to be eligible for CAIS. (Status Indians who carry on the business of farming on a reserve in Canada, and are exempt from filing income tax returns, are eligible to participate provided they submit the information they would otherwise have reported for tax purposes).

**The requirements to complete six consecutive months of farming activity and a production cycle may be waived by the Administration if you were unable to complete them in the Program Year due to reasons beyond your control (such as disaster circumstances like flooding or drought).

## *2.2 Participation Requirements*

Requirements published in this handbook are accurate at the time of printing.

For updates and current deadlines, please visit the CAIS web site at **www.agr.gc.ca/caisprogram** or call the Administration toll-free at **1-866-367-8506**.

### *2.2.1 Steps to Participate*

**Step 1** You must have been issued an Options Notice in order to participate in CAIS. Once you receive your Options Notice, select your level of protection and submit the tear-off portion by the deadline identified on your Options Notice. If you do not wish to change any of the information on your Options Notice, you do not need to return the tear-off portion.

If you are a new participant, you must request a New Participant Package by the coverage selection deadline of the Program Year for which you intend to apply. Complete and submit the required forms by the deadline provided by the Administration. The information on these forms is required to issue an Options Notice.

For more information on selecting a protection level, see Section 3.1.

**Step 2** Submit your fee and Administrative Cost Share (ACS) payment to the Administration by the deadline identified on your Options Notice. For details on the fee and ACS, see Section 3.2.

**Step 3** Submit your CAIS harmonized form by the application deadline. Participants have several options for submitting their harmonized form. For details on filing options and a full list of CAIS forms and guides, visit the CAIS web site at **www.agr.gc.ca/caisprogram** or call the Administration toll-free at **1-866-367-8506**.

**Applications submitted after the initial application deadline will be accepted up to three months past the deadline, but will be subject to a late filing penalty**. Any amount payable to you for that Program Year will be reduced by $500 for each month (or part thereof) the application is submitted after the deadline. If the penalty exceeds the payment amount, the payment will be reduced to zero. The remaining penalty amount will not be applied to any other Program Year.

Applications postmarked after the three month penalty period will not be accepted. Should the deadline date be a Saturday, Sunday, or statutory holiday, completed forms postmarked on the next business day will be accepted.

**Step 4** Once the Administration has processed your application, you will receive a Calculation of Program Benefits (COB) outlining the calculation of your margins and, if applicable, your CAIS payment. It is important that you carefully review the information on your COB as soon as you receive it to ensure it is accurate. You have 90 days from the date on your COB to request an adjustment to the information shown on your original COB. Adjustments to the information on your COB submitted after the 90 day period will only be applied to the calculation of your reference margin, for the purposes of future program year payments.

If your request for an adjustment is denied, you have 90 days from the date of notification to appeal this decision. For more information on submitting appeals or adjustments see Sections 6.0, *Adjustments* and 7.0 *Appeals*.

***Note: The Administration may accept applications or adjustments after a deadline, where a participant can demonstrate exceptional circumstances prevented them from meeting the deadline. Exceptional circumstances are those that could not have been avoided by the exercise of due care by the producer, or a third party acting on behalf of the producer. Some examples of exceptional circumstances include the serious illness or death of the participant or an immediate family member, or a catastrophic event that prevented you from meeting the deadline.***

### *2.2.2 Filing the Appropriate Form*

Participants must report to CAIS using the same method of accounting (cash or accrual) used to report for income tax purposes.

**Sole Proprietorships and Partners in a Partnership** must complete and submit the CAIS harmonized form for Individuals and provide their Social Insurance Number (SIN). Partners in a partnership must each submit separate program applications reporting 100% of the partnership's income and expenses, and must identify their percentage share of the partnership. The Administration will calculate each partner's share of government benefits based on each partner's percentage share of the operation.

**Estates** must complete and submit the CAIS harmonized form for Individuals and provide their SIN. If the Estate is also filing a return for *Rights and Things*, a CAIS harmonized form for Corporations/Cooperatives and Special Individuals must also be submitted. The Administration will combine the information provided on both forms.

**Trusts** must complete and submit the CAIS harmonized form for Corporations/ Cooperatives and Special Individuals and supply their trust number.

**Corporations and Co-operatives** must complete and submit the CAIS harmonized form for Corporations, Co-operatives and Special Individuals and supply their Business Number.

**Communal Organizations** must complete and submit the CAIS harmonized form for Corporations, Co-operatives and Special Individuals and supply their Trust Number.

**Status Indians and Band Farms** who carry on the business of farming on a reserve in Canada and are exempt from filing income tax returns are eligible to participate provided they submit the information they would have otherwise reported for tax purposes. Status Indians and Band Farms submit their CAIS harmonized form for Corporations/Cooperatives and Special Individuals directly to the Administration. Status Indian participants are deemed to have a December 31 fiscal year-end.

**Limited Liability Partnerships** are eligible to participate as an entity, and must supply their Business Number, using the CAIS harmonized form for Corporations/Cooperatives and Special Individuals. Alternatively, the partners in a Limited Liability Partnership may apply as individuals and must supply their SIN, using the CAIS harmonized form for Individuals. Partners in a Limited Liability Partnership cannot apply as both an entity and as individuals.

### *2.2.3 Landlords*

Income earned as a landlord (whether cash rent or payments-in-kind, for crop/livestock shares or lease arrangements) must be reported as rental income, not farming income, for tax purposes and is therefore non-allowable for CAIS. However, if your arrangement is a joint venture in which your share of allowable income is approximately the same as your share of allowable expenses, those income and expense amounts may be allowable for CAIS. Copies of written joint venture or crop/livestock share agreements, documenting the shared income and expense items, may be requested by the Administration.

### *2.2.4 Beginning Farmers*

For CAIS purposes, beginning farmers are those who have farmed for less than three years. If you are a beginning farmer, you are eligible to participate as long as you have had six consecutive months of farming activity and have completed a production cycle in the Program Year. These requirements may be waived by the Administration if you were unable to complete them in the Program Year due to reasons beyond your control (such as disaster circumstances like flooding or drought).

If you are a beginning farmer and have not farmed in each of the three years prior to the Program Year, the Administration will create margins for the missing year(s) based on your farm's productive capacity in the Program Year. Margins will not be created for any reference year in which you have (or should have) reported farming income (or loss) to CRA.

### *2.2.5 Multiple Operations*

Each individual or entity that reports farming income (or loss) for income tax purposes is required to participate in the program separately. If you are involved in **multiple farming operations**, you must submit program forms for each operation, and assign a different operation number for each one (1, 2, 3, etc.). This number is used on your CAIS applications to identify your operations. It is important that each operation uses the same operation number from year to year.

### *2.2.6 Bankruptcy*

An individual or entity that has declared bankruptcy in the Program Year may participate through the trustee in bankruptcy. If you declare bankruptcy after applying for CAIS, it is your responsibility to ensure the Administration is notified of the bankruptcy. Applicants in Bankruptcy are eligible for the CAIS program if you meet the normal eligibility requirements of the program. The Trustee in Bankruptcy is assigned the responsibility of managing all the assets and liabilities of the Bankrupt party, including CAIS payments, until the Bankruptcy is discharged. The Trustee may access your information subject to the provisions of the *Privacy Act*. It is the responsibility of the Trustee to notify the Administration of the bankruptcy, and to provide the Administration with instructions regarding the payment.

In all cases, the Administration will ask the Trustee to provide documentation supporting the accounts payables.

- If a bankruptcy has not been discharged, the Administration will include all allowable payables in the Program Year Margin (unless the Trustee provides other information).
- If a bankruptcy has been discharged, only those payables satisfied by the bankrupt estate (trustee), in part or in whole, will be included in the Program Year Margin. Any payables or portion of payables not reimbursed to creditors will not be allowed. This ensures the CAIS program is not paying the applicant for debts which have ceased to exist. The Trustee must provide documentation supporting the amounts actually paid to all creditors.

The Administration will provide notice to the Trustee and the applicant of amounts payable to the applicant. In most cases, the Administration will direct payments to the Trustee. A cheque will only be sent to an applicant if:

- the bankruptcy is not known to the Administration;
- the Trustee confirms in writing that the CAIS benefit is not part of the bankrupt estate;
- the Trustee has been discharged of their duties, and has provided documentation of their discharge.

### 2.2.7 Multi-Jurisdiction

If you live and farm in different provinces or if you earn farming income in more than one province, you must participate in the province where your main farmstead is located. Your province of main farmstead is the province where all or the majority of your gross farming income was earned in the reference years. For more information on reference years, see Section 3.5. You may not participate in more than one province.

### 2.2.8 Government Funded Institutions

Research stations, universities, colleges, and other government-funded institutions are not eligible to participate in the CAIS program. In cases where an organization has received government funding in prior years, or is directly funded by an organization that is government funded, eligibility is determined on a case-by-case basis.

# 3.0 How CAIS Works

## 3.1 Protection Level

You must have been issued an Options Notice in order to participate in CAIS. The Options Notice provides you with the information you need to select your protection level for the current Program Year and to pay the related program fee. Your Options Notice will identify your level of protection. You must contact the Administration prior to the deadline on your Options Notice if you wish to change the protection level identified on your Options Notice, or if you do not want to participate for the year. If you do not contact the Administration prior to the deadline, you will be required to pay the fee that corresponds to the protection level identified on your Options Notice.

To participate in the program, you must decide how much of your Reference Margin you would like to protect. The higher the level of protection you choose, the larger your payment will be in the event of a large drop in your farm income.

You have three choices:

**Maximum Protection:** provides coverage for up to 70% of a total decline in your margin.

**Medium Protection:** provides coverage for up to 66.5% of a total decline in your margin.

**Minimum Protection:** provides coverage for up to 56% of a total decline in your margin.

Your payment may be larger than outlined above if you have a negative margin (up to a maximum of 70% coverage of the total margin decline). See Section 3.6 for more information on negative margins.

## 3.2 CAIS Program Fee and ACS

All participants are required to pay an annual Administrative Cost Share (ACS) of $55. If you do not pay your ACS, it will be automatically deducted from your Program Year benefit. If no Program Year benefit is calculated, the outstanding ACS amount will be carried forward and deducted from any benefits in future Program Years.

In addition to the ACS, you must pay an annual program fee, which corresponds to the level of protection you have chosen. Here is some important information about the CAIS program fee:

- The deadline to pay your fee is identified on your Options Notice. If you do not pay your fee in full by that date, a penalty equal to 20% of your fee will be applied.
- You must pay your fee in full by the coverage selection deadline for the following Program Year. Otherwise you will be ineligible for benefits for the Program Year for which you did not pay your fee, and for the following Program Year. However, for the 2006 Program Year, CAIS participants will have until April 30th, 2007 to pay their 2006 program fee. If the 2006 fee is not paid by that date, the participant will be ineligible for benefits in 2006, but will remain eligible for 2007.
- The maximum fee to protect your farming operation is $4.50 for every $1,000.00 of Reference Margin protected.
- Your fee is based on your Contribution Reference Margin (CRM). The CRM is similar to your Reference Margin (see Section 3.5), and includes adjustments for structural change and whole farm combining.
- The CRM uses the most recent Program Year information available to the Administration at the time of calculating your fee and your Options Notice. As a result, the years used to calculate your CRM may differ from those used later to calculate your Reference Margin.
- Any adjustments made to your Reference Margin after the calculation of your fee will not result in a change to your fee.
- There is a minimum fee of $45.00 (plus the $55.00 ACS).

**Fee Calculation Example:**

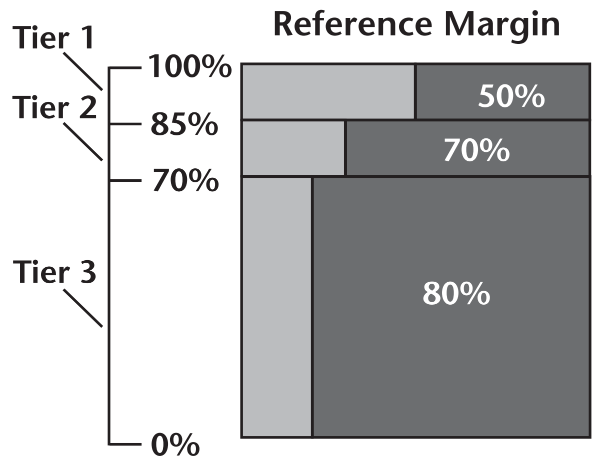
If you had a $100,000 CRM and you chose **Maximum Protection**, your fee would be **$450.00**
$\left(\frac{\$100,000.00}{1,000} = 100 \times \$4.50 = \$450.00\right)$ plus the $55.00 ACS for a total of **$505.00**

If you had a $100,000 CRM and you chose **Medium Protection**, your fee would be **$382.50**
$\left(\frac{\$100,000.00}{1,000} = 100 \times \$3.825 = \$382.50\right)$ plus the $55.00 ACS for a total of **$437.50**

If you had a $100,000 CRM and you chose **Minimum Protection**, your fee would be **$315.00**
$\left(\frac{\$100,000.00}{1,000} = 100 \times \$3.15 = \$315.00\right)$ plus the $55.00 ACS for a total of **$370.00**

## 3.3 How Payments are Calculated

A CAIS payment is triggered when your Program Year Margin declines below your Reference Margin. See Sections 3.4 and 3.5 for details on Program and Reference Year Margins. The amount of government funds you will receive is determined by the extent of your margin decline. The program measures the extent of your decline using three tiers, with Tier 1 representing the smallest decline and Tier 3 representing the largest decline.




The following example illustrates how the tiers determine the payment amount for a participant who has selected the maximum protection level, has a Reference Margin of $100,000 and a Program Year Margin that has declined to $35,000.

The maximum benefit a participant can receive is 70% of their margin decline. In this example, the margin decline is $65,000 ($100,000 - $35,000).

| Tier | Portion of Decline Covered | Government Funds |
|---|---|---|
| Tier 1<br>Government Funds Paid for 50% of decline | $100,000 to $85,000 =<br>$15,000 x 50% | $ 7,500 |
| Tier 2<br>Government Funds Paid for 70% of decline | $85,000 to $70,000 =<br>$15,000 x 70% | $10,500 |
| Tier 3<br>Government Funds Paid for 80% of decline | $70,000 to $35,000 =<br>$35,000 x 80% | $28,000 |
| Tier 1 + Tier 2 + Tier 3 | Calculated Benefit | $46,000 |
| Cappped at 70% of Margin Decline | Maximum Benefit | $45,500 |

## 3.4 Program Year Margin

Your Program Year is the year in which your fiscal year ends. Your Program Year Margin is calculated by subtracting your total allowable expenses from your total allowable income you reported to CRA for the Program Year. If you reported to CRA on the cash basis, your Program Year Margin is adjusted for changes in the quantity of purchased inputs, crops and livestock inventories, accounts payable and receivable which you provide on your application. These adjustments ensure that the Administration has the most complete picture of your farm's income situation during the Program Year. Beginning with the 2006 Program Year, CAIS will value crop and livestock inventories using the P1/P2 Hybrid method.

**P1/P2 Hybrid Inventory Valuation:** Crop and livestock inventories for market commodities are valued using both a beginning-of-year price (P1) and end-of-year price (P2), referred to as the P1/P2 Hybrid method. With this method, changes in the value of your crop and/or livestock inventories will reflect not only changes in quantities over the course of the fiscal period, but also variations in the price of each commodity during the fiscal period. Breeding animals and culled breeding animals, which are not considered market commodities, are valued using a P2 price only. Perishable commodities are valued on a receivables basis.

If you reported to CRA on the accrual basis, any livestock inventory values you reported will be adjusted to ensure the value of breeding animals and culled breeding animals reflects a P2 price only.

**Canadian Wheat Board (CWB) Receivables Adjustment:**

For commodities marketed through the Canadian Wheat Board (CWB), the Administration will apply a receivables adjustment to more accurately reflect the income from the crop production in the Program Year.

CAIS will normally use the Early Payment Option at 100% (EPO 100) to value CWB crops in inventory, as it is the best estimate of the full value that can be realized prior to the pool close. The Receivables Adjustment calculates the difference between the initial price and the EPO 100 for each CWB commodity on a per-unit basis, and applies it to an estimate of amounts sold into the active pool before the fiscal year end. This produces an ending receivable that is then included in the calculation of the Program Year Margin.

Participants have the option of completing a separate form with detailed calculations for this adjustment, or having a default adjustment automatically calculated using information already submitted on the CAIS Harmonized Form. To determine which option is best for your farm, refer to the *CWB Receivables Adjustment* form and guide which is available on the CAIS web site at **www.agr.gc.ca/caisprogram** or from the Administration at **1-866-367-8506**.

The example below shows how changes in your inventories, payables, receivables and purchased inputs will be factored into the calculation of your Program Year Margin:

| | |
|---:|---:|
| Allowable Income | $130,000 |
| – Allowable Expenses | $ 90,000 |
| = Margin | $40,000 |
| + Net increase (decrease) in purchased inputs | $ 1,000 |
| + Net increase (decrease) in accounts receivable | ($ 6,000) |
| + Net decrease (increase) in accounts payable | $ 4,500 |
| + Net increase (decrease) in crop inventory | ($ 1,000) |
| + Net increase (decrease) in livestock inventory | ($ 3,500) |
| = Program Year Margin | $35,000 |

## *3.5 Reference Margin*

Your Reference Margin is based on an average of your previous five years, with the highest and lowest margin years dropped. This is referred to as an 'olympic average'. Your Reference Margin may also have adjustments made to reflect any structural change on your farm (see Section 4.3 Structural Change). The Administration then compares your Reference Margin to your Program Year Margin to determine the extent of your income decline.

If you did not farm and did not report farm income (or loss) to CRA in each of the previous five years, your Reference Margin will be based on your previous three years. If you did not farm and did not report farm income (or loss) to CRA in one or more of the three years prior to the Program Year, you are considered a Beginning Farmer and the Administration will establish margins for the missing years (see Section 2.2.4).

The following example illustrates the calculation of a Reference Margin. The shaded years (with the highest and lowest margins) are dropped from the calculation, leaving the remaining three years to be averaged:

| Reference Year | Allowable Income | Allowable Expenses | Margin |
|---|---|---|---|
| **1** | $150,000 | $70,000 | $ 80,000 |
| **2** | $ 90,000 | $60,000 | $ 30,000 |
| **3** | $160,000 | $60,000 | $100,000 |
| **4** | $190,000 | $70,000 | $120,000 |
| **5** | $200,000 | $75,000 | $125,000 |
| | | **Total =** | $300,000 |
| | | | **Divided by 3** |
| | | **Reference Margin =** | $100,000 |

**Modified Accrual Accounting Option (MAAO):** If you wish to have accrual adjustments made to your Reference Margin, you can complete and submit a *Modified Accrual Accounting Option (MAAO)* form for 2006, which is available on the CAIS website or by calling the Administration. 2006 will be the final year in which the MAAO is available to CAIS participants.

**Accrued Reference Margins:** Beginning with the 2007 Program Year, CAIS participants who have previously provided the necessary information will automatically have their reference margins calculated on a modified accrual basis, using the hybrid inventory valuation method. Participants who have not previously provided this information will have the option of providing it for the 2007 Program Year. Beginning in 2008, all CAIS participants will have their reference margins calculated on a modified accrual basis, to account for changes in inventories, payables, receivables, and purchased inputs.

## 3.6 Negative Margins

Negative margins, including negative Reference Margins, are protected under the CAIS program. A negative margin occurs when allowable expenses are greater than allowable income for a Program Year.

If your Program Year Margin is negative, you may be compensated for up to 60% of the portion of your margin decline that is below zero. The maximum you can receive from governments under the CAIS program is capped, or limited to, either $3 million or 70% of your margin decline, whichever is lower. Any amount over this limit will be deducted from your negative margin payment.

Negative margins are protected at 60% regardless of the protection level you choose. The protection level you choose applies to the portion of your margin that is above zero. You do not have to apply separately for negative margin protection. Negative margins are automatically calculated by the Administration for every year that you submit a CAIS application.

In order to be eligible for a negative margin payment, you must meet certain criteria:

- 2 of 3 production margins used to calculate your reference period must be positive;
- you must have followed sound management practices; and
- the negative margin must have occurred because of reasons beyond your control.

The example below outlines the calcuation where your Program Year Margin is negative and your Reference Margin is positive.

| Program Year Allowable Income | Program Year Allowable Expenses | Negative Margin |
|---|---|---|
| $100,000 | $160,000 | – $60,000 |
| | | x 60% |
| | **= Negative Margin Benefit** | $36,000 |

The next example outlines the calcuation where your Program Year Margin is negative and your Reference Margin is also negative.

| Negative Reference Margin | Negative Program Year Margin | Margin Decline |
|---|---|---|
| – $5,000 | – $8,000 | $3,000 |
| | | x 60% |
| | **= Negative Margin Benefit** | $1,800 |

**Deemed Production Insurance Benefit:** Although participation in Production Insurance is not required to receive a CAIS payment, your negative margin payment may be reduced if you did not participate in Production Insurance. If Production Insurance was available, and you did not insure all of your insurable commodities at the 70% level, your negative margin benefit will be reduced. The Administration will calculate the indemnity you would have received if you had participated in Production Insurance. The Production Insurance premium that you would have paid will be deducted from this amount to determine your Deemed Production Insurance Benefit. Your negative margin benefit will be reduced by 60% of the Deemed Production Insurance Benefit.

For more detailed information on linkages between CAIS and Production Insurance, see Technical Information Circular #2 *Links to Production Insurance*, available on the CAIS website, or by calling the Administration toll-free at **1-866-367-8506**.

## 3.7 Sample Payment Calculations

The following example shows the payment calculation where a producer's Program Year Margin has declined to zero, compared to a Reference Margin of $100,000. This reflects a total margin decline of $100,000.

| | Margin Decline in Each Tier | Minimum Protection (Fee = $315.00) CAIS Payment = | Medium Protection (Fee = $382.50) CAIS Payment = | Maximum Protection (Fee = $450.00) CAIS Payment = |
|---|---|---|---|---|
| Tier 1<br>Covers declines between 0-15%. Government pays you $0.50 for every $1.00 in margin decline. | $15,000 | | | $7,500 |
| Tier 2<br>Covers decline between 15-30%. Government pays you $0.70 for every $1.00 in margin decline. | $15,000 | | $10,500 | $10,500 |
| Tier 3<br>Cover declines greater than 30%. Government pays you $0.80 for every $1.00 in margin decline. | $70,000 | $56,000 | $56,000 | $56,000 |
| **Total Calculated Benefit** | $100,000 | $56,000 | $66,500 | $74,000 |
| **Maximum Benefit (benefits are capped at 70% of total margin decline)** | | $56,000 | $66,500 | $70,000 |

The following example shows a producer with a Reference Margin of $100,000, and a negative Program Year Margin of -$50,000, which reflects a total margin decline of $150,000.

| | Margin Decline in Each Tier | Minimum Protection (Fee = $315.00) CAIS Payment = | Medium Protection (Fee = $382.50) CAIS Payment = | Maximum Protection (Fee = $450.00) CAIS Payment = |
|---|---|---|---|---|
| Tier 1<br>Covers declines between 0-15%. Government pays you $0.50 for every $1.00 in margin decline. | $15,000 | | | $7,500 |
| Tier 2<br>Covers decline between 15-30%. Government pays you $0.70 for every $1.00 in margin decline. | $15,000 | | $10,500 | $10,500 |
| Tier 3<br>Cover declines greater than 30%. Government pays you $0.80 for every $1.00 in margin decline. | $70,000 | $56,000 | $56,000 | $56,000 |
| Negative Margin Coverage<br>**For declines below zero. The government pays you $0.60 for every $1.00 in margin decline.** | $50,000 | $18,000 | $18,000 | $18,000 |
| Total | $150,000 | $74,000 | $84,500 | $92,000 |

### 3.8 Production Insurance Premium Adjustment (PIPA)

CAIS and Production Insurance are designed to work together, so that producers are not disadvantaged by participating in both programs. If you receive a lower CAIS benefit because you are also participating in Production Insurance, you will receive a PIPA payment to address this difference. The PIPA payment will be sent automatically after you receive a CAIS payment. For more detailed information on linkages between CAIS and Production Insurance, see Technical Information Circular #2 *Links to Production Insurance*, available on the CAIS website, or by calling the Administration toll-free at **1-866-367-8506**.

## 4.0 Calculation of Program Margins

### 4.1 Allowable and Non-Allowable Items

To be allowable, income and expenses must be directly related to the primary production of agricultural commodities. The following table provides some examples of allowable and non-allowable income and expense items.

**Income**

| Allowable Income | Non-Allowable Income |
|---|---|
| Agricultural Commodity Sales | Agricultural Contract work |
| Rebates for Allowable Expenses | Risk Management and Disaster Assistance Payments |
| Wildlife Damage Compensation Payments | Other Program Payments |
| Crop/Production Insurance Proceeds | Rebates for Non-Allowable Expenses |
| Insurance or Other Proceeds for Allowable Income and Expense Items | Patronage Dividends |
| Premium Adjustment Payments (reference years only) | Interest |
| | Gravel |
| | Trucking |
| | Machinery Rental |
| | Leases |
| | Resales of Commodities Purchased |

## Expenses

| Allowable Expenses | Non-Allowable Expenses |
|---|---|
| Commodity Purchases | Machinery Repairs |
| Containers and Twine | Agricultural Contract Work |
| Fertilizer and Lime | Advertising and Marketing Costs |
| Pesticides | Building and Fence Repairs |
| Insurance Premiums (crop production) | Other Insurance Premiums |
| Veterinary Fees, Medicine, A.I. Fees | Memberships/Subscription Fees |
| Minerals and Salts | Legal and Accounting Fees |
| Machinery (gasoline, diesel fuel, oil) | Non-Arm’s Length Salaries |
| Electricity | Office Expenses |
| Freight and Shipping | Motor Vehicle Expenses |
| Heating Fuel | Small Tools |
| Arm’s Length Salaries | Soil Testing |
| Storage/Drying | Licenses/Permits |
| Prepared Feed | Telephone |
| Insurance or Other Premiums for Allowable Income and Expense Items | Machinery Lease/Rental |
| Commodity Futures Transaction Fees | Land Clearing and Draining |
| Commissions and Levies | Interest (real estate, mortgage, other) |
| | Property Taxes |
| | Rent (land, buildings, pastures) |
| | Quota Rental (tobacco, dairy) |
| | Gravel |
| | Purchases of Commodities Resold |
| | Motor Vehicle Interest and Leasing Costs |
| | Allowance on Eligible Capital Property |
| | Capital Cost Allowance |
| | Mandatory Inventory Adjustments - Prior Year |
| | Optional Inventory Adjustments - Prior Year |
| | Other |

Payments received from programs other than Production Insurance are generally considered non-allowable income for program purposes. However, certain program payments may be considered allowable in the Program Year and non-allowable in the reference years if they compensate you for a loss that is covered by CAIS.

Additional Non-Allowable Items: Income derived from aquaculture, trees produced for use in reforestation (see Section 4.1.4), and farming activities outside of Canada, are all non-allowable under CAIS. Any income or expenses that are not substantiated by a verifiable explanation, or those considered by the Administration to be unreasonable, may be adjusted or considered non-allowable.

### *4.1.1 Contract Work*

All contract work/machine rental income and expenses are considered non-allowable for CAIS (with the exception of expenses for trucking used to transport eligible commodities to market or eligible inputs to the farm). Contract work includes: custom seeding, cleaning, snow plowing, gravel hauling, contract welding, oilfield services, non-agricultural trucking, land clearing, logging, building, and construction. Income generated from these services is excluded from the CAIS program production margin calculations. In addition, an amount equal to 30% of reported contract work income is deducted from allowable expenses, to account for the expenses incurred to perform the contract work. If the 30% ratio does not reflect the ratio on your farm, you can request that the Administration use a different expense ratio. The Administration may request supporting documentation to substantiate your expense ratio.

In cases where contract work expenses include amounts for arm's length labour or production input costs, the portion of these expenses will be allowable under the program if they are itemized separately on your financial statements submitted with your income tax return (or on other documentation as requested by the Administration). Where there is a discrepancy in the method used to report these expenses in the Program Year and reference period, the reference period reporting will be adjusted to reflect the method used in the Program Year. This ensures an accurate comparison of your Program Year and Reference margins.

**Custom Feeding Operations:** In order for income and expenses from a feeding operation to be considered allowable, the operation must have made an appreciable contribution to the growth and maturity of the livestock. In the case of cattle, an appreciable contribution will have been made if the animals are fed for at least 60 days, or gain an average of at least 90 kilograms. If you are custom feeding, you must grow or purchase the feed used in the operation.

Operations are not considered to have made a contribution to the growth and maturity of the livestock, and the corresponding income and expenses are therefore non-allowable, if they are:

- acting as an agent or broker for the sale of livestock;
- buying livestock for short term resale; or
- assembling and preparing livestock for shipment.

Income and expense amounts reported as custom feeding must be limited to allowable income and expense items. For example, for income based on feed plus yardage charges, the feed portion would be considered allowable, while the yardage fees are not.

For cattle, an amount equal to 5% of reported custom feeding income is deducted to account for yardage fees. If the 5% ratio does not reflect the ratio on your farm, you can request that the Administration use a different yardage ratio. The Administration may request supporting documentation to substantiate your yardage ratio.

### *4.1.2 Labour Expenses*

Arm's length salaries (those paid to parties to whom you are not a Related Person) are considered allowable under the CAIS program. Any salaries that are disproportionately high in the Program Year relative to the reference period may be adjusted, or deemed non-allowable, unless a verifiable explanation for the expense is provided.

Non-arm's length salaries (those paid to parties to whom you are a Related Person, including management fees paid to the shareholders of a corporation) are non-allowable expenses for CAIS. For a definition of Related Persons see Section 8.0 Glossary of Terms.

### *4.1.3 Commodity Futures*

Income and expenses from futures market transactions (including options and forward contracts) are eligible as part of a hedging strategy providing:

- your futures transactions were undertaken in commodities produced and/or consumed on your farm, or in those that would be considered a proxy for that commodity (e.g., if you do not grow or feed grain you could not include wheat futures transactions as an eligible income and/or expense);
- your futures transactions represent a volume of product that could either be reasonably produced and/or consumed on the farm, or would be considered a proxy for that commodity (e.g., if you grow 500 acres of corn, but undertook futures transactions equivalent to 1,000 acres of corn, you could not include those transactions in excess of what was produced on the farm).

### *4.1.4 Trees and other Non-Edible Horticulture*

**Allowable items:** Allowable tree production (excluding the non-allowable items listed below) must be generated through farming activity to be allowable under CAIS. Farming activity includes the planting, nurturing and harvesting of trees, with significant attention paid to managing the growth, health, and quality of the trees. This activity can involve the regular seeding and harvesting of trees, shrubs, herbaceous perennials, or annuals, including ornamental, fruit, and Christmas trees. These operations incur normal input and harvesting costs and the crop is considered an agricultural commodity. The income and expenses associated with these commodities is allowable, and they should be included as inventory on your CAIS application.

**Non-allowable items:** Income, expenses, and inventories related to the production and/or harvesting of trees for use as the following are non-allowable under CAIS and will not be included in program margin calculations, regardless of the activities used to produce them:

- firewood
- construction material
- poles or posts
- fibre, pulp and paper
- trees and seedlings destined for use in reforestation

### *4.1.5 Horses and Other Livestock*

Income from the primary production of horses (including PMU sales) is allowable if claimed as farm income for tax purposes.

Income received from the buy-out of PMU contracts is allowable if it was paid in lieu of the commodity income that would otherwise have been received under the contract. Income that was not paid in lieu of commodity income, such as penalty fees, is non-allowable.

The following list identifies some examples of allowable and non-allowable items resulting from the buy-out of a PMU contract:

| Allowable | Non-Allowable |
|---|---|
| PMU Collection Agreement (grams x rate) | Rancher's Payment |
| West Nile Reimbursement | Business Planning Subsidy |
| Herd and Health payment | Capital Costs |
| Equine Placement Fund (voluntary, but not always selected) | |

Income from training or boarding horses and prize money or purses from racing horses/other livestock are considered non-agricultural and therefore non-allowable for CAIS and should be reported separate from farming income.

Prize money from the showing of livestock in agricultural events such as fairs or expositions is considered agricultural and is therefore allowable income, providing it is incidental to the total farming income of your operation.

### *4.1.6 Processing and Resales*

**Processing** is defined as changing the state of the commodity (e.g., milk to cheese, strawberries to jam, beeswax to candles, beef to beef jerky, grain to flour) or adding value to a commodity without changing its state (alfalfa to alfalfa pellets).

For the CAIS program, income from processing is allowable if all of the following conditions are met:

- the commodities processed are produced on your farm;
- the income and expenses are reported to CRA as farming income or loss;
- the income generated by the processing activities is incidental to the farming income reported in the program and reference years.

These guidelines are based on rules established by the CRA, which generally considers certain non-farming activities to be part of the farming operation where:

- the taxpayer carries on a bona fide farming operation;
- activities are related to the taxpayer's other farming activities;
- activities are undertaken on a small scale; and
- income from these activities is incidental to the taxpayer's other farming revenue.

**Resales** are defined as the buying and selling of a commodity not grown by the producer (for example, buying wheat seed and reselling it without the process of planting and growing the commodity). Some resales include processing of a commodity while other resales do not. The income and expenses associated with resales are non-allowable for the CAIS program.

### *4.1.7 Supply Managed Commodities*

Supply managed commodities are covered under CAIS only when the farm's income decline falls into Tier 3. If your farm production includes supply managed commodities, your payment may be adjusted to ensure the program is not providing income stabilization for the portion of your farm that is supply managed. This adjustment will not be applied if your Program Year margin declines into Tier 3.

If you are producing supply managed commodities in the Program Year, and your Program Year Margin does not decline into Tier 3, your CAIS payment will be reduced by the percentage of your allowable income derived from supply-managed commodities. This percentage is:

- calculated based on the three years used to determine your Reference Margin;
- calculated on the basis of the whole farm in cases where operations have been combined for CAIS purposes;
- subject to structural change adjustments.

## *4.2 Stub Periods*

If your Program Year margin or any of your reference period margins represents less than a full year of operation (i.e., a stub period), the information for the stub period will be combined with information from prior fiscal periods until a minimum period of 12 months is available. The combined income and expenses will be prorated to reflect a 12 month period. Separate income statements for all combined periods must be reported.

In cases where your farming operation has a fiscal year other than 12 months, and within that fiscal year the number of production cycles completed is consistent with the number of production cycles completed in each of the reference years, the Administration may consider the fiscal year to constitute a normal fiscal period. In these cases the Administration may not combine the information with prior fiscal periods and proration may not be necessary.

If you are changing your year-end within a Program Year, you must meet the deadlines for selecting a protection level based on your original fiscal year-end. For Program Years that follow the year in which the change occurred, the new fiscal year end will determine deadlines for program purposes. Changing your fiscal year end may affect which program year your operation is eligible to apply for, if your stub period results in a program year with less than six months of production or no production cycle.

**Note:** Any applicant with a fiscal period of less than 6 months in the Program Year will not qualify for a CAIS benefit.

### *4.2.1 Section 85 Rollovers*

In the year of formation, if the fiscal periods of both the new and old business arrangements end in the same calendar year, information from both operations is required in order to combine the two operations to determine CAIS eligibility and benefit.

Where the first fiscal period of a new entity is less than 12 months, the last fiscal period of the old entity and the first fiscal period of the new entity may be combined and converted to a 12 month period. This would occur when a proprietorship or partnership has formed a corporation and changes to a different year end for the new operation. The Administration may consider a fiscal period of less than twelve months to constitute a full Program Year if the number of production cycles completed in that period is consistent with the number completed in each reference year. Prorating would not be necessary in this case.

For more detailed information on Section 85 Rollovers, see Technical Information Circular #1 *Whole Farm Approach*, available on the CAIS website, or by calling the Administration toll-free at **1-866-367-8506**.

## *4.3 Structural Change*

A structural change may occur when there is a change in ownership, business structure, size or location of operation, farming practices, type of farming activity, method of accounting, or any other practice that may alter your production margins.

When you increase or decrease the size of your farm, adjustments are made to your Reference Margin so it more accurately reflects the size of your farm in the Program Year. This ensures that the comparison between your Reference Margin and your Program Year Margin is an accurate measurement of any income decline on your farm.

Structural changes are determined by measuring your farm's productive capacity. For livestock, productive capacity is measured according to the type of livestock being produced. For crops, productive acres include those already producing a crop, or intended for seeding a crop which would be productive in its first year. A crop which cannot normally be harvested in its first year, or in the Program Year, may not be included in the productive capacity of your farm. See the *Guide to Completing the Harmonized CAIS Form* for more details on how to report your productive capacity.

**Benchmark Per Unit (BPU) Margins:** Your structural change is calculated by multiplying changes in your productive capacity by a benchmark per unit (BPU) margin. A BPU is the margin calculated from commodity specific economic data for a particular region. BPU margins represent the average return per unit of productive capacity for a commodity, after factoring in all the allowable income and expenses associated with producing that commodity.

**Structural Change Calculations:** The structural change adjustment is calculated using the following steps:

- For each year in the reference period, the difference between the number of productive units (for each commodity or commodity group) in the Program Year and the number of units in the Reference Year is calculated.
- The difference in productive units for each commodity is converted to a dollar amount by multiplying the difference in units by the benchmark per unit margin in that reference year for that commodity or commodity group.
- This dollar amount is added (subtracted) to the unadjusted production margin for that reference year.
- Structural Change adjustments are applied where the unadjusted Reference Margin and the adjusted Reference Margin differs by more than 5% and $1,000.

Where the standard structural change adjustment cannot be calculated or the standard structural change adjustment does not accurately reflect the structural change of your farming operation, alternate methods of calculating structural changes may be applied by the Administration.

The Administration will apply any structural change adjustments to the production margin of each reference year prior to calculating the Olympic average Reference Margin but after any whole farm adjustments (see Section 4.4).

**Structural Change and Disaster Circumstances:** The structural change adjustment may be waived if a structural change was the result of disaster circumstances. The Administration assesses these situations on a case-by-case basis to ensure that all relevant factors affecting production are considered. When assessing structural changes resulting from disaster circumstances, the Administration will apply the following principles:

- Disaster circumstances are those which occur for reasons outside your control. For example, flooding and depopulation of livestock due to disease would be outside the producer's control. Disaster circumstances generally do not include circumstances arising from your health or business decisions.
- Where compensation is received for lost productive capacity, it is considered allowable income under the program if it is received in lieu of normal farm income, or as an allowable program payment.
- Where the nature of the disaster is such that your productive capacity can be restored, the structural change will be waived for such time as is reasonable for restoration to take place.
- Where the nature of the disaster is such that your productive capacity cannot be restored, or restoration would be economically unfeasible, the structural change will be waived for such time as is reasonable for the producer to develop alternative capacity. A reasonable time period would generally not exceed one year.

## 4.4 Combining Operations/Whole Farm Approach

The income and expense information of two or more Related Persons or entities may be combined if the farming operations are part of a whole farm, even though the operations report separately for income tax purposes. This ensures that CAIS benefits are directed to farming operations that have experienced an income decline beyond their control. See Section 8.0, Glossary of Terms, for a definition of Related Persons.

Your farm financial information may be combined with information from a non-participant, if it is determined that you and the non-participant are related persons and are part of the same whole farm. If you are combined with a producer who is not eligible for/not participating in the CAIS program, only you will receive your portion of program benefits.

Generally, operations are combined when they are determined to be related persons and either:

- the operations are not legally, financially or operationally independent; or
- all or some of the transactions between the operations are above or below fair market value.

**A) Independence of Operations:** The Administration will assess the legal, financial, and operational independence of operations. This may include, but is not limited to, establishing whether each operation is reporting reasonable amounts of allowable income and expenses. If one operation is claiming more or less than the proportionate amount of total allowable income or expenses, the operations may be combined.

The following are examples of operations that will not be considered independent of one another:

- Operations whose transactions cannot clearly be assigned to one or the other operation(s) - this may include operations that do not maintain separate books, have commonly held inventory or inputs, or cannot show independent operational viability.
- Operations that are engaged in risk-splitting - this would include operations that farmed as a single operation at any time in the Program Year or Reference Years and subsequently split into two or more operations (except where it can be demonstrated that a permanent division of controlling interest has also taken place).

**B) Transactions Not At Fair Market Value:** Transactions between all parties must be at fair market value to be considered allowable for inclusion in the calculation of margins. Transactions above or below fair market value may be adjusted by the Administration to reflect fair market value. Where these transactions cannot be clearly defined, the Administration may combine the income and expenses of the participants involved.

### 4.4.1 Margin Calculations for Combined Operations

If your operation is combined with that of a Related Person, the margin and payment is calculated as follows:

- For each reference year, the allowable income and expenses of all operations are combined to arrive at a production margin for that year.
- Based on the combined production margin for each reference year, a Reference Margin for the combined operation is calculated.
- For the Program Year, the allowable income and expenses (including all adjustments for inventories, payables, and receivables) for all operations are combined to arrive at a combined Program Year Margin.

- Each participant is allocated a percentage of the combined Reference and Program Year Margins based on each participant's share of the combined operation's benchmark margin. The benchmark margin for the combined operation is calculated by multiplying the combined operation's production units in the Program Year by the average BPU of each unit over the previous five years.
- Each participant's elected Protection Level is calculated based on its share of the combined operation's Reference Margin and Program Year Margin. Each participant is responsible to elect their own Protection Level by the deadline.
- The supply-management ratio calculation, if applicable, is calculated for the combined operation and applied to each combined participant as appropriate.

If your operation is combined with another, and the methods of accounting are not the same for all operations, all operations reporting on the accrual basis must be converted to the cash basis of accounting, unless all combined parties agree to use the accrual basis and make the appropriate conversions.

For more detailed information on combining operations, see Technical Information Circular #1 *Whole Farm Approach*, available on the CAIS website, or by calling the Administration toll-free at **1-866-367-8506**.

### *4.4.2 Payments for Combined Operations*

Total payments for combined operations, regardless of the number of parties or protection level selected, cannot exceed $3,000,000 or 70% of the combined margin decline of the combined Program Year Margin relative to the combined Reference Margin. Margin declines will only be covered once, regardless of the number of parties involved.

## *4.5 Joining, Leaving, or Splitting Existing Operations*

If you have joined, left, or split an operation, you may have all or part of that operation's Reference Margin used in calculating your CAIS payment. This ensures an accurate measure of any income decline in the Program Year. For more detailed information, see Technical Information Circular #1 *Whole Farm Approach,* available on the CAIS website, or by calling the Administration toll-free at **1-866-367-8506**.

### *4.5.1 Joining or Leaving an Existing Operation*

**Joining an Existing Partnership:** If you have joined an existing partnership, you will be assigned a portion of that partnership's Reference Margin based on your partnership percentage in the Program Year. If you have previous farming history, your existing reference period information will also be included in the calculation of any payment.

**Leaving an Existing Business:** If you have left an existing operation and continued to farm, you may be assigned all or a portion of that operation's Reference Margin. This will always be the case where:

- you have left a partnership; or
- you have folded a corporation you control and continued to operate a farming business that is substantially the same.

In some circumstances, producers leaving an operation may be considered as beginning farmers. In this case, the Administration will create a Reference Margin for you. For example, if you leave a corporation or commune without assuming a portion of its productive capacity, and that corporation or commune continues to operate, you may be considered a beginning farmer.

#### *4.5.2 Splitting an Existing Operation*

If you have split an existing operation, you will retain a share of that operation's reference history. Where this split represents a permanent division of controlling interest, each producer emerging from the split will be assigned their share of the Reference Margin and assume independent payment under the program. Where this split does not represent a permanent division of controlling interest (i.e. "risk-splitting"), each producer emerging from the split will retain a share of the Reference Margin, and will be combined for payment purposes under the program until each party has accumulated an independent reference history.

# 5.0 Important Information

## *5.1 Limits on Government Benefits*

The maximum total government benefits that you can receive under CAIS in a given Program Year is capped at the lesser of $3,000,000, or 70% of the margin decline of your Program Year Margin, relative to your Reference Margin. Any negative portions of the Program Year Margin are included in the calculation of the 70% payment cap.

Payments of government benefits for less than $10 will not be issued.

## *5.2 Opting Out*

### *5.2.1 Voluntary Opt-Outs*

You may opt out of the CAIS program at any time by submitting an *Opt Out Request Form*, available on the CAIS website or by calling the toll-free line. Some important information about opting out of the CAIS program:

- If you voluntarily opt out of the CAIS program you will not be eligible to participate in CAIS for a total of three consecutive Program Years (the year for which you opt out, plus the following two Program Year(s).
- Opting out of the CAIS program may impact your eligibility for other program payments that are based on participation in CAIS.
- The Administrative Cost Share (ACS) and the program fee are charged to all participants once a protection level for the Program Year is selected or defaulted. These amounts will not be refunded if an opt out is initiated after that time. Once the processing of an opt out request has commenced, the opt out request cannot be reversed.

### *5.2.2 Mandatory Opt-Outs*

Beginning with the 2006 Program Year, if you do not meet the CAIS filing requirements and deadlines for two consecutive Program Years, you will not be allowed to participate for the two following Program Years. This means you will be ineligible to receive CAIS benefits for a total of four consecutive Program Years.

The Administration may opt you out of the program for reasons including, but not limited to, failure to meet program and/or administrative requirements or if you have ceased farming.

## *5.3 Interim and Targeted Advance Payments*

The Interim Payment option allows you to access funds prior to the completion of your fiscal period in the Program Year. To be eligible for an Interim Payment, you must have completed a production cycle and six consecutive months of farming activity, and your estimated Program Year Margin must have declined into Tier 2, relative to your Reference Margin. The requirements to complete a production cycle and six months of farming activity may be waived by the Administration if you were unable to complete them in the Program Year due to reasons beyond your control (such as disaster circumstances like flooding or drought).

If you receive an Interim Payment, you are required to meet all the CAIS program participation requirements, including submitting final CAIS program applications for that Program Year by the established deadline. If you do not, any Interim benefits received will be considered an overpayment and you will be required to pay these benefits back to the Administration. For more information, or to request a *CAIS Interim Application*, visit the CAIS website or call the toll-free line.

In addition to the Interim Payment, a Targeted Advance Payment (TAP) may be available for designated sectors or regions, subject to the agreement of federal and provincial officials. A TAP may be made available in years when there is a need for more timely cash flow, where that need can not be addressed effectively and rapidly through the existing Interim Payment process.

A TAP may be used in situations of unusual production or market disruption that will have a significant negative financial impact on producers of certain commodities, or those within a specified geographical area. The TAP was not designed to address individual farm situations.

For more details on Interim Payments and TAP, visit the CAIS website or call the Administration toll-free at **1-866-367-8506.**

## *5.4 Treatment of CAIS Payments*

Payments are subject to the operation of laws relating to estates, bankruptcies, separations, and divorces.

The government benefits received from the CAIS program cannot be assigned (except for cash advances), deferred or otherwise encumbered.

The following guidelines for the treatment of CAIS payments are based on CRA tax guidelines:

- Government benefits paid to you are taxable in the year the cheque is dated.
- Government benefits must be reported as farming income for tax purposes.
- The Administration will issue an AGR-1 Supplementary - Statement of Farm Support Payments tax information slip for taxable benefits over $100.

## 5.5 Audits, Verification and Accuracy of Information

The information on your CAIS forms will be used for the purposes of administering your participation in the program, determining your eligibility for benefits, verifying the information submitted, administering the premium adjustment linkage between production insurance and the CAIS program, as well as for the purposes of administering benefits under other farm income and special assistance programs, and for purposes of audit, analysis, and evaluation of the CAIS and other farm income and special assistance programs.

By participating in the program, you authorize the Canada Revenue Agency (CRA) to share information from your Statement A with the Minister of Agriculture and Agri-Food, and you authorize the Minister of Agriculture and Agri-Food to share the information on the form and any additional information that you provide as your application is processed, with provincial ministers of agriculture and with the administrators of other federal/provincial farm programs.

Some important information about audits, verification and the accuracy of information:

- You may be subject to audit on a pre or post payment basis by the Administration. Any information obtained through audit or inspection may be made available by the Administration to CRA.
- If you provide false or misleading information you will be denied a payment for the program, and will be required to repay any payment received. It is a criminal offence to obtain money through wilfully or intentionally providing false information. If you provide any false information or make a false statement to the Administration, or provide incomplete or misleading information, you may be liable for a fine or imprisonment, or both.
- If audit or inspection results in a change to the amount of your CAIS program benefits, any additional amount will be paid to you and any overpayment will be repayable by you.
- If you do not provide the required information or access to books and records within the specified time frame, you will be denied all or part of the payment for the Program Year or will be required to repay any payment received.
- It is your responsibility to ensure that information supplied to CRA and the Administration is correct and complete. You must inform the Administration of any changes or corrections to information submitted.
- All participants, including those in the process of an audit or an appeal, must continue to meet all applicable program deadlines in order to be eligible for CAIS.
- The Administration will not notify you of incorrect tax reporting. The Administration may adjust tax information as necessary for the purposes of calculating program margins, but the Administration cannot make corrections to tax information with CRA. You may be notified in writing that a correction with CRA is required in order for your CAIS program forms to be processed. In this case, you must make the correction with CRA and notify the Administration within 30 days, or by the established application deadline (whichever is later).

## 5.6 Overpayments and Debts Due to the Crown

You will be required to repay any payments received under the program that are in excess of the amount permitted under the guidelines of the program. Interest will be charged 30 days after the date that notification of overpayment is issued. The interest rate used is the 90 day federal Treasury Bill rate plus two percent per annum, adjusted quarterly. Debts owing to the federal and provincial governments may be recovered from amounts payable to you under the CAIS program.

Debts due to the Crown, including CAIS Final and Interim overpayments, may be deducted from any monies payable to you. You will be notified of these offsets. Receivables due to the CAIS program, such as the administrative cost share or program fee, will be deducted from any government benefits payable to you or will be carried forward in the years you do not qualify for government benefits.

## 5.7 Privacy

The personal and financial information you provide to the Administration will be used only for purposes of processing your CAIS program application, or as allowed by law (e.g., the Farm Income Protection Act, the Income Tax Act, and the Financial Administration Act). Once your CAIS program application is submitted, the information becomes confidential. Information will only be used as specified on the CAIS program application or as instructed by you.

Personal information is protected under the Privacy Act and is stored in the Personal Information Bank number AAFC PPU 189. Information is protected from disclosure under Section 20 of the Access to Information Act.

# 6.0 Adjustments

Adjustments must be submitted in writing, directly to the Administration, and be clearly identified as a request for an adjustment.

Adjustments may require supporting documentation and are subject to verification, audit and/or inspection by the Administration. Where adjustments affect taxable income, the Administration may require that the adjustment be accepted by the Canada Revenue Agency (CRA) before it is accepted for program purposes. It is your responsibility to submit to the Administration copies of the Notice of Reassessment issued by CRA, or notifications of adjustments to information submitted to CRA for income tax purposes.

## 6.1 Adjustments Initiated by Producers

### 6.1.1 Adjustments Requested Within 90 Days

You may submit an adjustment to your original Calculation of Program Benefits (COB) within 90 days of the date indicated on your COB.

If you are issued an amended COB, you have 90 days from the date on the amended COB to request an adjustment to the new calculations on that COB. Any information that was not changed on the COB is subject to the original 90 day adjustment period.
If the adjustment results in a change to the amount of your benefits, any additional amount owing will be paid to you, and any amount that has been overpaid will be repayable by you.

If the adjustment you requested is denied, you have 90 days from the date of written notification to request an appeal.

### *6.1.2 Adjustments Requested After 90 Days*

The deadline for account adjustments that affect the calculation of a reference margin in future program years is limited to three years from the end of the program year for which the adjustment is requested. This includes any reassessment or audit by CRA. For example, if you receive a reassessment from CRA for your 2006 fiscal year, you will have three years from the end of the 2006 program year (December 31, 2009) to submit the adjustment to the Administration.

Any adjustment you submit after 90 days, but within the three year window, will only be applied to the calculation of your reference margin for the purpose of future program year payments. Additional benefits will not be paid. However, if the adjustment results in overpayment, any amount that has been overpaid will be repayable by you.

## *6.2 Adjustments Initiated by the Administration*

Because the Administration is responsible for ensuring that all payments have been issued according to program guidelines and legislation, the Administration cannot be bound by deadlines in cases of adjustments initiated by the Administration.

# 7.0 Appeals

If you feel the Administration has incorrectly interpreted or applied a CAIS program rule, you can request an appeal. Appeals are adjudicated by Appeals Sub-Committees of the National CAIS Committee (NCC).

The Appeals Sub-Committees will review requests in writing from producers or their representatives who have concerns about the Administration’s interpretation or implementation of program policies and deadlines, and subsequently recommend action to the Administration.

The Appeals Sub-Committees cannot create exceptions to the eligibility criteria or any other provisions included in the CAIS Guidelines, the Implementation Agreement or the Farm Income Protection.

The Appeals Sub-Committees may recommend exceptions to deadlines in cases of "Force Majeure" in cases involving exceptional circumstances, where the failure to meet the requirements of the CAIS program could not be avoided by the exercise of due care by the producer or a third party acting on behalf of the producer. Examples of "Force Majeure" include Acts of God such as flash floods, unscheduled surgery, or the death or serious illness of the participant or an immediate member of the participant's family. When reviewing cases involving "Force Majeure" the length of time prior to the deadline when the events occurred must be taken into consideration.

After reviewing all of the factual information relevant to the case, the Appeals Sub-Committee will recommend the acceptance or rejection of the appeal to the Administration. However, the Administration is not bound by the recommendations of the Appeals Sub-Committee.

## *7.1 Submitting An Appeal*

You must submit your appeal in writing to:

CAIS Program Appeals
P.O. Box 2759 Station Main
Winnipeg, MB R3C 4B4

The letter must clearly identify the nature of the appeal and provide sufficient information and documentation to substantiate the appeal. In requesting an appeal, you must:

- submit your written request to the Administration within 90 days of the date indicated on your Calculation of Program Benefits (COB), or your revised COB if the COB has been revised as the result of an adjustment. If the adjustment you requested was denied, you have 90 days from the date of written notification to appeal;
- identify the program guidelines you feel have not been correctly applied in the processing of your file, and raise all issues to be considered in the appeal; any subsequent issues raised after the initial request will not be accepted for appeal;
- specify the remedy being sought within the CAIS program guidelines; and,
- where the Administration has determined that you did not meet an established deadline, demonstrate the steps you took to ensure you met the established deadlines; this includes actions taken or documents prepared by your representative.

**Note:** All participants, including those in the process of an appeal, must continue to meet all applicable program deadlines in order to be eligible for CAIS.

# 8.0 Glossary of Terms

**Administrative Cost Share (ACS):** The annual charge for a Program participant to cover a portion of the Program administration costs.

**Arm's Length Transactions:** Transactions between parties that are not defined as Related Persons.

**Benchmark Per Unit Margin:** The average production margin associated with producing a particular commodity or commodity group, based on industry standards.

**Calculation of Program Benefits:** A notice issued by the Administration detailing the calculation of a participant's Program benefits for the Program Year.

**CRA:** Canada Revenue Agency.

**Contribution Reference Margin:** The Reference Margin used to calculate the participant's fee for a Program Year.

**Disaster Circumstances:** Circumstances or events beyond a participant's control, including weather-related natural disasters, fire, and pestilence or disease, but excluding personal medical circumstances.

**Entity:** A participant other than an individual recognized by law as having rights and duties such as a corporation, cooperative, communal organization, or limited partnerships.

**Farming Income:** Income derived from farming activities, as defined by CRA.

**Fee:** The annual amount participants must pay to secure coverage under the program. The fee amount corresponds to the level of protection chosen, and is equal to is $4.50 for every $1000.00 of Reference Margin protected.

**Interim Payment:** An advance payment made to a participant based on an estimate of a participant's margin decline in the Program Year, relative to the participant's estimated Reference Margin.

**Inventory:** The tangible property of a farming business related to the production margin, which may include:

- held for sale (example: harvested grain)
- used for production of saleable goods (example: seed, feed)
- or in the process of being produced (example: standing crops, feeder livestock)

**Joint Venture:** A written business arrangement between two parties in which each party reports allowable income that reasonably approximates their share of the allowable expenses.

**National CAIS Committee:** The national committee established under the CAIS Agreement to assist in the administration of the Program.

**Negative Margin:** A margin in which allowable expenses for a given year have exceeded the allowable income in that year.

**Non-Arm's Length Transactions:** Transactions between parties that are defined as Related Persons.

**Olympic Average:** The average of the production margins for three of the five years immediately prior to the Program Year, where the highest and the lowest margins are excluded.

**Options Notice:** A notice sent by the Administration setting out the Participant's Contribution Reference Margin, to which the Participant responds by selecting a protection level.

**Perishable Crops:** Edible crops that spoil or decay easily and cannot normally be held in fresh storage for periods longer than ten months.

**Production Cycle:** Includes one or more of the following activities:

- the growing and harvesting of a crop;
- the process of rearing livestock;
- the purchase and/or sale of livestock within a Program Year in the case of feeding or finishing enterprises.

**Production Margin:** The difference between allowable income and allowable expenses, as defined by Program Guidelines.

**Program Year:** The year for which Program forms are submitted, coinciding with a participant's fiscal period for that tax year.

**Program Year Margin:** The production margin for the Program Year.

**Protection Level:** The percentage of Reference Margin that a participant elects to be protected in the event that the Program Year Margin declines to zero.

**Province of the Main Farmstead:** Province where all or the majority of the gross farming income was earned over the reference period subject to any adjustments.

**Related Persons:** As defined under the Income Tax Act, the following are considered to be related persons:

- individuals connected by blood relationship, marriage or common-law partnership, or adoption;
- a corporation and
  - an individual, group of persons, or entity that controls the corporation;
  - an individual, group of person, or entity of a related group that controls the corporation;
  - any individual related to a person described in (a & b) above.
- two or more corporations if:
  - they are controlled by the same individual, group of persons, or entity;
  - an individual or any member of a group of persons or entity that controls one corporation is related to the individual or any member of a group of persons or entity that controls the other corporation.

**Sound Management Practices:** are the same management practices that would be followed by any conscientious participant under the same circumstances.

**Structural Change:** A change in ownership, business structure, size of operation, farming practices, type of farming activity, method of accounting, or any other practice that may alter margins and a farming operation's potential for profit.

**Stub Period:** A fiscal period of less than 12 months.

**Tier 1:** Represents the range greater than 85% up to 100% of a participant's Reference Margin.

**Tier 2:** Represents the range greater than 70% up to 85% of a participant's Reference Margin.

**Tier 3:** Represents the 0-70% range of a participant's Reference Margin.

**Whole Farm:** Farming income derived from all sources, regardless of the physical location of the farming operation(s).