Canada Revenue Agency   Agence du revenu du Canada

Farming Income and the CAIS Program

Joint Forms and Guide

2006

For CAIS program participants in Alberta, Ontario, and Prince Edward Island

RC4060(E) Rev. 06

Canada

Before You Start

What is the CAIS program?

The Canadian Agricultural Income Stabilization (CAIS) is a joint federal/provincial/territorial business risk management (BRM) program. The CAIS program will help you protect your farming operation from both large and small drops in income.

For each program year, you will be asked to choose a protection level that will determine the percentage of your reference margin you want to protect. You may be eligible to receive government contributions, in an amount determined by the level of protection you choose, when you experience a decline in your production margin.

This guide will help you complete Form T1163, *Statement A – CAIS Program Information and Statement of Farming Activities for Individuals*, and Form T1164, *Statement B – CAIS Program Information and Statement of Farming Activities for Additional Farming Operations.*

Form T1163 (Statement A) is only one of the forms required to participate in the CAIS program. You must also complete a supplemental CAIS program form detailing your farming information such as inventories, accounts payable, accounts receivable, and deferrals. To get copies of this form and the guide that goes with it, contact your CAIS Administration (see "CAIS program information and correspondence" on page 10).

Is this guide for you?

This guide is for you if:

- you earned income as a self-employed farmer or partner of a farm partnership, or by renting land under a crop share arrangement;
- you want to participate in the CAIS program for 2006; and you farm in the following provinces: Alberta, Ontario, or Prince Edward Island; and
- you are neither a trust, a non-resident, a corporation, nor a status Indian farming on a reserve. If you are one of these, contact one of the offices that administers the CAIS program for the forms and guide you will need. You will find the addresses and telephone numbers on page 10.

If you want to participate in the CAIS program for 2006 and you farm in the following provinces, British Columbia, Saskatchewan, Manitoba, New Brunswick, Nova Scotia, Newfoundland and Labrador, or the Yukon, do **not** use Form T1163 (Statement A). Instead, get a copy of the RC4408, *Farming Income and the CAIS Program Harmonized Guide* from us and file **Form T1273**, *Statement A-Harmonized CAIS Program Information and Statement of Farming Activities for Individuals.* For more information on the CAIS program, contact the CAIS Administration at the following address:

CAIS Program Administration
P.O. Box 3200
Winnipeg MB R3C 5R7

Telephone: **1-866-367-8506**

Web site: **www.agr.gc.ca/caisprogram**

If you want to participate in the CAIS program for 2006 and you farm in the province of Quebec, do **not** use Form T1163 (Statement A). Instead, contact your CAIS Administration at the address listed below.

La financière agricole du Québec
Telephone: **1-800-749-3646**
Web site: **www.financiereagricole.qc.ca**

If you do not want to participate in the CAIS program this year, do **not** use Form T1163 (Statement A). Instead, get a copy of Guide T4003, *Farming Income* from us and file Form T2042, *Statement of Farming Activities*. If you have participated in the CAIS program before, contact the CAIS Administration for details on non-participation.

Penalties

Include all your income when you calculate it for tax purposes. If you fail to report all your income, you may be subject to a penalty of 10% of the amount you failed to report after your first omission.

A different penalty may apply if you knowingly, or under circumstances amounting to gross negligence, participate in the making of a false statement or omission in your income tax return. In such a case, the penalty is 50% of the tax related to the omission or false statement (minimum $100).

Forms and publications

You will find the following forms in the middle of this guide:

- T1163, *Statement A – CAIS Program Information and Statement of Farming Activities for Individuals*
- T1164, *Statement B – CAIS Program Information and Statement of Farming Activities for Additional Farming Operations*
- T1175, *Farming – Calculation of Capital Cost Allowance (CCA) and Business-use-of-home Expenses*

Discard the envelope that came with your income tax return. Use the envelope in the middle of this guide to send your income tax return and Form T1163, Form T1164, and Form T1175 to the Winnipeg Tax Centre. This is the only place where these forms are processed.

Do not attach correspondence intended for the CAIS program or the completed supplemental CAIS program form to your income tax return. Mail them separately to the CAIS Administration at one of the addresses provided on page 10.

Throughout the guide, we refer to other forms and publications. If you need any of these, visit our Web site at **www.cra.gc.ca/forms**. You may want to bookmark this address for easier access to our site later. You can also order forms and publications by calling us at **1-800-959-2221**.

Do you need more information?

This guide uses plain language to explain the most common tax situations. If you need more information about farming activities, call us at **1-800-959-5525**.

Teletypewriter users

If you use a teletypewriter, you can call our toll–free, bilingual enquiry service at **1-800-665-0354**.

Electronic mailing lists

We can notify you at once about new information on payroll, electronic filing for businesses, and more. To subscribe, free of charge, visit our Web site at **www.cra.gc.ca/lists**.

What's New for 2006?

Goods and services tax/harmonized sales tax (GST/HST) – Effective July 1, 2006, the GST rate is reduced from 7% to 6% and the HST rate from 15% to 14%.

Starting in April 2007, if you are a farmer **and** a GST/HST registrant, you may receive a monthly statement about your GST/HST account to help you stay up-to-date. These new statements will be sent to you only if there is activity on your GST/HST account.

Patronage dividends – If you receive patronage dividends, issued by an agricultural co-operative corporation in the form of tax deferred co–operative shares, you can delay reporting them as income until their disposition (or deemed disposition).

Small tools – Currently, small tools that cost less than $200 are included in Class 12 (100% CCA rate). For small tools acquired after May 1, 2006, the 2006 federal budget proposes to increase the $200 amount to $500.

Apprenticeship job creation tax credit (AJCTC) – The 2006 federal budget proposes to introduce the AJCTC, which will provide taxpayers that employ eligible apprentices in their business with a non-refundable tax credit.

Carry forward for business losses and investment tax credits (ITCs) –The carry forward periods for losses incurred and credits earned in tax years ending after 2005 has been extended from 10 years to 20 years for:

- non-capital losses;
- farm losses;
- restricted farm losses;
- life insurer's Canadian life investment losses;

investment tax credits earned for scientific research and experimental development (SR&ED), Atlantic investment, and mineral exploration.

My Business Account - The CRA's new online service provides convenient and secure access to a growing range of personalized business account information and services. In fall 2007, *My Business Account* will also offer access for authorized third parties and a full range of business account options.

To find out more about this exciting addition to our suite of electronic services for business, visit **www.cra.gc.ca/mybusinessaccount**.

If you have a visual impairment, you can get our publications and your personalized correspondence in braille, large print, or etext (CD or diskette), or on audio cassette or MP3. For details, visit our Web site at **www.cra.gc.ca/alternate** or call **1-800-959-2221**.

La version française de ce guide est intitulée *Revenus d'agriculture et PCSRA.*

Canada Prince Edward Island CANADA Alberta Ontario

Table of Contents

	Page
Chapter 1 – General Information	5
What is farming income?	5
How do you report your farming income?	5
Business records	6
Instalment payments	7
Dates to remember	7
CAIS program deadlines	7
Goods and services tax/harmonized sales tax (GST/HST) registration	8
Reporting partnership income	8
Chapter 2 – Your CAIS program	9
Who is eligible?	9
Participating in the CAIS program	9
Form T1163, *Statement A – CAIS Program Information and Statement of Farming Activities for Individuals*	10
Form T1164, *Statement B – CAIS Program Information and Statement of Farming Activities for Additional Farming Operations*	10
Completing the forms	11
Chapter 3 – Calculating Your Farming Income or Loss	12
Payment in kind	12
Farming income	12
Income from program payments	15
Other farming income	16
Summary of income	18
Expenses	18
Commodity purchases	20
Repayment of program benefits	20
CAIS program – Allowable expenses	21
CAIS program – Non-allowable expenses	22
Summary of income and expenses	32
Partnership information chart	36
Chapter 4 – Capital Cost Allowance (CCA)	36
What is CCA?	36
How much CCA can you claim?	37
Form T1175, *Farming – Calculation of Capital Cost Allowance (CCA) and Business-use-of-home Expenses*	38
Classes of depreciable property	41
Special situations	43

	Page
Chapter 5 – Eligible Capital Expenditures	48
What is an eligible capital expenditure?	48
What is an annual allowance?	48
What is a cumulative eligible capital (CEC) account?	48
How to calculate your annual allowance	48
Sale of eligible capital property – Fiscal period ending in 2006	50
Farming income from the sale of eligible capital property eligible for the capital gains deduction	50
Replacement property	51
Chapter 6 – Farm Losses	52
Fully deductible farm losses	52
Partly deductible losses (restricted farm losses)	53
Non-deductible farm losses	53
Chapter 7 – Capital Gains	54
What is a capital gain?	54
What is a capital loss?	54
Definitions	54
How to calculate your capital gain or loss	54
Restricted farm losses	56
Qualified farm property and cumulative capital gains deduction	56
Transfer of farm property to a child	57
Transfer of farm property to a spouse or common-law partner	58
Other special rules	59
Commodity List	60
Program Payment List	63
Capital Cost Allowance (CCA) Rates	65
How to Calculate the Mandatory Inventory Adjustment (MIA)	66
GST/HST Rates	67
Index	69

Chapter 1 – General Information

What is farming income?

Farming income includes income you earned from the following activities:

- soil tilling
- livestock raising or showing
- racehorse maintenance
- poultry raising
- dairy farming
- fur farming
- tree farming
- fruit growing
- beekeeping
- cultivating crops in water or hydroponics
- Christmas tree growing
- operating a wild-game reserve
- operating a chicken hatchery
- operating a feedlot

In certain circumstances, you may also earn farming income from:

- raising fish
- market gardening
- operating a nursery or greenhouse
- operating a maple sugar bush (includes the activity of maple sap transformation into maple products if this activity is considered incidental to the basic activities of a maple sugar bush, such as the extraction and the collection of maple sap, which are farming activities)

Note
Income derived from wood sales, as explained under "Woodlots" on page 15, is not allowable for CAIS program purposes. Similarly, income derived from aquaculture and peat moss is not allowable for CAIS program purposes but must be reported for income tax purposes on line 9600 of Form T1163 (Statement A) or Form T1164 (Statement B) under "Other (specify)."

Farming income **does not include** income you earned from working as an employee in a farming business, or from trapping.

You were asking ...?

Q. When does a farming business start? Can I deduct the costs I incur before and during the start of my farming business?

A. We look at each case on its own merits. Generally, we consider that a farming business starts whenever you begin some significant activity that is a regular part of the business, or that is necessary to get the business going.

For example, suppose you decide to buy enough poultry for resale to start your farming business. We would consider this to be the starting point of your business. You can usually deduct all of the expenses you have incurred up to that point to earn farming income. You could still deduct the expenses if, despite all your efforts, your business wound up. On the other hand, if you review several different types of farming activities in the hope of going into a farming business of some kind, we would not consider that your business has begun. In this case, you cannot deduct any of the costs you have incurred.

For more details about the start of a business, see Interpretation Bulletin IT-364, *Commencement of Business Operations*.

The law allows Statistics Canada to access business information collected by the Canada Revenue Agency (CRA). Statistics Canada can now share with provincial statistical agencies, for research and analysis purposes only, data concerning business activities carried out in the respective province.

How do you report your farming income?

You can earn farming income as a self-employed farmer or as a partner of a farm partnership. Most of the rules that apply to self-employed farmers also apply to partners. However, if you are a partner, you should read "Reporting partnership income" on page 8.

You report your farming income on a fiscal-period basis. A **fiscal period** is the time covered from the day your farming business starts its business year to the day your farming business ends its business year. For an existing business, the fiscal period is usually 12 months. A fiscal period cannot be longer than 12 months. However, it can be shorter than 12 months in some cases, such as when a new business starts or when a business stops.

Self-employed individuals generally have to use a December 31 year-end. If you are an eligible individual, you may be able to use an alternative method of reporting your business income that allows you to keep a fiscal period that does not end on December 31. To determine if you are eligible to have a fiscal year-end that is not December 31, see Guide RC4015, *Reconciliation of Business Income for Tax Purposes*, which includes Form T1139, *Reconciliation of 2006 Business Income for Tax Purposes*. It explains how to calculate the amount of farming income to report on your 2006 income tax return, and it also tells you if you have to file Form T1139 for 2006. In most cases, if you filed one for 2005, you will have to do so again for 2006.

Reporting methods

You can report your farming income using the cash method or the accrual method of accounting.

When you use the **cash method**, you:

- report income in the fiscal period you receive it; and
- deduct expenses in the fiscal period you pay them.

For special rules on prepaid expenses, see "Prepaid expenses" on page 20.

If you use the cash method and receive a post-dated cheque as security for a debt, include the amount in income when the cheque is payable.

If you receive a post-dated cheque as an absolute payment for a debt, include the amount in income when you get the cheque. If the bank does not honour the cheque, you can adjust your income then.

> **Note**
> The above post-dated cheque rules apply to income-producing transactions such as the sale of grain. They do not apply to transactions involving capital property such as the sale of a tractor.

When you use the cash method, do not include inventory when you calculate your income. However, there are two exceptions to this rule. For details, see "Line 9941 – Optional inventory adjustment – current year" and "Line 9942 – Mandatory inventory adjustment – current year" on page 33.

For more details on the cash method for farming income, see Interpretation Bulletin IT-433, *Farming or Fishing – Use of Cash Method*.

When you use the **accrual method**, you:

- report income in the fiscal period you earn it, no matter when you receive it; and
- deduct expenses in the fiscal period you incur them, whether or not you pay them in that period.

When you calculate your income using the accrual method, the value of all inventories, such as livestock, crops, feed, and fertilizer, will form part of the calculation. Make a list of your inventory and count it at the end of your fiscal period. Keep this list as part of your business records.

You can use one of the following three methods to value your inventory:

- value all inventory at its fair market value (see page 37 for the definition of fair market value);
- value individual items at cost or fair market value, whichever is lower (when you cannot easily tell one item from another, you can value the items as a group); or
- value livestock according to the unit price. For this method, complete Form T2034, *Election to Establish Inventory Unit Prices for Animals*.

Use the same method you used in past years to value your inventory. The value of your inventory at the start of your 2006 fiscal period is the same as the value at the end of your 2005 fiscal period. If this is your first year of business, you will not have an opening inventory at the start of your fiscal period.

For more details, see Interpretation Bulletin IT-473, *Inventory Valuation*.

Changing your method of reporting income

If you decide to change your method of reporting income from the accrual method to the cash method, use the cash method when you file your income tax return. Make sure you include a statement that shows each adjustment you had to make to your income and expenses because of the difference in methods.

If you decide to change from the cash method to the accrual method, you have to ask the Director of your tax services office for approval, in writing, before the deadline for filing your income tax return. In your letter, explain why you want to change methods.

Because there is a difference between the cash and accrual methods, the first time you complete your income tax return using the accrual method, file a statement showing each adjustment you had to make to your income and expenses.

For information on how to report income and expenses for both CAIS program and tax purposes, see "Method of accounting" on page 12.

Business records

Keep a record of your daily income and expenses. We do not issue record books or suggest any particular type of book or set of books. There are many record books and bookkeeping systems available. For example, you can use a book that has columns and separate pages for income and expenses. Some provincial departments of agriculture provide bookkeeping records you can use.

Keep your books, along with your receipts, duplicate deposit slips, bank statements, and cancelled cheques. Keep separate records for each business you run. If you keep computerized records, make sure they are clear and easy to read.

> **Note**
> Do not send your records with your income tax return. However, you must keep them in case we ask to see them. If you do not keep the necessary information and you do not have any other proof, we may have to determine your income using other methods. We may also have to reduce the expenses you deducted.

Income records

Keep track of the gross income your farming business earns. Gross income is your total income before you deduct expenses. Your income records should show the date, amount, and source of the income. Record the income whether you received cash, property, or services.

You must be able to support all income entries with original documents. Original documents include such things as sales invoices, cash-register tapes, receipts, cash purchase tickets from the sale of grain, and cheque stubs from marketing boards.

Expense records

Always get receipts, invoices, or other vouchers when you buy goods or services. The receipts have to show:

- the date of the purchase;
- the name and address of the seller or supplier;
- the name and address of the purchaser; and
- a full description of the goods or services.

Keep a record of the properties you bought. This record should show who sold you the property, the cost, and the date you bought it. It will also help you calculate your capital cost allowance (CCA). Chapter 4 explains how to calculate CCA.

If you sell or trade a property, keep a record showing the date you sold or traded it and the amount you got from the sale or trade-in.

Time limits

Depending on the situation, keep your books, records, and related vouchers for the following lengths of time:

- if you file your income tax return on time, a minimum of six years after the end of the tax year to which they relate;
- if you file your income tax return late, six years from the date you file that return; or
- if you file an objection or appeal, until either the issue is settled and the time for filing any further appeal expires, or until the six-year period mentioned above expires, whichever is later.

These retention periods do not apply to certain records. For more details, see Information Circular IC78-10, *Books and Records Retention/Destruction*.

If you want to destroy your books and records and related vouchers before the minimum six-year period is over, you must first get written permission from the director of your tax services office. To do this, either use Form T137, *Request for Destruction of Records*, or prepare your own written request.

For more information on record keeping, see Guide RC4409, *Keeping Records*.

Instalment payments

As a self-employed farmer, you may have to pay an annual instalment by December 31, 2007. If our records show that you may have to pay your tax by instalments, we will send you an *Instalment Reminder* in late November, showing the amount we suggest you pay.

For more information about instalment payments or instalment interest charges, get Pamphlet P110, *Paying Your Income Tax by Instalments*.

Dates to remember

February 28, 2007 – If you have employees, file your 2006 T4 *Summary* and T4A *Summary* forms. Also, give your employees their copies of the T4 and T4A slips.

March 31, 2007 – Most farm partnerships will file a partnership information return by March 31, 2007. However, there are exceptions. For details, see the T4068, *Guide for the Partnership Information Return* and Information Circular IC89-5, *Partnership Information Return,* and its Special Release.

April 30, 2007 – Payment of any balance owing is due. You will have to file your 2006 income tax return by April 30, 2007, if the expenditures of your 2006 farming business are primarily connected with tax shelters.

June 15, 2007 – If you have farming business income or if you are the spouse or common-law partner of someone who does, you have until June 15, 2007, to file your 2006 income tax return, unless the expenditures of the business are primarily connected with tax shelters. However, you have to pay any balance owing by April 30, 2007, to avoid interest charges.

December 31, 2007 – Pay your 2007 instalment for income tax and Canada Pension Plan contributions.

Note
If any of the dates mentioned above fall on a Saturday, Sunday, or statutory holiday, you have until the next business day to file your returns or make your payment.

CAIS program deadlines

To participate in the CAIS program for the 2006 program year, you must:

- have selected your protection level for the 2006 CAIS program; contact your CAIS Administration for deadline dates;
- send Form T1163 (Statement A) for fiscal year 2006 to the Winnipeg Tax Centre by **June 15, 2007**; and
- send your supplemental CAIS program form to your CAIS Administration by the deadline date.

To be eligible to receive CAIS program benefits, you must meet all of the deadlines established by your CAIS Administration. You can choose not to participate in the program for one year. However, you must meet all of the deadlines for the following year. If you do not, you will be removed from the program for that year. In addition, you will not be eligible to participate for the following two years.

If you received an interim payment for the 2006 program year, you must meet all of the above deadlines, **or you will have to pay back the interim payment.**

Do not send payments for the CAIS program administrative cost share (ACS), or any other monies related to the CAIS program, with your income tax return. The CRA will credit any cheques you include with your income tax return to your income tax account.

Note
The provincially delivered CAIS program deadlines may differ from one another. Please contact your provincial CAIS Administration for more information. See page 10 for contact information.

If any of the dates mentioned above falls on a Saturday, Sunday, or statutory holiday, you have until the next business day to submit the information required to meet that deadline.

Goods and services tax/harmonized sales tax (GST/HST) registration

If your total gross revenue from your GST/HST taxable sales (those taxed at the rates of 0%, 7%, and 15%) is more than $30,000 in a calendar quarter or in four consecutive calendar quarters, you have to register for GST/HST.

If your gross revenue is equal to or less than $30,000, you do not have to register, but you may do so voluntarily. It may benefit you to register because GST/HST registrants are able to claim input tax credits.

Note
Nova Scotia, New Brunswick, and Newfoundland and Labrador harmonized the GST with their provincial sales tax to create the HST.

The HST rate in these provinces is 15% (14% after June 30, 2006), and the GST rate in the rest of Canada is 7% (6% after June 30, 2006).

For information about GST/HST taxable farm goods and services, zero-rated farm products, and zero-rated farm purchases, see page 67. For more information on GST/HST, visit our Web site at **www.cra.gc.ca/gsthst**.

Reporting partnership income

A partnership does not pay income tax on its income or file a tax return. Instead, each partner files an income tax return to report his or her share of the partnership's net income or loss. The partners have to do this whether the share of income was received in cash or as a credit to a capital account in the partnership.

See Interpretation Bulletin IT-90, *What is a Partnership?* for more details.

Partnership information return

Partnerships that had six or more partners at any time in the fiscal period have to file a partnership information return. Partnerships of five or fewer partners throughout the year also have to file a *Partnership Information Return* if one or more of the partners is another partnership.

Partnerships also have to file a *Partnership Information Return* if they invested in flow-through shares of a principal-business corporation that incurred Canadian resource expenses and renounced those expenses to the partnership.

If you are a partner of a partnership that has to file a partnership information return, you should get two copies of a T5013 slip, *Statement of Partnership Income*, from the partnership. If you do not receive this slip, contact the person who prepares the forms for the partnership. The T4068, *Guide for the Partnership Information Return* has more details about the return.

When you receive your T5013 slip or partnership financial statement, you will have to complete a Form T1163 or T1164 in the manner described in Chapter 3. Use a separate Form T1164 to deduct any business expense you incurred for which the partnership did not repay you. See "Additional expenses (partnerships)" on page 10 for more information.

Once Form T1163 is completed, enter the gross income from the T1163 (or total gross income from the T1163 plus any gross income from T1164s) on line 168 of your income tax return. Enter your share of the net income from page 4 of Form T1163 (or total of your share of the net income from T1163 plus your share of any net income from T1164s) on line 141. Attach copy 2 of your T5013 slip to your return.

Capital cost allowance (CCA)

As an individual partner, you cannot claim CCA on property owned by a partnership to which you belong. Only the partnership can claim CCA on the depreciable property the partnership owns. Any CCA calculated at the partnership level will, however, be allocated to you according to your share of the partnership interest. It will therefore reduce the net income allocated to you by the partnership.

From the capital cost of depreciable property, the partnership has to subtract the following amounts:

- any investment tax credit allocated to the individual partners (we consider this allocation to be made at the end of the partnership's fiscal period); and
- any type of government assistance.

See Chapter 4 for more details about CCA and the adjustments to capital cost.

Any capital gain or recapture from the sale of property the partnership owns is income of the partnership. Also, any capital or terminal loss from the sale of partnership-owned property is the loss of the partnership. See Chapter 7 for more details about capital gains and losses, and Chapter 4 for more details about recapture and terminal losses.

Eligible capital expenditures

A partnership can own eligible capital property and deduct an annual allowance. Any income from the sale of eligible capital property the partnership owns is income of the partnership. See Chapter 5 for more details about eligible capital expenditures.

Investment tax credit (ITC)

The ITC lets you subtract, from the taxes you owe, part of the cost of some types of property you acquired or expenditures you incurred. You may be able to claim this credit in 2006 if you:

- bought qualifying property;
- incurred qualifying expenditures, including monies paid to agricultural organizations through check-offs, levies, or cash assistance; or
- received renounced Canadian exploration expenses.

You may also be able to claim the credit if you have unused ITC from years before 2006.

For more information about ITCs, see Form T2038(IND), *Investment Tax Credit* (*Individuals*).

Goods and services tax/harmonized sales tax (GST/HST) rebate

If you are a partner in a partnership and you claimed expenses on your income tax return, you may be able to get a partial refund of any GST/HST you paid on the expenses.

The GST/HST rebate is available to you if you meet **both** of the following conditions:

- you are a partner of a GST/HST-registered partnership; and
- on your income tax return, you deduct expenses you incurred to earn partnership income and the partnership did not repay you.

We base the rebate on the amount of the expenses subject to GST/HST that you deduct on your income tax return.

For more details about the GST/HST rebate, see Guide RC4091, *GST/HST Rebate for Partners*. This guide includes Form GST370, *Employee and Partner GST/HST Rebate Application*.

Chapter 2 – Your CAIS program

As a CAIS program participant, you are responsible for knowing program deadlines and understanding program policies.

Who is eligible?

Generally, you are eligible to participate in the CAIS program if you meet all of the following criteria for the 2006 program year:

- you file a 2006 Canadian income tax return reporting farming business income (or loss). If you are a status Indian farming on a reserve, contact your CAIS Administration to get the appropriate forms and guide;
- you have completed a minimum of six consecutive months of farming activity; and
- you have completed a production cycle.

Participating in the CAIS program

To participate in the CAIS program, you must have already selected a protection level. You must also complete Form T1163 (Statement A) and send it to us at the Winnipeg Tax Centre with your income tax return. The tax centre will forward the required information to the CAIS Administration. After processing your forms, the CAIS Administration will send you a **calculation of program benefits**. If you had a production margin decline, you may be eligible to receive government funds, which will be paid to you directly. These government contributions should be treated as farming income. Report these payments on Line 9544, "Business risk management (BRM) and disaster assistance program payments," of Form T1163 (Statement A).

If you do not complete all of these steps, you may not be eligible to receive government contributions for that program year. For more information on the impact of not submitting the required forms annually, contact your CAIS Administration.

You will find Form T1163 (Statement A) in the middle of this guide. We explain how to complete it on page 10.

> **Note**
> Form T1163 (Statement A) is only one of the forms required to participate in the CAIS program. You must also complete a supplemental CAIS program form detailing your farming operation such as inventories, accounts payable, accounts receivable, deferrals, and purchased inputs. To get a copy of this form, contact your CAIS Administration.

A separate form and guide for corporations may also be available from your CAIS Administration. For more information on applying for CAIS as a corporation, contact your provincial CAIS Administration. See page 10 for contact information.

Administrative cost share (ACS)

There is an annual charge for administration costs payable to your CAIS Administration. Contact your CAIS Administration for details on how to pay your ACS.

Opting out (closing your CAIS program account)

If you want to opt out of the CAIS program account, you must notify your CAIS Administration in writing. Once you opt out of the program you will not be able to participate in the program for the year in which you choose to opt out. In addition, you will not be eligible to participate for the following two program years. For more information on opting out of the CAIS program, contact your CAIS Administration.

CAIS program information and correspondence

For more information on the CAIS program, or to request the supplemental CAIS program form, contact your CAIS Administration at one of the following addresses.

- For Alberta, contact:

  Agriculture Financial Services Corporation
  5718-56th Avenue
  Lacombe AB T4L 1B1
  Telephone: **1-877-744-7900**
  Fax: 403-782-8348
  Web site: **www.afsc.ca**
  Email: caisp@afsc.ca

- For Prince Edward Island, contact:

  P.E.I. Agricultural Insurance Corporation
  P.O. Box 2000
  Charlottetown PE C1A 7N8
  Telephone: **902-368-4842**
  Fax: 902-368-4857

- For Ontario, contact:

  CAIS Program, OMAF
  1 Stone Rd., 4th floor
  Guelph ON N1G 4Y2
  Telephone: **1-877-838-5144**
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Form T1163, *Statement A – CAIS Program Information and Statement of Farming Activities for Individuals*

As a self-employed farmer, you have to give us a statement that accurately shows your farming activities for the year. We use Form T1163 (Statement A) for tax purposes as well as CAIS program purposes. The form allows for the differences between our reporting requirements and those of your CAIS Administration. You will find Form T1163 (Statement A) in the middle of this guide.

Form T1163 (Statement A) is only one of the forms required to participate in the CAIS program. You must also complete a supplemental CAIS program form detailing your farming information, such as inventories, accounts payable, accounts receivable, deferrals, and purchased inputs.

> **Note**
> If you did not participate in the CAIS program in 2005, contact your CAIS Administration.

Deceased participant

If a deceased individual had farming income or losses, complete Form T1163 (Statement A) in the name of the deceased individual. Print "Estate" in the name and address area. Use the income and expenses that you are reporting on the individual's final income tax return for 2006.

Include a copy of the individual's death certificate and the probated will (or letters of administration) with the final income tax return.

If, in addition to the final income tax return, you file an optional return for the year of death for a deceased CAIS program participant, such as a return of rights and things under subsection 70(2) of the *Income Tax Act*, the CRA will not forward the farming income and expense information from that optional return to your CAIS Administration. Contact your CAIS Administration directly to get the correct form to submit to them. They will combine the information from it with the information from the return that reported income to the date of death.

If a surviving spouse or common-law partner continues the farming business, prepare an additional Form T1163 (Statement A) in the name of the surviving spouse or common-law partner. If a spousal or common-law partner trust has been established for the surviving spouse or common-law partner, contact your CAIS Administration to get the correct form. Use the income and expenses from the surviving spouse or common-law partner's 2006 income tax return. Contact your CAIS Administration for information about applying as a trust.

Form T1164, *Statement B – CAIS Program Information and Statement of Farming Activities for Additional Farming Operations*

You may have more than one farming operation. You could have a sole proprietorship and be a partner of a partnership, or you could be a partner of more than one partnership. If you have more than one farming operation, complete Form T1163 (Statement A) for one operation and a separate Form T1164 (Statement B) for each additional operation. Do not use Form T2042, *Statement of Farming Activities,* if you are a CAIS program participant.

> **Note**
> For each additional farming operation, you must complete both Form T1164 (Statement B) and a supplemental CAIS program form.

Additional expenses (partnerships)

Complete Form T1164 (Statement B) if you have recorded a partnership operation on Form T1163 (Statement A) and you want to deduct additional expenses for which the partnership did not reimburse you. For example, you may want to deduct the farming business part of allowable motor vehicle expenses or business-use-of-home expenses.

If you are using Form T1164 (Statement B) to deduct business-use-of-home expenses, follow these steps:

- leave the income areas on page 2 blank;
- record your expenses on the appropriate lines on page 3;
- enter the total expense from page 3 on Line 9968 on page 4;
- do not complete the "Partnership information" area on page 4;

- do not make an entry on line 9934, "Adjustment to business-use-of-home expenses; " and
- complete Form T1175, *Farming – Calculation of Capital Cost Allowance (CCA) and Business-use-of-home Expenses*.

The amount you claim reduces your net income from farming on line 141 of your income tax return. However, you cannot use business-use-of-home expenses to create or increase a loss from farming.

Note
The instructions in the note in Area B at the bottom of Form T1175 do not apply if you are only claiming business-use-of-home expenses.

Completing the forms

By completing Form T1163 (Statement A) and Form T1164 (Statement B), you consent to allowing the CRA to share information from your income tax return with the federal Minister of Agriculture and Agri-Food, and you authorize the Minister of Agriculture and Agri-Food to share the information with provincial ministers of agriculture and with the administrators of other federal/provincial farm programs. You also consent to allowing the Minister of Agriculture and Agri-Food to share any additional information that you provide as your application is processed.

The information will be used for the purposes of audit, analysis, evaluation, and special assistance payments. The information is protected under the *Privacy Act* and is stored in the personal information bank numbers AAFC/P-PU-189 and CRA/P-PU-005.

You will find an envelope in the middle of this guide. **Use the envelope to send your income tax return, Form T1163, Form T1164, and Form T1175 to the Winnipeg Tax Centre** at the following address:

Winnipeg Tax Centre
66 Stapon Road
Winnipeg MB R3C 3M3

Do not use the envelope that came with your income tax return. The Winnipeg Tax Centre processes all income tax returns that include Form T1163, Form T1164, and Form T1175.

Requesting an adjustment

If you change your address or would like to change the information you included on Form T1163 (Statement A) or T1164 (Statement B), you must send the amended information to both your CAIS Administration **and** the CRA. This will ensure that all CAIS program and tax information is updated.

For more information on CAIS program adjustments, contact your CAIS Administration. You will find the addresses and telephone numbers on page 10.

The following text explains how to complete Form T1163 (Statement A). Some parts of the form are self-explanatory.

Name and address of CAIS program participant

To ensure program benefits are paid to eligible participants, it is essential that applications include the participant's correct mailing address. If CAIS records reflect an address other than the participant's, a CAIS representative will contact the participant or form preparer to verify the correct mailing address. Program benefits must be mailed to the participant's mailing address and not to a form preparer or other representative.

Name and address of CAIS program contact person

Complete this area if someone else (such as your spouse or common-law partner or accountant) has your consent to provide or ask for more information concerning the CAIS program, on your behalf.

Participant profile

As a current CAIS program participant, enter your CAIS **participant identification number** in the space provided.

You have to provide your social insurance number to participate in the CAIS program.

Enter the **industry code** that best describes your farming activity. If more than 50% of your farming business involved one specific activity, choose the code that identifies that main activity. However, if your farming operation involved more than one type of farming activity and none of these makes up more than 50% of your farming business, choose the appropriate code from the combination farm list. The following are lists of these codes for farming operations:

Livestock farm

- 112110 Beef cattle, including feedlots
- 112120 Dairy cattle and milk
- 112210 Hogs and pigs
- 112310 Chicken eggs (including hatching eggs)
- 112320 Broiler and other meat-type chickens
- 112330 Turkeys
- 112340 Poultry hatcheries
- 112391 Combination poultry and egg
- 112399 All other poultry and egg
- 112410 Sheep
- 112420 Goats
- 112510 Animal aquaculture (such as frogs, fishes, shellfishes)
- 112991 Livestock combination farming, and livestock farming with secondary crop farming
- 115210 Support activities for animal production (husbandry services)

Other animal specialties farm

- 112910 Apiculture (beekeeping)
- 112920 Horses and other equines
- 112930 Fur-bearing animals and rabbits
- 112999 All other miscellaneous animals

Field-crop farm

- 111110 Soybeans
- 111120 Oilseed (including canola, flax, mustard, sunflowers)
- 111130 Pulse crops (such as dry field peas, beans, and lentils)
- 111140 Wheat
- 111150 Corn
- 111190 Cereals (such as barley, oats, rye, and growing wild rice)
- 111211 Potatoes
- 111219 Other vegetables (except potatoes) and melons
- 111330 Non-citrus fruit and tree nuts
- 111411 Mushrooms
- 111419 Other food crops grown under cover
- 111421 Nursery and tree production
- 111422 Floriculture
- 111910 Tobacco
- 111940 Hay
- 111993 Fruit and vegetable combination farming
- 111999 Miscellaneous crops, combination of crops, and combination of crops with secondary livestock farming, and including maple sugar bush operations
- 115110 Support activities for crop production (soil preparation, pruning, spraying, harvesting, fruit picking, crop clearing, sorting, grading) on contract

Province of main farmstead

Enter the province where all or the majority of the gross farming income was earned over the reference period, subject to any adjustments.

Identification

In this area of Form T1163 (Statement A), provide information only about your main farming operation (Operation #1). If you have more than one farming operation, complete Form T1164 (Statement B) for each additional one. Identify each one with successive operation numbers in the box at the top right-hand corner of each page.

Fiscal period

Enter the operation's fiscal period. Record the year, month, and day of the beginning and end of the farming operation's business year. The farming operation's 2006 fiscal period must end in your 2006 tax year.

Method of accounting

You must use the same method of reporting (cash or accrual) for CAIS program purposes as you use for income tax purposes.

Enter:

- code **1** if you are using the accrual method for tax purposes and the CAIS program; or
- code **2** if you are using the cash method for tax purposes and the CAIS program.

Was your farming operation involved in any of the following:

In this area, check the applicable boxes if you carried on business as a member of a feeder association, or in a crop share arrangement as either a landlord or a tenant. For your main farming operation (Operation #1), enter this information on Form T1163 (Statement A). If you have more than one farming operation, complete Form T1164 (Statement B) for each additional one.

Chapter 3 – Calculating Your Farming Income or Loss

Record **all** income and expense items on pages 2 and 3 of Form T1163 (Statement A). If you have more than one farming operation, you need to use Form T1164 (Statement B) for each additional operation. **The instructions in this chapter apply to both forms.**

Payment in kind

A payment in kind occurs when you receive or give goods or services instead of money. For instance, to pay someone for a business expense, you may give something you produced on your farm instead of money. When you do this, include the fair market value of the goods or services in income. Use the appropriate code for the commodity. Deduct the same amount as an expense.

Example
You owed your landlord $1,000 for rent. Instead of cash, you pay him by giving him $1,000 worth of seed. You add the fair market value of the seed crops ($1,000) that you gave the landlord to your income as a commodity sale. (We consider that you received rent in exchange for the seed.) Deduct the $1,000 on line 9811 as a rental expense.

If you received a payment in kind for a product you would normally have sold, include the fair market value of the product in income.

Farming income

For CAIS program purposes, farming income results from the sale of a commodity that is an agricultural product, either plant or animal, produced in a farming business.

Example
You have seed potato sales of $50,000.
You record:

147	potatoes	$50,000

If you received a cheque for a commodity sale that is **net** of expenses that are recognized in the calculation of farming income (or loss), report the sale to include the full value of the commodity.

Example
Your receipt from the processor shows gross apple sales of $10,000, and has pack-and-sell costs of $1,500, leaving you a **net** cheque of $8,500. You would report $10,000 as your gross apple sales, and $1,500 as an expense on line 9836 – "Commissions and levies".

Gifts

In your income, include the fair market value of livestock or other items you gave away that you would normally have sold. See page 37 for the definition of fair market value.

Once you give the livestock or other items away, you cannot deduct any more costs for raising or maintaining them.

Using the commodity list

Find the commodity that you produce on the list that starts on page 60. The commodity codes are listed on each line.

If you have more than one farming operation, use Form T1163 (Statement A) for one operation and a separate Form T1164 (Statement B) for each additional operation.

Crop share

If you are a **tenant** and your gross sales must include your landlord's share of the crop, you should then record your landlord's share as a corresponding commodity purchase.

Landlord income, whether cash rent or payments in kind, earned through a crop or livestock share or lease arrangement, must be reported as rental income for income tax purposes. It is therefore considered non-allowable under the CAIS program. However, where the arrangement constitutes a joint venture such that the landlord's share in the allowable expenses reasonably approximates their share in the allowable related income, the income and expenses may be considered allowable.

Commodity futures

You can record an income transaction involving commodity futures as a commodity sale for CAIS program purposes if the transaction involves a primary agricultural product that you produced on your farm and the transaction is considered a hedging strategy.

Record commodity futures as follows:

- For futures transactions reported as a gross amount, record the income as a commodity sale using the code for the commodity. Record related purchases as a commodity purchase using the code for the commodity.
- For futures transactions reported as a net amount, record the net gain as a commodity sale using the code for the commodity. Record the net loss as a commodity purchase using the code for the commodity.

Record income from futures transactions involving commodities that you did not produce or that were not considered a hedging strategy on line 9600 as other farming income, and record losses on line 9896 as a non-allowable expense.

Grains, oilseeds, and special crops

If you sold grain directly or through an agency, include in income all the amounts you received from these sales. For example, include any Canadian Wheat Board payments from the sale of wheat, durum wheat, and barley.

Storage and cash purchase tickets

When you delivered grain to a licensed public elevator or process elevator, you received a storage ticket, a cash purchase ticket, or a deferred cash purchase ticket.

If you received a **storage ticket**, a sale **did not** take place. Therefore, you do not have to include that amount in income.

However, if you received a **cash purchase ticket**, a sale **did** take place. Since we consider that you received a payment at the time you received the ticket, you have to include the amount in income.

If you received a **deferred cash purchase ticket**, you may be able to defer the income until a later fiscal period. You can do this if the ticket provides for payment after the end of the year in which you delivered the grain. This carry-over of income is only allowable in specific situations. For more details, see Interpretation Bulletin IT-184, *Deferred Cash Purchase Tickets Issued for Grain.*

Cash advances

Under the *Agricultural Marketing Programs Act*, you may be able to get cash advances for crops that someone stores in your name. We consider these advances to be loans. Do not include these payments in your income until the crops are sold. However, for the fiscal period in which the sale occurs, include the full amount from the sale of your crops in your income.

Livestock

Include any insurance payments you receive for losses of livestock in the sales column of Form T1163 (Statement A) or T1164 (Statement B), using the applicable livestock commodity code.

If your farming business was located in a prescribed drought region in 2006, you may be able to defer including income from the sale of breeding animals in your taxable income. See "Prescribed drought region (PDR)" on page 14. These deferrals do not apply if you were a non-resident and were not carrying on a farming business through a fixed place of business in Canada at the end of the tax year. They also do not apply in the year of the farmer's death.

If you received a Bovine Spongiform Encephalopathy (BSE) Recovery Program payment, report the amount you received under program payment code 468.

Canadian Food Inspection Agency (CFIA) – Destroying livestock

You have to include in income any payments you received under the *Health of Animals Act* for destroying animals. Include these amounts under the program payment code 469 – CFIA compensation. You can choose to deduct all or part of the payment as an expense in the year. However, if you choose to do this, you have to include in your income for your next fiscal period the amount you deduct in your 2006 fiscal period. If you deferred payments in your 2005 fiscal period, you have to include the deferred amounts as income in this fiscal period.

Report the full amount received as a commodity sale using program payment code 469. If you chose to deduct all or part of this payment as an expense in the year, then enter this amount under commodity purchases, using one of the codes from the "PDR Deferred/CFIA Livestock Codes" chart on page 15. You must also use these codes in the next fiscal period to report this amount as income.

Prescribed drought region (PDR)

In some cases, you may be able to defer the applicable income received from the sale of breeding animals in your 2006 fiscal period to a later fiscal period.

To be able to do this, you have to meet these two conditions:

- your farming business was located in a PDR at some time during your 2006 fiscal period; and
- you reduced, by sale or other means, the number of breeding animals in your breeding herd by at least 15%.

For a list of PDRs, contact the CRA or Agriculture and Agri-Food Canada. You will find the addresses and telephone numbers in the government section of your telephone book.

The following are considered to be breeding animals:

- bovine cattle;
- bison;
- goats;
- sheep;
- deer, elk, and other similar grazing ungulates you keep for breeding; and
- horses you breed to produce pregnant mare's urine (PMU) that you sell.

All your breeding animals must be older than 12 months.

To determine the size of your breeding herd at the end of your 2006 fiscal period, complete Part 1 and Part 2 of the following chart.

Breeding herd chart

Part 1

How many of your female bovine cattle over 12 months of age held at the end of your 2006 fiscal year have given birth?		________	A
How many of your female bovine cattle over 12 months of age held at the end of your 2006 fiscal year have **never** given birth?		________	B
Enter one half of the figure from line A		________	C
Enter either the figure from line B or line C, whichever is less		________	D

Part 2

How many breeding animals did you have at the end of your 2006 fiscal period?		________	E
Enter the figure from line B	________ F		
Enter the figure from line D	________ G		
Line F **minus** line G		________	H
Number of breeding animals in your breeding herd at the end of your 2006 fiscal period: line E **minus** line H		________	I

If the figure from line **I** is **not** more than 85% of the number of animals in your breeding herd at the end of your 2005 fiscal year, you can defer part of the income received in 2006 from the sale of breeding animals.

Before you determine how much you can defer, you need to calculate a few amounts. First, determine your sales of breeding animals for your 2006 fiscal period minus any reserves you claimed for these sales.

A **reserve** is created when you sell property and do not receive the full proceeds at the time of the sale. Instead, the amount of proceeds is spread over a number of years, which allows you to defer reporting these proceeds to the year in which you receive them. For more details on reserves, see Interpretation Bulletin IT-154, *Special Reserves*.

After you have determined your sales of breeding animals, subtract from this amount the cost of breeding animals you bought in your 2006 fiscal period. The result is your net amount.

You then determine how much you can defer as follows:

- if the figure on line I is more than 70% and not more than 85% of your breeding herd at the end of your 2005 fiscal period, you can defer up to 30% of the net sales; or
- if the figure on line I is between 0% and 70% of your breeding herd at the end of your 2005 fiscal period, you can defer up to 90% of the net sales.

You do not have to defer all this income. You can include any part of it in your 2006 income. The deferred income must, however, be reported in the fiscal period that ends in:

- the year beginning after the period or periods when the region stops being a PDR;
- the year when the farmer dies; or
- the first year when, at the end of that year, the farmer is a non-resident and has ceased to carry on business through a fixed place of business in Canada.

If you want, you can elect to report the deferred income in the year after you deferred it.

Report the income you received from the sale of breeding animals as a commodity sale using the code for the commodity (see page 60). Report the amount you are deferring as a purchase using one of the deferred livestock codes listed below. In the year that you declare the deferred income, report it under commodity sales using the same deferred livestock code you used before.

PDR deferred/CFIA livestock codes	
Deferred bovine cattle	150
Deferred bison	151
Deferred goat	152
Deferred sheep	153
Deferred deer	154
Deferred elk	155
Deferred horse for PMU sales	156
Deferred other breeding animals	157

If your farming business was not in a PDR at any time during your 2006 fiscal period, you cannot defer the amount you received when you sold breeding animals. Also, you have to include in your 2006 income any unreported amounts you deferred in earlier years.

However, as long as your farming business was in a PDR at any time in your 2006 fiscal period, you do not have to include income you deferred in earlier years.

Woodlots

Income and expenses related to tree production must be generated through farming activity to be allowable under the CAIS program. Income and expenses generated in the production or harvesting of trees for use as firewood, construction material, poles or posts, fibre, pulp and paper, or for use in reforestation are considered non-allowable under the CAIS program. Income generated from these sales is excluded from production margin calculations.

Eligible tree-producing operations 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 CAIS Administration considers the income and expenses associated with these commodities to be allowable.

If you operated or regularly harvested a woodlot, include the sale of trees, lumber, logs, poles, or firewood in your income. This income is not an allowable income for CAIS program purposes, but it must be reported as a commodity sale, using commodity code 259.

From this income, you can deduct a type of capital cost allowance known as a depletion allowance. For details, see Interpretation Bulletin IT-481, *Timber Resource Property and Timber Limits*.

If you earned the income by letting other people remove standing timber from your woodlot, the proceeds may be a capital receipt. A taxable capital gain or an allowable capital loss may result. For more details on capital gains and losses, see Chapter 7 and the T4037, *Capital Gains* guide.

For more details on the sale of wood, see Interpretation Bulletin IT-373, *Woodlots*.

Insurance proceeds for allowable expense items

Use code 406 to record insurance proceeds you received for allowable expense items, such as fertilizers, chemicals, fuel, twine, etc.

Income from program payments

You should receive an AGR-1 slip, *Statement of Farm-Support Payments*, to identify your 2006 taxable farm-support payments. According to the *Income Tax Regulations*, you have to provide your social insurance number to organizations that issue farm-support payments.

If you received a program payment listed on page 63, record the program payment code, name, and amount under “Commodity Sales and Program Payments” on Form T1163 (Statement A).

If your program payments were recorded in your books net of expenses that are recognized in the calculation of farming income (or loss), adjust your income to include the full amount of the payment.

Example
Paul was entitled to a payment of $6,000 as proceeds from a hail insurance program for his wheat crop. The program deducted $2,000 in premiums, so the net cheque was for $4,000. Paul would report $6,000 as a Crop/hail insurance program payment for grains, oilseeds, and special crops, as code 401. He would claim $2,000 for the allowable expense on line 9665, “Insurance premiums (crop or production).”

You should receive an AGR-1 slip for all farm-support programs from which you received payments of more than $100. These include farm-support programs administered by the federal, provincial, territorial, and municipal governments, and by producer associations. **The AGR-1 slip will also report any withdrawals you make from Fund 2 of your NISA account.**

You have to include in income all taxable farm-support payments you received in your 2006 fiscal period, including amounts of $100 or less.

If your farm is operated as a partnership, only one partner should attach the AGR-1 slip to his or her income tax return. However, if your partnership has to file a *Partnership Information Return*, you should file the AGR-1 slip with that return.

If the annual period of the AGR-1 slip is not the same as the fiscal period of your farming operation, report only the part of the farm-support payments that you earned during your normal fiscal period. For example, if your farming business has a fiscal period ending on June 30, 2006, and your AGR-1 slip shows income of $10,000 in box 14, but you earned only $6,000 of that income by June 30, 2006, you will include only $6,000 in your income for your 2006 fiscal period. You will include the remaining $4,000 in your next fiscal period. You should, however, include the AGR-1 slip issued for the 2006 calendar year with your 2006 income tax return.

Payments from your NISA account

If you are a former Net Income Stabilization Account (NISA) program participant and received an AGR-1 slip with a positive amount in box 18, report it as income on line 130 of your income tax return. The figure in box 18 represents taxable amounts paid out of your NISA Fund 2 account.

The back of the AGR-1 slip has information about how to report amounts that appear in the various boxes.

Payments from or to the CAIS program

If you received an AGR-1 slip with a positive amount in box 14, include it as income on Line 9544, "Business risk management (BRM) and disaster assistance program payments," of your Form T1163 (Statement A). The figure in box 14 represents taxable amounts paid out by the CAIS program for government contributions.

If you received an AGR-1 slip with a negative amount showing in box 14, do not enter this amount on line 9544 of your Form T1163 (Statement A). You could have a negative amount in box 14 if you repaid an amount to the CAIS program in a year after you got an AGR-1 slip reporting the amount you received. Since a negative figure is not considered income, enter the amount on line 9896, "Other (specify)." Make sure you attach the AGR-1 slip to support this deduction.

Other farming income

The instructions for completing "Other farming income" apply to both Form T1163 (Statement A) and Form T1164 (Statement B).

Rental income

Except for leases explained under line 9613 on page 17, you do not usually include rental income in your farming income. To determine your rental income, use Form T776, *Statement of Real Estate Rentals*. You will find this form in Guide T4036, *Rental Income*. Enter the amount of your net rental income on line 126 of your income tax return.

If you were a **landlord** renting out land involved in sharecropping, we consider the payments you received, whether in kind or cash, to be rental income for both tax and CAIS program purposes. However, where the arrangement constitutes a joint venture, as was described under "Crop Share" on page 13, the CAIS program may consider the income to be allowable.

Line 9540 – Other program payments

Enter on this line any payment you received from the following provincial programs:

- Agri-Food Innovation Program in Newfoundland and Labrador
- Canada–Alberta Farm Income Assistance Program (CAFIAP)
- Canada–British Columbia Assistance Program
- Canada–Manitoba Adjustment Program (C-MAP, C-MAP2)
- Canada–New Brunswick Farm Assistance Program (C-NBAP)
- Canada–Ontario Edible Horticulture Payments
- Canada–Saskatchewan Adjustment Program (C-SAP)
- Farm Income Stabilization Insurance Program (ASRA), in Quebec
- Nova Scotia Farm Income Support Program (FISP)

If you received an overpayment from any of the programs listed above, claim any amounts you repaid on line 9896, "Other (specify)." See page 32 for details.

Do not include crop insurance payments here. See the Program Payment List beginning on page 63 for the correct line code.

Line 9544 – Business risk management (BRM) and disaster assistance program payments

Enter any payments you received from the following federal or provincial BRM and disaster assistance programs. **Do not include crop/production insurance payments listed on page 63**:

- Canadian Agricultural Income Stabilization (CAIS) program, including Interim payments
- Canadian Farm Income Program (CFIP) in Saskatchewan, Manitoba, Nova Scotia, Newfoundland and Labrador, New Brunswick, Prince Edward Island, and Quebec
- Whole Farm Insurance Pilot (WFIP) Program in British Columbia
- Farm Income Disaster Program (FIDP) in Alberta
- Ontario Whole Farm Relief Program (OWFRP) and the Ontario Farm Income Disaster Program (OFIDP) in Ontario

If you received an overpayment from any of the programs listed above, claim any amounts you repaid on line 9896, "Other (specify)." See page 32 for details.

Line 9574 – Resales, rebates, GST/HST for allowable expenses

Enter on this line the total resales and rebates of allowable expenses, including GST/HST rebates, unless you have already reduced your expenses by these amounts.

Line 9575 – Resales, rebates, GST/HST for non-allowable expenses, and recapture of capital cost allowance (CCA)

Enter on this line the total resales and rebates for non-allowable expenses, including GST/HST rebates, unless you have already reduced your expenses by these amounts.

Recapture of capital cost allowance (CCA)

Include in your income the amount of any recapture of CCA you have from selling depreciable property such as tools and equipment.

Complete the chart "Calculation of capital cost allowance (CCA)" on Form T1175, *Farming – Calculation of Capital Cost Allowance (CCA) and Business-use-of-home Expenses,* to find out if you have to report any recapture of CCA. See Chapter 4 for details.

Line 9601 – Agricultural contract work

Enter the total of your incidental farming income from such things as custom or contract work, harvesting, combining, crop dusting or spraying, seeding, drying, packing, cleaning, and treating seeds. Do not include income received from renting farm machinery on this line. See "Line 9614 – Machine rentals" on page 17.

Line 9605 – Patronage dividends

Report patronage dividends (other than those for consumer goods or services) received by eligible members of agricultural co–operatives on line 9605.

However, if you receive a patronage dividend in the form of a tax deferred co–operative share, you have the option to report it in the year you receive it or to defer reporting it until the year of disposition (or deemed disposition).

Line 9607 – Interest

Enter the total incidental interest earned on business accounts related to your farming business. Do not report interest on personal accounts and investments.

Line 9610 – Gravel

Enter the total amounts you received from the sale of soil, sand, gravel, or stone. For some of these items, you can claim a depletion allowance.

Line 9611 – Trucking (farm-related only)

Enter amounts you received for trucking related to your farming business.

Line 9612 – Resales of commodities purchased

Enter your total sales of commodities that you did not produce, that is, commodities that you bought for resale. Enter the corresponding purchases made in this fiscal period on line 9827, "Purchases of commodities resold." See page 29 for details.

Line 9613 – Leases (gas, oil well, surface, etc.)

If you received payments for leasing your farmland for petroleum or natural gas exploration, these payments will be either income or a capital receipt.

Include in your income the yearly amounts for rental, severance, or inconvenience from a surface rental agreement.

The first payment from these agreements is often larger than the rest of the annual payments. However, the agreement may not specify how much of the first payment is for such things as damage to land, land improvements, severance, inconvenience, or the first year's rent. When this happens, in the year you received the first payment, include in income an amount that is equal to the annual payment you will receive in the following years. The rest of the first payment is a payment for property. This may result in either a capital gain or loss. For details about capital gains, see Chapter 7.

Line 9614 – Machine rentals

Enter the amounts you received from the rental of your farm machinery.

Line 9617 – Custom feeding income

Enter the total amount you received for the custom feeding of livestock.

Line 9600 – Other (specify)

If you have other types of farming income not listed on the form, enter the total amount of all other types of farming income on this line. Then list the items on the blank lines provided under it.

In this section, record all other farming income that is not commodity-related. All amounts reported here will be considered non-allowable for CAIS program purposes.

The following paragraphs identify some of the income items you can report on line 9600.

Insurance proceeds

If you received insurance proceeds as compensation for loss or damage to certain types of property, enter the amount of insurance proceeds that did not relate to a specific commodity. For example, you may have insurance proceeds for damage to a building due to fire.

Enter the total insurance proceeds on this line if you are being reimbursed for:

- the cost of non-depreciable property that you previously deducted as a current expense; or
- the cost of property that was a saleable item.

Print "insurance proceeds" on one of the lines below line 9600. If the insurance proceeds compensated you for **damages** to depreciable property and you used all of them to **repair** the property within a reasonable period of time, include the proceeds as income on this line and claim a deduction for the same amount in the "Expenses" area on page 3 of the form. Claim repairs to depreciable property that is machinery on line 9760 and repairs to motor vehicles on line 9819. If you did not spend all the insurance proceeds on repairs within a reasonable length of time, include the unexpended excess as proceeds of disposition. See "Column 4 – Proceeds of disposition in the year" on page 39 for more details.

Insurance proceeds that compensate you for **replacement** of **lost** or **destroyed** depreciable property are considered to be proceeds of disposition for that depreciable property. Do not include this type of insurance proceeds on line 9600. See Chapter 4 for details. You can also refer to Chapter 7 for information on how insurance affects the adjusted cost base of capital property.

Do not include insurance proceeds from federal, provincial, or municipal government programs. For the codes to use for government insurance programs, see the program lists on page 63.

Miscellaneous

You can deduct 100% of the cost of property such as **small** tools if they cost less than $200 ($500 after May 1, 2006). If you did this and you later sold that property, you have to include in income the amount you received from the sale.

Include in your income prizes you won from fairs or exhibitions. For more details, see Interpretation Bulletin IT-213, *Prizes From Lottery Schemes, Pool System Betting and Giveaway Contests*.

Report resales and rebates of CAIS program-allowable expenses on line 9574.

Summary of income

Enter totals A and B from the last lines of the two columns on page 2 of the form. Add the totals together to get your gross farming income. Gross farming income is your total farming income before you deduct expenses.

Expenses

Use page 3 of Form T1163 (Statement A) to record your farming expenses. If you have more than one farming operation, use a separate Form T1164 (Statement B) for each additional operation.

You cannot include expenses for your **personal use** of either of the following:

- property of your farming business; or
- partnership property or services.

In addition, you cannot include any of the following as part of your expenses:

- the cost of saleable goods or services you, your family, or your partners and their families personally used or consumed, such as dairy products, eggs, fruit, vegetables, poultry, and meat;
- donations to charities and political contributions;
- interest and penalties you paid on your personal income tax; or
- most life insurance premiums (see "Line 9804 – Other insurance premiums" on page 23 for details).

For CAIS program purposes, there are two types of expenses:

- allowable expenses; and
- non-allowable expenses.

Allowable expenses are the operating or input expenses you paid that directly relate to the production of your commodities. **Non-allowable expenses** include interest and capital-related expenses as well as costs that are not directly related to the production of your commodities.

Current or capital expenses

Renovations and expenses that extend the useful life of your property or improve it beyond its original condition are usually capital expenses. However, an increase in a property's market value because of an expense is not a major factor in deciding whether the expense is capital or current. To decide whether an amount is a current expense or a capital expense, consider your answers to the questions in the following chart.

Current or capital expenses		
Criteria	**Capital expenses**	**Current expenses**
Does the expense provide a lasting benefit?	A capital expense generally gives a lasting benefit or advantage. For example, the cost of putting vinyl siding on the exterior walls of a wooden house is a capital expense.	A current expense is one that usually recurs after a short period. For example, the cost of painting the exterior of a wooden house is a current expense.
Does the expense maintain or improve the property?	The cost of a repair that improves a property beyond its original condition is probably a capital expense. If you replace wooden steps with concrete steps, the cost is a capital expense.	An expense that simply restores a property to its original condition is usually a current expense. For example, the cost of repairing wooden steps is a current expense.
Is the expense for a part of a property or for a separate asset?	The cost of replacing a separate asset within that property is a capital expense. For example, the cost of buying a compressor for use in your business operation is a capital expense. This is the case because a compressor is a separate asset, and is not a part of the building.	The cost of repairing a property by replacing one of its parts is usually a current expense. For instance, electrical wiring is part of a building. Therefore, an amount you spend to rewire is usually a current expense, as long as the rewiring does not improve the property beyond its original condition.
What is the value of the expense? (Use this test only if you cannot determine whether an expense is capital or current by considering the three previous tests.)	Compare the cost of the expense to the value of the property. Generally, if the cost is of considerable value in relation to the property, it is a capital expense.	This test is not a determining factor by itself. You might spend a large amount of money for maintenance and repairs to your property all at once. If this cost was for ordinary maintenance that was not done when it was necessary, it is a maintenance expense, and you deduct it as a current expense.
Is the expense for repairs to used property that you acquired to put it in suitable condition for use?	The cost of repairing used property that you acquired to put it in a suitable condition for use in your business is considered a capital expense, even though in other circumstances it would be treated as a current operating expense.	Where the repairs were for ordinary maintenance of a property that you already had in your business, the expense is usually current.
Is the expense for repairs made to an asset in order to sell it?	The cost of repairs made in anticipation of the sale of a property or as a condition of sale is regarded as a capital expense.	Where the repairs would have been made anyway, but a sale was negotiated during the course of the repairs or after their completion, the cost is regarded as current.

For more information, see Chapter 4 and Interpretation Bulletin IT-128, *Capital Cost Allowance – Depreciable Property*.

Eligible disability-related modifications made to a building

Outlays and expenses for eligible disability-related modifications made to a building can be considered current expenses. You do not have to add them to the capital cost of your building. You can also deduct expenses you paid to install or get disability-related devices and equipment. Eligible disability-related modifications include changes you make to accommodate wheelchairs.

Rebates, grants, or assistance

You should subtract from the applicable expense any rebate, grant, or assistance you have received.

If the rebate, grant, or assistance is for a depreciable asset, subtract the amount of the rebate from the property's capital cost before calculating the capital cost allowance. See Chapter 4 for details. If the asset qualifies for the investment tax credit, this reduction to the capital cost will also affect your claim. For more details, see Form T2038(IND), *Investment Tax Credit* (*Individuals*).

If you cannot apply the rebate, grant, or assistance to reduce a particular expense or a property's capital cost, include the amount as income on line 9574 or 9575. Only include the amount that was not used to reduce the cost of a property or the amount of an outlay or expense.

GST/HST input tax credits

If you claim the GST/HST you paid on your farming business expenses as an input tax credit (ITC), reduce the amount of the business expenses you claim by the amount of the ITC. Do this when the GST/HST for which you are claiming the ITC was paid or became payable. Enter the net expense figure on the appropriate line of Form T1163 (Statement A) or T1164 (Statement B).

Input tax credits that you claim for the purchase of depreciable property used in your business will affect your claim for CCA. If you cannot apply the credit you received to reduce a particular expense or an asset's capital cost, include the amount as income on line 9574 or 9575 of Form T1163 (Statement A) or T1164 (Statement B).

For details about how input tax credits affect your claim for CCA, see "Column 2 – Undepreciated Capital Cost (UCC) at the start of the year" on page 38.

Prepaid expenses

A prepaid expense is the cost of a service you paid for ahead of time. For example, insurance, property taxes, and rent would be prepaid expenses if you paid for them in one year, but did not receive the benefits until the next year.

If you use the accrual method to determine your farming income, you can deduct the part of the prepaid expense that applies to the year you receive the benefit.

If you use the cash method for reporting income, you cannot deduct a prepaid expense amount (other than for inventory) relating to a tax year that is two or more years after the year the expense is paid. However, you can deduct the part of an amount you paid in a previous year for benefits received in the current tax year. These amounts are deductible as long as you have not previously deducted them.

For example, if you paid $600 for a three-year lease in 2006, you can deduct $400 in 2006. This represents the part of the expense that applies to 2006 and 2007. On your 2008 income tax return, you could then deduct the balance of $200 for the part of the prepaid lease that applies to 2008.

Business-use-of-home expenses

You can deduct expenses for using a work space in your home for the farming business, as long as you meet **one** of these conditions:

- the work space is your principal place of business; or
- you use the space only to earn income from your farming business, and you use it on a regular and ongoing basis to meet your customers.

You can deduct a part of the following expenses:

- heating
- home insurance
- electricity
- cleaning materials
- property taxes
- mortgage interest
- capital cost allowance

To calculate the part you can deduct, use a reasonable basis, such as the area of the workspace divided by the total area of your home.

The capital gain and recapture rules will apply if you deduct capital cost allowance on the business-use part of your home and you later sell your home. See Chapters 4 and 7 for more information about recapture and capital gains rules.

If you rent your home, you can deduct the part of the rent and any expenses you incur that relate to the work space.

Include your expenses for business-use-of-home on line 9896, "Other (specify)" of form T1163 (Statement A) or T1164 (Statement B). For more details, see "Additional expenses (partnerships)" on page 10 and "Line 9934 – Adjustment to business-use-of-home expenses" on page 36.

Example
Marjorie calculates that $85 of her household electrical expense is for her farming business use. The total electrical expenses for her farm outbuildings are $1,200. She enters $1,200 on line 9799 and $85 on line 9896.

For income tax purposes, you cannot use business-use-of-home expenses to create or increase a farming loss. Therefore, if you claimed business-use-of-home expenses and you report a farming loss on line 9944, you will have to adjust your loss for income tax purposes at line 9934. For details on how to make this adjustment, see the instructions for line 9934 on page 36.

Business-use-of-home expenses are non-allowable expenses for CAIS program purposes.

Commodity purchases

Include seed, plants, transplants, livestock, and marketable products. For example, if you are an apple producer replacing damaged or dead trees, record apple tree purchases using the code for apples. If you are buying trees to expand an orchard, this amount would be a capital expenditure and would not be entered as a commodity purchase. Do not include the cost of seeds and plants you used in your personal vegetable or flower garden. Include expenses incurred from the use of commodities with the commodity purchases. For example, record pollination fees with bee purchases.

If you made a **payment in kind** for a farming-business commodity purchase, deduct the value of the payment as a purchase. For more details, see the definition of payment in kind on page 12.

If you are a tenant and your gross sales include your landlord's share of the crop, record your landlord's share as a corresponding commodity purchase.

If you have an expense for the purchase of water that is used in the production of your commodity(s) and it has not been included in your municipal taxes, include this expense with the commodity purchases. For example, if you have water brought in to water your cattle, record this expense for the water with the cattle purchases. Expenses for the transportation or hauling of the water are non-allowable.

Livestock insurance premiums

Use code 463 to record the total amount of premiums paid for livestock insurance.

Do not include any premiums for private, business-related (business interruption), or motor vehicle insurance. See "Line 9804 – Other insurance premiums" on page 23 for details on other types of insurance premiums.

Repayment of program benefits

Record the repayment of a program benefit as a purchase using the code for the program. You should receive an AGR-1 slip, *Statement of Farm-Support Payments*, identifying the amount of the repayment in box 17.

If you received an overpayment from any of the programs listed on lines 9540 and 9544, claim amounts you repaid in the tax year on line 9896, "Other (specify)."

CAIS program – Allowable expenses

Line 9661 – Containers and twine

Enter the total amount you paid for material to package, contain, or ship your farm produce or products. If you operated a nursery or greenhouse, enter the cost of your containers and pots for the plants you sold.

Line 9662 – Fertilizers and soil supplements

Enter the total amount you paid for fertilizers and lime you used in your farming business.

If you used soil supplements or other growth media, enter the amounts you paid for them here. Examples of soil supplements include mulch, sawdust, and weed-mats.

Line 9663 – Pesticides and chemical treatments

Enter the total amount you paid for herbicides, insecticides, rodenticides, and fungicides. Insecticides include chemicals for pest control purposes as well as any predators or parasites introduced for that use. Also record the total amount you paid for chemicals used in treating water, manure, or slurry, as well as those used in disinfecting equipment and facilities.

Record seed treatment expenses on this line if the treatment was itemized separately from the seed purchase on your original invoice. Otherwise, include the treatment as part of the commodity purchase.

Line 9665 – Insurance premiums (crop or production)

Enter the total amount of deductible premiums for any crop insurance. Include premiums for hail insurance on this line. Do not include any premiums for private, business-related, or motor vehicle insurance. Do not include premiums for Alberta Revenue Insurance Coverage or Alberta Spring Price Endorsement. See "Line 9804 – Other insurance premiums" on page 23 for details on other types of insurance premiums. Production insurance is the same as crop insurance.

Line 9713 – Veterinary fees, medicine, and breeding fees

Enter the total amount you paid for medicine for your animals, and for veterinary and breeding fees. Examples of such fees include the cost of artificial insemination, embryo transplants, disease testing, and castration. If you used disposable veterinary supplies for your farming business, enter these costs here.

Line 9714 – Minerals and salts

Record purchases of minerals, salts, vitamins, and premixes (which are mainly minerals and vitamins).

Line 9764 – Machinery (gasoline, diesel fuel, oil)

Enter the total amount you paid for fuel and lubricants for your machinery used in your farming operation.

Line 9799 – Electricity

Only the part of your electricity costs that relates to your farming business is deductible. To determine the part you can deduct, keep a separate record of the amounts that apply to the farmhouse and other farm properties. For example, the business part of your electricity expense will depend on how much electricity you used for the barns and shops.

Since the electricity for the farmhouse is a personal expense, you cannot deduct it unless you meet the conditions we explain in "Business-use-of-home expenses" on page 20. Include your expenses for business-use-of-home on line 9896, "Other (specify)."

Do not include the electricity expense for a house that you rented to someone else. This is a rental expense, which you enter on Form T776, *Statement of Real Estate Rentals*. You can get this form in Guide T4036, *Rental Income.*

Line 9801 – Freight and shipping

Enter the amount you paid for shipping farm inputs to your operating site and shipping farm produce to market. Do not include costs you incurred when trucking for someone else on this line. These are non-allowable expenses for CAIS, and should be claimed on line 9798, "Agricultural contract work."

Also include amounts you paid for the disposal of carcasses on this line.

Line 9802 – Heating fuel

Enter the total amount you paid for natural gas, coal, and oil to heat farm buildings. Also enter your expenses for fuel used for curing tobacco, crop drying, or greenhouses.

You can deduct only the part of these costs that relates to your farming business. To determine the part you can deduct, keep a separate record of the amounts you paid for the farmhouse and other farm properties. For example, the business part of your heating fuel expense will depend on how much heating fuel you used for the barns and shops.

Since heating fuel for the farmhouse is a personal expense, you cannot deduct it unless you meet the conditions we explain in "Business-use-of-home expenses" on page 20. Include your expenses for business-use-of-home on line 9896, "Other (specify)."

Do not include heating fuel expenses for a house that you rented to someone else. This is a rental expense, which you enter on Form T776, *Statement of Real Estate Rentals*. You can get this form in Guide T4036, *Rental Income.*

Line 9815 – Arm's length salaries

Enter the amount of gross wages you paid to your employees. Include the cost of board for hired help. Do not include salaries paid to related persons (see the definition below). If you paid salaries to related persons, see "Line 9816 – Non-arm's length salaries" on page 27.

Related persons are:

- 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 persons, or entity of a related group that controls the corporation;
  - any individual related to a person described above.

Salaries or drawings paid to yourself are not deductible for tax purposes. As the employer, also include in this total your share of Canada Pension Plan or Quebec Pension Plan contributions and Employment Insurance premiums. Do not deduct the amounts you withheld from your employees' remuneration, since you already deducted them in the amount you claimed as wages.

You may have paid wages in kind to your employees. For example, you may have paid your employees by giving them livestock or grain instead of cash. If you did this:

- your employees include in their income the value of the livestock or grain; and
- you include the same amount in your gross sales for the year and deduct it as a wage expense.

Keep a detailed record of the amounts you paid to each employee and the employee's name, address, and social insurance number.

Line 9822 – Storage/drying

Enter the amount you paid for storing and drying commodities. Examples of such costs include amounts paid for storage and drying services, air treatment expenses, and the purchase of germination inhibitors and other preservative agents. Electricity and heating fuel costs incurred in storage and drying commodities should be entered on lines 9799, "Electricity," and 9802, "Heating fuel," respectively.

Line 9830 – Prepared feed

Enter the total amount you paid to buy prepared feed for your livestock.

Line 9831 – Custom feeding

Enter the total amount you paid to have your livestock custom fed.

Line 9836 – Commissions and levies

Enter the amount you paid in commissions and levies incurred in the sale, purchase, or marketing of commodities. Also include amounts paid in levies to marketing boards, except those due as a result of penalties or fines you incurred.

Producers marketing fruits or vegetables through a co-op should enter any pack-and-sell expenses here.

CAIS program – Non-allowable expenses

Line 9760 – Machinery (repairs, licences, insurance)

Enter the total amount of repair, licence fee, and insurance premium expenses you incurred for your machinery. If you received insurance proceeds to help pay for repairs, see "Insurance proceeds" on page 17.

Line 9765 – Machinery lease/rental

Enter the expenses you incurred for leasing machinery used to earn your farming income. If you lease a passenger vehicle, see "Line 9829 – Motor vehicle interest and leasing costs" on page 29.

If you entered a lease agreement after April 26, 1989, you can choose to treat your lease payments as combined payments of principal and interest. However, you and the person from whom you are leasing have to agree to treat the payments this way.

In this case, we consider that:

- you have bought the machinery rather than leased it; and
- you have borrowed an amount equal to the fair market value (FMV) of the leased machinery. We define fair market value on page 37.

You can deduct the interest part of the payment as an expense. You can also claim capital cost allowance (CCA) on the machinery. See Chapter 4 for details on CCA. You can make this choice as long as the machinery qualifies and the total fair market value (FMV) of all the machinery that is subject to the lease is more than $25,000. For example, a combine that you lease with a FMV of $35,000 qualifies. However, office furniture and automobiles often do not.

To treat your lease this way, attach one of the following forms with your income tax return for the year you make the lease agreement.

- Form T2145, *Election in Respect of the Leasing of Property*; or
- Form T2146, *Election in Respect of Assigned Leases or Subleased Property*.

Both of these forms explain which property qualifies for this treatment.

Line 9792 – Advertising and promotion costs

Enter the expenses you incurred for advertising and promoting your farm products.

Producers marketing fruits or vegetables through a co-op should **not** enter any pack-and-sell expenses here. These expenses should be reported on line 9836 – "Commissions and levies."

Line 9795 – Building and fence repairs

Enter the amounts for repairs to fences and all buildings you used for farming, except your farmhouse. Do not include the value of your own labour. If the repairs improved a fence or building beyond its original condition, the costs are capital expenditures. Add them to the cost of

the asset or building on your capital cost allowance (CCA) charts on Form T1175, *Farming – Calculation of Capital Cost Allowance (CCA) and Business-use-of-home Expenses*. We explain the CCA charts in Chapter 4.

For more details on capital expenditures, see Interpretation Bulletin IT-128, *Capital Cost Allowance – Depreciable Property*.

Note
You may have received insurance proceeds to pay for the repairs. If the insurance proceeds compensated you for damages to depreciable property such as buildings or fences, and you used all of them to repair the property within a reasonable period of time, you can claim a deduction for the amount spent on repairs on line 9795. You will, however, also have to include the insurance proceeds as income on line 9600. If you did not spend all the insurance proceeds on repairs within a reasonable length of time, include the remainder as proceeds of disposition in column 4 of Area A, "Calculation of capital cost allowance (CCA)," on Form T1175. For more details, see "Column 4 – Proceeds of disposition in the year" on page 39.

Line 9796 – Land clearing and draining

Enter the total amount for the expenses listed below. In most cases, you can deduct the costs for:

- clearing the land of brush, trees, roots, stones, and so on;
- first ploughing the land for farm use;
- building an unpaved road; and
- installing land drainage.

You do not have to deduct all the costs in the year you paid them. If you paid all the costs, you can deduct any part of them in the year you paid them. You can carry forward any part of the costs you did not deduct to another year.

However, if you rented land to someone else, you cannot deduct the above costs. Instead:

- add these costs to the cost of the land; or
- add these costs to the cost of the building if you plan on building on the land right away.

If you installed a tile, plastic, or concrete land drainage system, the cost can be included in class 8 of your CCA charts on Form T776, *Statement of Real Estate Rentals*, available in Guide T4036, *Rental Income*.

For more details, see Interpretation Bulletin IT-485, *Cost of Clearing or Levelling Land*.

You cannot deduct the cost of a paved road. Instead, you have to add this cost to class 17 on your CCA charts on Form T1175. See Chapter 4 for details.

You can deduct most of the cost to drill or dig water wells in the year you did the work. However, you have to add some of the costs to class 8 on your CCA charts. The costs you add to class 8 are those you incurred to purchase and install:

- the casing and cribwork for the well; and
- the system that distributes water, including the pump and pipes.

You can deduct amounts you paid to have public utilities brought to your farm as long as the installations remain the property of the utility.

You can deduct amounts you paid under the *Canada Co-operative Associations Act* to build a distribution system under a gas service contract.

Line 9798 – Agricultural contract work

Enter the expenses you incurred for custom and contract work in your farming business. For example, you could have had a contract with someone who cleaned, sorted, graded, and sprayed the eggs your hens produced, or someone who had facilities to age the cheese you produced. You could have also contracted someone to do your harvesting, combining, crop dusting, or contract seed cleaning.

For CAIS program purposes, agricultural contract work is a non-allowable expense. However, if you have contract work receipts that are itemized, enter the amounts of the contract work that pertain to the allowable portions, (such as fuel, fertilizer) on the appropriate lines as allowable expenses. Enter on line 9798 any amounts that are non-allowable expenses.

Line 9804 – Other insurance premiums

Enter the total amount of business-related insurance premiums you paid to insure your farm buildings, farm equipment (excluding machinery and motor vehicles), and business interruption. **Do not** include any premiums for hail insurance or livestock on this line. See "Line 9665 – Insurance premiums (crop or production)" on page 21 for details. Include premiums for Alberta Revenue Insurance Coverage and Alberta Spring Price Endorsement on this line.

In most cases, you cannot deduct your life insurance premiums. However, if you use your life insurance policy as collateral for a loan related to your farming business, you may be able to deduct a limited part of the premiums you paid. For more details, see Interpretation Bulletin IT-309, *Premiums on Life Insurance Used as Collateral*.

In most cases, you cannot deduct the amounts you paid to insure personal property such as your home or car. However, if you used the personal property for your farming business, you can deduct the business part of these costs. For more details, see "Business-use-of-home expenses" on page 20 and "Line 9819 – Motor vehicle expenses" on page 27.

Premiums to private health services plans

You can deduct premiums paid to a private health services plan (PHSP) if you meet the following conditions:

- your net income from self-employment (excluding losses and PHSP deductions) for the current or previous year is more than 50% of your **total income***, or your **income from sources other than self-employment**** is $10,000 or less, for the current or previous year;
- you are actively engaged in your farming business on a regular and continuous basis, individually or as a partner; and

- the premiums are paid or payable to insure yourself, your spouse or common-law partner, or any member of your household.

* For the purposes of this claim, calculate your **total income** as follows:

  – the amount from line 150 of your 2005 or 2006 income tax return, whichever applies, before you deduct any amounts for PHSPs; **minus**

  – the amounts you entered on lines 207, 212, 217, 221, 229, 231, and 232 on your 2005 or 2006 income tax return, whichever applies.

** For the purposes of this claim, calculate your **income from sources other than self-employment** as follows:

  – the amount from line 150 of your 2005 or 2006 income tax return, whichever applies, before you deduct any amounts for PHSPs; **minus**

  – the amounts you entered on lines 135, 137, 139, 141, 143 (excluding business losses which reduced the amount on those lines), 207, 212, 217, 221, 229, 231, and 232 on your 2005 or 2006 income tax return, whichever applies.

You cannot claim a deduction for PHSP premiums if another person deducted the amount, or if you or anyone else claimed the premiums as a medical expense. For your premiums to be deductible, your PHSP coverage has to be paid or payable under a contract with **one** of the following:

- an insurance company
- a trust company
- a person or partnership in the business of administering PHSPs
- a tax-exempt trade union of which you or the majority of your employees are members
- a tax-exempt business organization or a tax-exempt professional organization of which you are a member

For more information on PHSPs, see Interpretation Bulletin IT-339, *Meaning of "Private Health Services Plan (1988 and subsequent taxation years)*."

Definitions

For the purposes of this claim, the following definitions apply:

- **Qualified employees** are arm's length, full-time employees who have three month's service since they last became employed with a business carried on by you, with a business in which you are a majority interest partner, or with a business carried on by a corporation affiliated with you. Temporary or seasonal workers are not qualified employees.
- **Arm's length employees** are, generally, employees who are not related to you and who are not carrying on your business with you, (for example, as your partners). For more details, see "Non-arm's length transactions" on page 37.
- **Insurable persons** are people to whom coverage is extended and who are:
  – qualified employees;
  – people who would be qualified employees if they had worked for you for three months; or
  – people carrying on your business (including yourself and your partners).

How to calculate your maximum deduction for PHSPs

The following sections explain how to calculate your maximum PHSP deduction based on whether you had employees, and whether you insured them throughout the year or part of the year. Find the section that describes your situation.

If you did not have any employees throughout 2006

Your PHSP deduction is restricted by a dollar limit on an annual basis. The limit is a maximum of:

- \$1,500 for yourself
- \$1,500 for your spouse or common-law partner and household members 18 years of age or older at the start of the period when they were insured
- \$750 for household members under the age of 18 at the start of the period

The maximum deduction is also limited by the number of days the person was insured. Calculate your allowable maximum for the year by using the following formula:

$\frac{A}{365} \times (B + C)$, where:

A is the number of days during the period of the year when you insured yourself and household members, if applicable, but insured less than 50% of your employees

B equals \$1,500 × the number of household members 18 and over who were insured during that period

C equals \$750 × the number of household members under 18 who were insured during that period

Example 1
Edwin was a sole proprietor who ran his farm alone in 2006. He had no employees and did not insure any of his household members. Edwin paid \$2,000 for PHSP coverage in 2006. In his case, the coverage lasted from July 1 to December 31, 2006, a total of 183 days. Edwin's maximum allowable PHSP deduction is calculated as follows:

$\frac{183}{365} \times \$1,500 = \$752$

Even though Edwin paid \$2,000 in premiums in 2006, he can only deduct \$752, because the annual limit is \$1,500 and he was only insured for about half of the year. If he had been insured for the entire year, his deduction limit would be \$1,500.

Example 2
Bruce was a sole proprietor who ran his farm alone in 2006. He had no employees. From January 1 to December 31, he insured himself, his wife, and his two sons. Bruce paid \$1,800 to insure himself, \$1,800 to insure his wife, and \$1,000 for each of his sons. One of his sons was 15 years old

and the other turned 18 on September 1. Bruce's PHSP deduction is limited to the following amounts:

- for himself – $1,500
- for his wife – $1,500
- for his 15-year-old son – $750
- for the son who turned 18 – $750. This limit applies because he did not turn 18 until after the insured period began.

If you had employees throughout 2006

If you had at least one qualified employee throughout all of 2006, and at least 50% of the insurable persons in your business were qualified employees, your claim for PHSP premiums is limited in a different way. Your limit is based on the lowest cost of equivalent coverage for each of your qualified employees. For a definition of qualified employees, see page 24.

Use the following steps to calculate your maximum allowable claim for the PHSP premiums paid or payable for yourself, your spouse or common-law partner, and your household members.

For each of your qualified employees, use the following formula:

X × Y = Z, where

X equals the amount you would pay to provide yourself, your spouse or common-law partner, and your household members with coverage equivalent to that provided to a particular employee, his or her spouse or common-law partner, and household members

Y equals the percentage of the premium you pay for that particular employee

Z equals your limit based on that particular employee

Example
You have one qualified employee. To provide yourself with coverage equivalent to his, you pay a premium of $1,800. You pay 60% of your employee's premium. Your deduction limit for yourself is $1,080, calculated as follows:

$1,800 (amount X) × 60% (amount Y) = $1,080 (amount Z)

The maximum you can claim is $1,080, if you have only one qualified employee.

If you had more than one qualified employee, you have to do the X × Y = Z calculation for each employee. Your limit is then the least amount you calculate for each and every employee.

Example
You have three qualified employees, Jack, Jill, and Sue. The following table shows how much you would pay for coverage equivalent to each of theirs, and the percentage of each employee's premium that you pay.

Name of employee	Cost of equivalent coverage for yourself	Percentage of the employee's premium you pay
Jack	$1,500	20%
Jill	$1,800	50%
Sue	$1,400	40%

You have to do the following three calculations.

For Jack: $1,500 (X) × 20% (Y) = $300 (Z)

For Jill: $1,800 (X) × 50% (Y) = $900 (Z)

For Sue: $1,400 (X) × 40% (Y) = $560 (Z)

Your limit is $300, the lowest of the amounts you calculated for the three employees.

Note
If you have a qualified employee with no coverage, you cannot claim your PHSP premiums as a deduction from self-employment income. You may, however, be able to claim them as medical expenses.

If you had employees throughout 2006 but the number of **arm's length** employees you insured was less than 50% of all the insurable persons in your business, your maximum allowable deduction is the **lesser** of the following two amounts:

Amount 1
Determine this amount by using the following formula:

$\frac{A}{365} \times (B + C)$, where:

A is the number of days during the period of the year when you insured yourself and household members, if applicable, but insured less than 50% of your employees

B equals $1,500 × the number of household members 18 and over insured during that period

C equals $750 × the number of household members under 18 insured during that period

Amount 2
If you had at least one qualified employee, amount 2 is the lowest cost of equivalent coverage for each qualified employee, calculated by using the X × Y = Z formula on the previous page. If you did not have at least one qualified employee, the limit in amount 1 will apply.

If you had employees for part of the year

For the part of the year when you had at least one qualified employee and your insurable arm's length employees represented at least 50% of all the insurable persons in your business, calculate your limit **for that period** the same way as in the previous section called "If you had employees throughout 2006."

For the remainder of the year when you had no employees or when your insurable arm's length employees represented less than 50% of all the insurable persons in your business, your deduction limit for that remaining period is the lesser of the following two amounts:

Amount 1

$\frac{A}{365} \times (B + C)$, where:

A is the number of days during the period of the year when you insured yourself and household members, if applicable, but insured less than 50% of your employees

B equals $1,500 × the number of household members 18 and over who were insured during that period

C equals $750 × the number of household members under 18 who were insured during that period

Amount 2

If you had at least one qualified employee, amount 2 is the lowest cost of equivalent coverage for each qualified employee, calculated by using the X × Y = Z formula on the previous page. If you did not have at least one qualified employee, the limit in amount 1 will apply.

Undeducted premiums

If you deduct only a part of your PHSP premium at line 9804, and you paid the premium in the year, you can include the undeducted balance in the calculation of your non-refundable medical expense tax credit. For details, see "Line 330" in your *General Income Tax and Benefit Guide*.

Line 9805 – Interest (real estate, mortgage, other)

Enter the total amount of interest you paid on money you borrowed to earn farming income, such as interest on a loan you used to buy a baler. However, do not include the interest on money you borrowed to buy a passenger vehicle used in your farming business. Include this amount under "Line 9829 – Motor vehicle interest and leasing costs."

You may be able to deduct interest expenses for a property that you used for your farming business, even if you have stopped using the property for such purposes because you are no longer in the farming business. For more information, call us at **1-800-959-5525**.

You can deduct interest you paid on any real estate mortgage you incurred to earn farming income, but do not deduct the principal part of loan or mortgage payments. Do not deduct interest on money you borrowed for personal purposes or to pay overdue income taxes.

Line 9807 – Memberships/subscription fees

Enter the amount of annual dues or fees you paid to keep your membership in a trade or commercial farming association. You cannot deduct club membership dues (including initiation fees) if the main purpose of the club is dining, recreation, or sporting activities.

You can also deduct fees for subscriptions to farming publications you use in your farming business.

If you received an AGR–1 slip with a positive amount in box 14, and the amount of your CAIS program payment does not have your ACS fee already deducted, enter the amount you paid for your ACS on this line.

Line 9808 – Office expenses

Enter the amount of office expenses, such as stationery, invoices, receipt and accounting books, and any other office supplies.

Line 9809 – Legal and accounting fees

In most cases, you can deduct legal fees you incurred for your farming business. Also, you can deduct any accounting or bookkeeping fees you paid to have someone maintain your books and records, and to prepare your income tax return and GST/HST returns.

If you paid accounting and legal fees to file an appeal against an assessment or decision under the *Income Tax Act*, the *Canada Pension Plan* (CPP), the *Quebec Pension Plan* (QPP), the *Employment Insurance Act*, or the *Unemployment Insurance Act*, do not deduct them here. Deduct them on line 232 of your income tax return instead. However, you have to subtract any reimbursement you received from the fees and enter only the result on line 232. If you received a reimbursement in 2006 for these types of fees, which you deducted in a previous year, report the amount of the reimbursement on line 130 of your income tax return.

Do not deduct any legal or other fees you incurred to buy property, such as land, buildings, and equipment. Add these fees to the adjusted cost base of the property if the property is used in your farming business.

For more details, see Interpretation Bulletin IT-99, *Legal and Accounting Fees*.

Line 9810 – Property taxes

Enter the total amount of land, municipal, and realty taxes you paid for property used in your farming business. Since the municipal tax for the farmhouse is a personal expense, you cannot deduct it unless you meet the conditions we explain in "Business-use-of-home expenses" on page 20. If you are repaying a loan for land drainage through your property tax payments to your township, you cannot include the amount you repaid as part of your property tax expense.

Line 9811 – Rent (land, buildings, pastures)

Enter the total amount of rent expense you paid for land, buildings, and pastures you used for your farming business.

If you farmed on a crop-share basis and paid your landlord a share of the crop, add the fair market value of the crops you gave your landlord to your income as a commodity sale. This amount should represent what you would have paid in cash to your landlord for rent. Deduct the same amount as a commodity purchase (see page 37 for the definition of fair market value).

Line 9816 – Non-arm's length salaries

Keep a detailed record of the amounts you paid to each related person. For a definition of related persons, see "Line 9815 – Arm's length salaries" on page 21**.** As the employer, include your share of Canada Pension Plan (CPP) or Quebec Pension Plan (QPP) contributions, Employment Insurance premiums, and provincial parental insurance plan (PPIP) premiums. Do not deduct the amounts you withheld from remuneration, since you already deducted them in the amount you claimed as wages. Do not include the cost of board.

The terms "salaries" and "wages" are used interchangeably in the description of this non-allowable expense.

You can deduct the wages you paid to your child, as long as you meet **all** of these conditions:

- you paid the wages by cheque, in cash or in kind;
- the work your child did was necessary for you to earn farm income;
- the wages were reasonable when you consider your child's age; and
- the amount you paid is what you would have paid someone else to do the same work.

Keep documents to support the wages you paid to your child. If you paid your child by cheque, keep the cancelled cheque. If you paid cash, have your child sign a receipt.

If you paid wages in kind to non-arm's length employees (including your spouse or children), report such wages in the same manner that is described in "Line 9815 – Arm's length salaries" on page 21.

You can deduct wages you paid to your spouse or common-law partner, as long as that person is not a partner in your business and you follow the same rules that apply to wages paid to your child. If you were a partner of a farm partnership that employed your or your partner's spouse or common-law partner, the farm partnership can deduct that person's wages if it incurred the expense to earn farming income and the wages were reasonable.

Line 9819 – Motor vehicle expenses

Business use of a motor vehicle

If you used your motor vehicle for personal and business reasons, you can deduct the part of your expenses that was for farming-business use. Farming-business use includes things such as trips to pick up parts and farm supplies, or to deliver grain. If you did not live on your farm, the travel between the farm and your home is not considered business travel.

Keep a record of the total kilometres you drive and the kilometres you drive for farming-business use. Also, keep track of what it costs you to run and maintain the motor vehicle for your fiscal period.

Do not include any of the following:

- interest on the money you borrow for a motor vehicle;
- leasing costs for a motor vehicle; or
- the capital cost allowance (CCA).

For details on interest and leasing costs, see line 9829 on page 29. For details on CCA, see Chapter 4.

The kind of vehicle you own may affect the expenses you can deduct. For income tax purposes, there are three definitions for vehicles:

- motor vehicles
- automobiles
- passenger vehicles

A **motor vehicle** is an automotive vehicle for use on streets or highways.

An **automobile** is a motor vehicle that is designed or adapted mainly to carry passengers on highways and streets and that seats no more than a driver and eight passengers.

An automobile does not include:

- an ambulance
- a clearly marked police and fire emergency-response vehicle
- a motor vehicle you bought to use more than 50% as a taxi, a bus used in the business of transporting passengers, or a hearse in a funeral business
- a motor vehicle you bought to sell, rent, or lease in a motor vehicle sales, rental, or leasing business
- a motor vehicle (except a hearse) you bought to use in a funeral business to transport passengers
- a van, pick-up truck, or similar vehicle that seats no more than the driver and two passengers which, in the taxation year you bought or leased it, was used more than 50% to transport goods or equipment to earn income
- a van, pick-up truck, or similar vehicle that, in the taxation year you bought or leased it, was used 90% or more to transport goods, equipment, or passengers to earn income
- a pick-up truck that, in the tax year you bought or leased it, was used more than 50% to transport goods, equipment, or passengers while earning or producing income at a remote work location or at a special work site that is at least 30 kilometres from the nearest community having a population of at least 40,000 persons

A **passenger vehicle** is an automobile you bought after June 17, 1987. A passenger vehicle is also an automobile that you leased under a lease agreement you entered into, extended, or renewed after June 17, 1987.

Most cars, station wagons, vans, and some pick-up trucks are passenger vehicles. They are subject to the limits for CCA, interest, and leasing.

To help you determine what type of vehicle you have, see the following chart. The chart does not cover every situation, but it gives some of the main definitions for vehicles bought or leased, and used to earn business income.

Vehicle definitions			
Type of vehicle	**Seating (includes driver)**	**Business use in year bought or leased**	**Vehicle definition**
Coupe, sedan, station wagon, sports car, or luxury car	1 to 9	1% to 100%	passenger
Pick-up truck used to transport goods or equipment	1 to 3	more than 50%	motor
Pick-up truck (other than above)	1 to 3	1% to 100%	passenger
Pick-up truck with extended cab used to transport goods, equipment, or passengers	4 to 9	90% or more	motor
Pick-up truck with extended cab (other than above)	4 to 9	1% to 100%	passenger
Sport-utility used to transport goods, equipment, or passengers	4 to 9	90% or more	motor
Sport-utility (other than above)	4 to 9	1% to 100%	passenger
Van or minivan used to transport goods or equipment	1 to 3	more than 50%	motor
Van or minivan (other than above)	1 to 3	1% to 100%	passenger
Van or minivan used to transport goods, equipment, or passengers	4 to 9	90% or more	motor
Van or minivan (other than above)	4 to 9	1% to 100%	passenger

Example
Murray's farming business has a December 31 year-end. He owns a truck that is not a passenger vehicle. He uses the truck to pick up supplies and equipment. Murray kept the following records for his 2006 fiscal period:

Farming-business kilometres	27,000 km
Total kilometres	30,000 km

Expenses:

Gasoline and oil	$ 3,500
Repairs and maintenance	500
Insurance	1,000
Licence and registration fees	100
Total expenses for the truck	$ 5,100

This is how Murray determines the motor vehicle expenses he can deduct in his 2006 fiscal period:

$$\frac{27{,}000 \text{ (farming-business kilometres)}}{30{,}000 \text{ (total kilometres)}} \times \$5{,}100 = \$4{,}590$$

Murray enters $4,590 on line 9819 of the form as motor vehicle expenses in his 2006 fiscal period. He calculates and deducts the interest on the loan to buy his truck separately on line 9829.

Note
You may have received insurance proceeds to pay for the cost of repairs. If the insurance proceeds compensated you for damages to a motor vehicle for which you claimed CCA, and you used all of them to repair the vehicle within a reasonable period of time, claim a deduction for the amount spent on repairs on line 9819. You will, however, also have to include the insurance proceeds as income on line 9600. If you did not spend all the insurance proceeds on repairs within a reasonable length of time, include the remainder as proceeds of disposition in column 4 of Area A, "Calculation of capital cost allowance (CCA)" on Form T1175, *Farming – Calculation of Capital Cost Allowance (CCA) and Business-use-of-home Expenses*. For more details, see "Column 4 – Proceeds of disposition in the year" on page 39.

For more details on motor vehicle expenses, see Interpretation Bulletin IT-521, *Motor Vehicle Expenses Claimed by Self-Employed Individuals*.

More than one vehicle
If you used more than one motor vehicle for your farming business, keep a separate record that shows the total kilometres and farming-business kilometres you drove and the cost to run and maintain each vehicle. Calculate each vehicle's expenses separately.

Line 9820 – Small tools
If a tool costs you less than $200 ($500 after May 1, 2006), deduct its full cost. If it costs $200 ($500 after May 1, 2006) or more, add the cost to your CCA charts on Form T1175 as class 8 property. See Chapter 4 for details.

Note
Small tools that cost less than $200 ($500 after May 1, 2006) are fully deductible in the year you buy them. You can claim them as an expense on Line 9820 **or** claim capital cost allowance (CCA) by including them in class 12 (with a rate of 100%). Either method is acceptable, but do not claim the amount twice. For information on CCA, see Chapter 4.

Line 9821 – Soil testing
Enter the amount of expenses you incurred for testing soil samples.

Line 9823 – Licences/permits

Enter the total of annual licence and permit fees that you incurred to run your business.

Line 9824 – Telephone

Do not deduct the basic monthly rate of your home telephone. However, you can deduct any long-distance telephone calls you made on your home telephone for farming-business purposes.

If you have a separate telephone to use in your business and you use it for business calls only, you can deduct its basic monthly rate.

Line 9825 – Quota rental (tobacco, dairy)

Enter the amount of expenses you incurred for quota rentals in the fiscal year.

Line 9826 – Gravel

Enter the amount of expenses you incurred for gravel used to earn farming income in the fiscal year.

Line 9827 – Purchases of commodities resold

Enter purchases of commodities that you bought for resale and then sold. Enter the corresponding sales of commodities purchased for resale on line 9612, "Resales of commodities purchased." See page 17 for details. Enter purchases of commodities that you bought for resale but have not sold yet.

Line 9829 – Motor vehicle interest and leasing costs

Enter the leasing costs for your motor vehicle or the interest on the money you borrowed for a motor vehicle.

If you used a passenger vehicle to earn farming income, there is a limit on the amount of interest you can deduct. See the definition of passenger vehicle on page 27. Whether you use the cash or accrual method to determine your income, complete the following chart to calculate the interest you can deduct. If you used your passenger vehicle for both personal and farming-business use, complete the chart before you determine how much interest you can deduct as an expense.

Interest chart

Enter the total interest you paid (cash method) or that is payable (accrual method) in your fiscal year	$ ________	**A**
$10 * × ______ number of days in your fiscal year for which interest was paid or payable	$ ________	**B**
Your available interest expense is either A or B, whichever amount is less	$ ________	

*For passenger vehicles bought:

- from September 1, 1989, to December 31, 1996, and from 2001 to 2006, use $10
- from 1997 to 2000, use $8.33

Example
Heather's farming business has a December 31 year-end. On January 1, 2006, she bought a new passenger vehicle that she uses for both personal and business use. She borrowed money to buy the vehicle, and the interest she paid in her 2006 fiscal period was $2,200.

Since the car Heather bought is a passenger vehicle, there is a limit on the interest she can deduct. Heather's available interest is either of these two amounts, whichever is less:

- $2,200 (the total interest she paid in her 2006 fiscal period); and
- $3,650 ($10 × 365 days).

Heather drove 20,000 kilometres on farming business out of the total 25,000 kilometres she drove in her 2006 fiscal period. Here is how Heather determines the motor vehicle interest expenses she can deduct for her 2006 fiscal period:

$$\frac{20{,}000 \text{ (farming-business kilometres)}}{25{,}000 \text{ (total kilometres)}} \times \$2{,}200 = \$1{,}760$$

Heather enters $1,760 on line 9829, as motor vehicle interest for her 2006 fiscal period.

When you use a passenger vehicle to earn farming business income, there is a limit on the amount of the leasing costs you can deduct. To calculate your eligible leasing costs, complete the chart "Eligible leasing costs for passenger vehicles."

The lease agreement for your passenger vehicle may include items such as insurance, maintenance, and taxes. In this case, include them as part of the lease charges on line A when you complete the chart.

> **Note**
> Generally, leases include taxes such as GST and PST, or HST. Include them at line A. If you pay for items such as insurance and maintenance separately, do not include them in the amount on line A. Claim them separately on the appropriate line on Form T1163 (Statement A).

Effective July 1, 2006, the GST rate was reduced from 7% to 6%, and the HST rate from 15% to 14%. The leasing chart below requires that you calculate GST/HST on three prescribed amounts. The rate that you should use in these calculations is the rate that was in effect at the start of each lease interval. The GST rate for any lease interval starting before July 1, 2006 will be 7% and the HST rate will be 15%. The GST rate for any lease interval starting after June 30, 2006, will be 6% and the HST rate will be 14%. If you were making monthly lease payments, each lease interval would be a month.

To calculate your eligible leasing costs, use the following guidelines:

- If you entered into your lease agreement before January 1, 2006, and it did not end in 2006, use a GST rate of 6.5% or HST rate of 14.5% to complete the chart below.
- If you entered into your lease agreement after June 30, 2006, use a GST rate of 6% or HST rate of 14% to complete the chart below.
- If **either** of the following two situations applies, you will need to complete the chart twice – once for the part of 2006 to which a GST rate of 7% applies and once for the part of 2006 to which a GST rate of 6% applies:
  a) you entered into your lease agreement after December 31, 2005, and before July 1, 2006, and it did not end in 2006; or
  b) you entered into your lease agreement before July 1, 2006, and it ended after June 30, 2006, and before 2007.

For an example of this, see this page.

Eligible leasing costs for passenger vehicles

Total lease charges incurred in your 2006 fiscal period for the vehicle .... $________ A

Total lease payments deducted before your 2006 fiscal period for the vehicle .... $________ B

Total number of days the vehicle was leased in your 2006 and previous fiscal periods .... ________ C

Manufacturer's list price .... $________ D

$35,294 + GST and PST, or HST on $35,294 .... $________ E

The amount on line D or line E, whichever is more $ ________ × 85% = ... $________ F

[($800 + GST and PST, or HST on $800) × line C] – line B (divided by 30) .... $________ G

[($30,000 + GST and PST, or HST on $30,000) × line A] (divided by line F) .... $________ H

Eligible leasing cost: Line G or line H, whichever is less .... $________ J

If you entered into a lease agreement for a passenger vehicle before January 1, 2001, make these changes to the chart:

Fiscal year you entered into lease agreement	After 1990 and before 1997	1997	1998 and 1999	2000
■ when calculating line E, replace $35,294 with:	$28,235	$29,412	$30,588	$31,765
■ when calculating line G, replace $800 with:	$650	$550	$650	$700
■ when calculating line H, replace $30,000 with:	$24,000	$25,000	$26,000	$27,000

Example

On February 1, 2006, Bruce, a resident of Ontario, started leasing a truck that meets the definition of a passenger vehicle. He used the truck to earn farming income. In this example, Bruce is making monthly payments and each lease interval starts on the first day of the month. Based on the guidelines listed on the previous page, he will use a GST rate of 7% on his first five monthly payments and a GST rate of 6% on the final six payments of 2006. Bruce will complete the chart twice using the following information for 2006:

Monthly lease payment .... $ 500

Lease payments made before July 1, 2006 .... $ 2,500

Lease payments made after June 30, 2006 .... $ 3,000

Number of days the vehicle was leased in 2006 with a GST rate of 7%	150
Number of days the vehicle was leased in 2006 with a GST rate of 6%	184
Manufacturer's suggested list price	$ 28,000
GST (7%) and PST on $35,294 ($35,294 × 7% = $2,471) + ($35,294 × 8% = $2,824)	$ 5,295
GST (6%) and PST on $35,294 ($35,294 × 6% = $2,118) + ($35,294 × 8% = $2,824)	$ 4,942
GST (7%) and PST on $800 ($800 × 7% = $56) + ($800 × 8% = $64)	$ 120
GST (6%) and PST on $800 ($800 × 6% = $48) + ($800 × 8% = $64)	$ 112
GST (7%) and PST on $30,000 ($30,000 × 7% = $2,100) + ($30,000 × 8% = $2,400)	$ 4,500
GST (6%) and PST on $30,000 ($30,000 × 6% = $1,800) + ($30,000 × 8% = $2,400)	$ 4,200

Eligible leasing costs for passenger vehicles before July 1, 2006 (with a GST rate of 7%)

Total lease charges paid for the vehicle in 2006 with a GST rate of 7%	$	2,500	**A**
Total lease payments deducted before your 2006 fiscal period for the vehicle	$	0	**B**
Total number of days the vehicle was leased in 2006 and previous fiscal periods		150	**C**
Manufacturer's list price	$	28,000	**D**
$35,294 + (GST and PST on $35,294) = $35,294 + $5,295	$	40,589	**E**
Enter the amount from line D or line E, whichever is more $40,589 × 85% =	$	34,500	**F**
[($800 + GST and PST on $800) × line C] / 30 – line B ($800 + $120) = $920 × 150 = $138,000 / 30 = $4,600 – 0	$	4,600	**G**
[($30,000 + GST and PST on $30,000) × line A] / line F ($30,000 + $4,500) = $34,500 × $2,500 / $34,500	$	2,500	**H**
Eligible leasing cost before July 1, 2006: Line G or line H, whichever is less	**$**	**2,500**	**J**

Eligible leasing costs for passenger vehicles after June 30, 2006 (with a GST rate of 6%)

Total lease charges paid for the vehicle in 2006 with a GST rate of 6%	$	3,000	**AA**
Total lease payments deducted before your 2006 fiscal period for the vehicle	$	0	**BB**
Total number of days the vehicle was leased in 2006 and previous fiscal periods		184	**CC**
Manufacturer's list price	$	28,000	**DD**
$35,294 + (GST and PST on $35,294) = $35,294 + $4,942	$	40,236	**EE**
Enter the amount from line DD or line EE, whichever is more $40,236 × 85% =	$	34,200	**FF**
[($800 + GST and PST on $800) × line CC] / 30 – line BB ($800 + $112) = $912 × 184 = $167,808 / 30 = $5,593 – 0	$	5,593	**GG**
[($30,000 + GST and PST on $30,000) × line AA] / line FF ($30,000 + $4,200) = $34,200 × $3,000 / $34,200	$	3,000	**HH**
Eligible leasing cost after June 30, 2006: Line GG or line HH, whichever is less	$	3,000	**JJ**
Total eligible leasing cost for 2006: Line **J** + Line **JJ** = $2,500 + $3,000	**$**	**5,500**	**KK**

Bruce will include an amount of $5,500 (line KK) for leasing expenses when he calculates his 2006 motor vehicle expenses. However, he can deduct on line 9819 only the part of his motor vehicle expenses that are for his farming business.

Repayments and imputed interest

When you lease a passenger vehicle, you may have a repayment owing to you, or you may have imputed interest. If this is the case, you will not be able to use the chart.

Imputed interest is interest that would be owing to you if interest were paid on the money you deposited to lease a passenger vehicle. Calculate imputed interest for leasing costs on a passenger vehicle only if **all** the following apply:

- you made one or more deposits for the leased passenger vehicle;
- the deposit is, or the deposits are, refundable; and
- the total of the deposits is more than $1,000.

For more information, see Interpretation Bulletin IT-521, *Motor Vehicle Expenses Claimed by Self-Employed Individuals*.

Joint ownership of a passenger vehicle

If you and someone else owned or leased the same passenger vehicle, the limits on CCA, interest, and leasing costs still apply. The amount you can deduct as joint owners cannot be more than the amount one person owning or leasing the passenger vehicle could deduct. Each of you has to claim expenses in proportion to your share of the passenger vehicle. Your share is based on the part of the purchase price or lease costs that you paid.

Line 9935 – Allowance on eligible capital property

We explain how to determine this allowance in Chapter 5.

Line 9936 – Capital cost allowance

Enter the amount of capital cost allowance (CCA) you calculate on all the eligible assets used in your farming operation. To calculate your CCA claim, use the charts on Form T1175, *Farming – Calculation of Capital Cost Allowance (CCA) and Business-use-of-home Expenses*. See Chapter 4 for details on how to complete these charts.

Line 9937 – Mandatory inventory adjustment – prior year

If you included an amount for the mandatory inventory adjustment (MIA) on line 9942 in your 2005 fiscal period, deduct the amount as an expense on line 9937 in your 2006 fiscal period. Do not include the accrual inventories from your financial statements on this line. For details about the accrual method, see the following:

- "Reporting methods" on page 5; and
- "Method of accounting" on page 12.

Line 9938 – Optional inventory adjustment – prior year

If you included an amount for the optional inventory adjustment (OIA) on line 9941 in your 2005 fiscal period, deduct the amount as an expense on line 9938 in your 2006 fiscal period. For more details on OIA, see the explanation for line 9941 on this page.

Do not include accrual inventories from your financial statements on this line. For details about the accrual method, see the following:

- "Reporting methods" on page 5; and
- "Method of accounting" on page 12.

Line 9896 – Other (specify)

The expenses listed on the form are only the most common ones. If you have other farming expenses, non-allowable for CAIS program purposes that are not listed on the form, enter the total amount on line 9896. Then list the items on the blank lines provided under line 9896. You can find more information about other expenses in our T4002, *Business and Professional Income Guide*.

You may have received an overpayment from one of the programs identified on lines 9540 and 9544. Use line 9896 to record any overpayments that you repaid. See page 16 for details.

Summary of expenses

Copy totals C, D, and E from the bottom of each of the three tables on page 3. Add them to get your total expenses.

Summary of income and expenses

Line 9959 – Gross farming income

Enter your gross farming income from line 9959 to line 168 of your income tax return. If you also completed Form T1164 (Statement B), add the totals from line 9959 on your Form T1163 (Statement A) and all your T1164 (Statement B) forms. Enter the result on line 168 of your income tax return.

Line 9969 – Net income (loss) before adjustments

If you are a partner of a partnership, this amount is the net farming-business income of the partnership. If the amount is negative, enter the amount in brackets.

Line 9940 – Other deductions

You can enter any business-use-of-home expenses that you are carrying forward from a previous fiscal period, as long as you meet **one** of the following conditions:

- the work space is your principal place of business; or
- you use the space only to earn your farming-business income, and you use it on a regular, ongoing basis to meet your customers.

For more information, see line 9934 on page 36.

Line 9941 – Optional inventory adjustment – current year

If you want to include an inventory amount in income, read this section. By making the optional inventory adjustment (OIA), you can include in your income an amount up to the fair market value of your inventory minus the mandatory inventory adjustment (MIA). You can only make the OIA if you use the cash method. For the definitions of inventory and fair market value, see line 9942 on this page.

For the OIA, unlike for the MIA, the inventory does not have to be purchased inventory. It is all the inventory you still have at the end of your 2006 fiscal period.

Enter the amount of your OIA on line 9941. You must deduct this amount as an expense in your next fiscal period.

Line 9942 – Mandatory inventory adjustment – current year

The mandatory inventory adjustment (MIA) decreases your net loss if you held inventory at the end of your fiscal period. Read this section even if you do not have to make the MIA. This section will show you how to determine the value of the farm inventory you bought and still have at the end of your 2006 fiscal period. You will need to know this value if you have to make the MIA this year or in the future.

You have to make the MIA if **all** of the following apply:

- you use the cash method to report your income. Do not include accrual inventories from your financial statements on line 9942. For details about the accrual method, see the following:
  - "Reporting methods" on page 5, and
  - "Method of accounting" on page 12;
- you have a net loss on line 9969 of the form; and
- you bought inventory and still have it at the end of your 2006 fiscal period. This does not refer only to inventory that you bought in 2006. It includes inventory that you had previously bought and still owned at the end of your 2006 fiscal period.

Your MIA is one of these two amounts, whichever is less:

- the net loss before adjustments on line 9969; or
- the value of the purchased inventory you still have at the end of your 2006 fiscal period.

To calculate your MIA, complete charts 1, 2, 3, and 4 on page 66. Once you have completed Chart 4, enter the amount on line 9942. For more information, see Interpretation Bulletin IT-526, *Farming – Cash Method Inventory Adjustments*.

In your next fiscal period, you will deduct from your farming income the MIA you add to your net loss in your 2006 fiscal period.

Note
If you bought a specified animal (as defined below) in a non-arm's length transaction, we consider that you bought the animal in the same year and at the same price for which the seller bought it. We define non-arm's length transaction on page 37.

Definitions

To value your inventory, you need to know the meaning of the following terms:

Inventory is a group of items that a business holds and intends either to consume or sell to its customers.

Farm inventory is tangible property that is:

- held for sale, such as harvested grain;
- used in the production of saleable goods, such as seed or feed; or
- in the process of being produced, such as standing crops or feeder livestock.

Seed that you have already planted and fertilizer or chemicals that you have already applied are no longer part of your inventory items, but are included in the value of the standing crops that may be included in the OIA.

Purchased inventory is inventory you have bought and paid for.

Specified animals are horses. You may also choose to treat cattle you registered under the *Animal Pedigree Act* as specified animals. To make this choice, put a note on your income tax return saying you want to treat the animal this way. If you treat an animal on a return as a specified animal, we will continue to treat it this way until you sell it.

Cash cost is the amount you paid to buy your inventory.

Fair market value is generally the highest dollar value you can get for your property in an open and unrestricted market between an informed and willing buyer and an informed and willing seller who are dealing at arm's length with each other. We define non-arm's length transaction on page 37.

Valuing your purchased inventory

To value your purchased inventory, read the text that follows and the example of how to complete the MIA charts. On page 66 of this guide, there are blank charts for you to use. Keep these charts as part of your records. Except for specified animals, you have to value any purchased inventory you bought before or during your 2006 fiscal period at one of these two amounts, whichever is less:

- the cash cost; or
- the fair market value.

To determine which amount is less, separately compare each item or group of items in the inventory.

Value at one of the following amounts the specified animals you bought **in** your 2006 fiscal period and still have at the end of this period:

- the cash cost;
- 70% of the cash cost; or
- any amount between these two amounts.

Value at one of the following amounts the specified animals you bought **before** your 2006 fiscal period and still have at the end of this period:

- the cash cost;
- 70% of:
  - the value of the specified animals for MIA purposes as determined at the end of your 2005 fiscal period; **plus**
  - any amounts you paid in your 2006 fiscal period toward the purchase price; or
- any amount between these two amounts.

Example
Doug started his farming business in 1994 and uses the cash method to report his income. His year-end is December 31. Doug shows a net loss of $55,000 on line 9969. Doug has purchased inventory at the end of his 2006 fiscal period. This means he has to decrease his net loss by the MIA. Doug made a chart for the cash cost of his livestock that is purchased inventory at the end of his 2006 fiscal period.

Livestock

Year of purchase	Cost of purchase	Amount Doug paid by the end of his 2006 fiscal period
2006	$30,000	$25,000
2005	$26,000	$26,000*
2004	$22,000	$22,000
2003	$20,000	$20,000

* For livestock bought in his 2005 fiscal period, Doug paid $19,000 in 2005 and $7,000 in 2006.

Doug's other inventory is fertilizer, seed, and fuel. The cash cost is the same as the fair market value for this inventory. Its value is as follows:

- Bought in his 2006 fiscal period $15,000
- Bought in his 2005 fiscal period .... $ 6,000
- Bought in his 2004 fiscal period .... $ 5,000

At the end of his 2006 fiscal period, Doug did not have any other inventory that he bought before his 2004 fiscal period. Doug has registered his livestock under the *Animal Pedigree Act*. He wants to treat these animals as specified animals. Doug completes Chart 1 as follows:

Chart 1
Cash cost of purchased inventory

Doug enters the amount he paid by the end of his 2006 fiscal period for the specified animals he bought:

Fiscal period	Cash cost	
in his 2006 fiscal period	$ 25,000	A
in his 2005 fiscal period	$ 26,000	B
in his 2004 fiscal period	$ 22,000	C
in his 2003 fiscal period	$ 20,000	D
before his 2003 fiscal period	$ 0	E
Doug enters the amount he paid by the end of his 2006 fiscal period for all other inventory he bought:		
in his 2006 fiscal period	$ 15,000	F
in his 2005 fiscal period	$ 6,000	G
in his 2004 fiscal period	$ 5,000	H
in his 2003 fiscal period	$ 0	I
before his 2003 fiscal period	$ 0	J

Doug now knows the cash cost of his purchased inventory, including his specified animals. He uses these amounts to calculate the value of his purchased inventory at the end of his 2006 fiscal period. To do this, he completes charts 2, 3, and 4 as follows:

Chart 2
Value of purchased inventory for specified animals

The small letters in front of each line match the paragraphs at the end of this chart. These paragraphs explain how Doug calculates the number on each line.

Inventory bought in his 2006 fiscal period Doug enters an amount that is not more than the amount on line A, but not less than 70% of this amount.	a)	$ 20,000	K
Inventory bought in his 2005 fiscal period Doug enters an amount that is not more than the amount on line B, but not less than 70% of the total of the value at the end of his 2005 fiscal period, plus any amounts he paid in his 2006 fiscal period toward the purchase price.	b)	$ 14,210	L
Inventory bought in his 2004 fiscal period Doug enters an amount that is not more than the amount on line C, but not less than 70% of the total of the value at the end of his 2005 fiscal period, plus any amounts he paid in his 2006 fiscal period toward the purchase price.	c)	$ 7,546	M
Inventory bought in his 2003 fiscal period Doug enters an amount that is not more than the amount on line D, but not less than 70% of the total of the value at the end of his 2005 fiscal period, plus any amounts he paid in his 2006 fiscal period toward the purchase price.	d)	$ 4,802	N
Inventory bought before his 2003 fiscal period	e)	$ 0	O

a) Doug chose $20,000, which is between the cash cost of $25,000 and $17,500 (70% of the cash cost).

b) Doug chose to value the inventory he bought in his 2005 fiscal period at 70% of the cash cost. Therefore, the value of this inventory at the end of his 2005 fiscal period was $13,300 ($19,000 × 70%). Remember, Doug paid $19,000 for these specified animals in 2005. He paid $7,000 in 2006.

   For his 2006 fiscal period, Doug chose to value the inventory he bought in his 2005 fiscal period at 70% of the total of the value at the end of the 2005 fiscal period plus any amounts he paid in his 2006 fiscal period toward the purchase price. Therefore, the amount he enters on line L is $14,210 [70% × ($13,300 + $7,000)]. He could choose any amount between the cash cost of $26,000 and the lowest acceptable inventory value of $14,210.

c) Doug chose to value the inventory he bought in his 2004 fiscal period at 70% of the cash cost. Therefore, the value of this inventory at the end of his 2004 fiscal period was $15,400 ($22,000 × 70%).

   For his 2005 fiscal period, Doug chose to value the inventory he bought in his 2004 fiscal period at 70% of the total of the value at the end of his 2004 fiscal period. Therefore, the value of this inventory at the end of his 2005 fiscal period was $10,780 ($15,400 × 70%).

   For his 2006 fiscal period, Doug chose to value the inventory he bought in his 2004 fiscal period at 70% of the total of the value at the end of his 2005 fiscal period. Therefore, the amount he enters on line M is $7,546 ($10,780 × 70%). He could choose any amount between the cash cost of $22,000 and the lowest acceptable inventory value of $7,546.

d) Doug chose to value the inventory he bought in his 2003 fiscal period at 70% of the cash cost. Therefore, the value of this inventory at the end of his 2003 fiscal period was $14,000 ($20,000 × 70%).

   For his 2004 fiscal period, Doug chose to value the inventory he bought in his 2003 fiscal period at 70% of the total of the value at the end of his 2003 fiscal period. Therefore, the value of this inventory at the end of his 2004 fiscal period was $9,800 ($14,000 × 70%).

   For his 2005 fiscal period, Doug chose to value the inventory he bought in his 2003 fiscal period at 70% of the total of the value at the end of his 2004 fiscal period. Therefore, the value of this inventory at the end of his 2005 fiscal period was $6,860 ($9,800 × 70%).

   For his 2006 fiscal period, Doug chose to value the inventory he bought in his 2003 fiscal period at 70% of the total of the value at the end of his 2005 fiscal period. Therefore, the amount he enters on line N is $4,802 ($6,860 × 70%). He could choose any amount between the cash cost of $20,000 and the lowest acceptable inventory value of $4,802.

e) Doug had not purchased any specified animals before his 2003 fiscal period.

Chart 3
Value of purchased inventory for all other inventory

Inventory bought in his 2006 fiscal period Doug enters the amount on line F or the fair market value, whichever is less.	$ 15,000	**P**
Inventory bought in his 2005 fiscal period Doug enters the amount on line G or the fair market value, whichever is less.	$ 6,000	**Q**
Inventory bought in his 2004 fiscal period Doug enters the amount on line H or the fair market value, whichever is less.	$ 5,000	**R**
Inventory bought in his 2003 fiscal period Doug enters the amount on line I or the fair market value, whichever is less.	$ 0	**S**
Inventory bought before his 2003 fiscal period Doug enters the amount on line J or the fair market value, whichever is less.	$ 0	**T**

Chart 4
Calculation of MIA

Doug enters the amount of his net loss from line 9969		$55,000	**U**
Doug enters the value of his inventory from charts 2 and 3:			
■ the amount on line K	$ 20,000		
■ the amount on line L	$ 14,210		
■ the amount on line M	$ 7,546		
■ the amount on line N	$ 4,802		
■ the amount on line O	$ 0		
■ the amount on line P	$ 15,000		
■ the amount on line Q	$ 6,000		
■ the amount on line R	$ 5,000		
■ the amount on line S	$ 0		
■ the amount on line T	$ 0		
Total value of inventory	$ 72,558	$72,558	**V**
MIA – Doug enters the amount on line U or line V, whichever is less.		$55,000	**W**

The MIA that Doug uses for his 2006 fiscal period will be the same amount he deducts from his farming income when he calculates his income for his next fiscal period.

Enter the figure from line W of Chart 4 on line 9942 of Form T1163 (Statement A).

Partnership information – Your share of line a

Show your share of the amount from line a. In the chart "Partnership information," enter the following information:

- the name and address of each partner;
- their social insurance number or Business Number;
- a breakdown of each partner's share of the income; and
- each partner's percentage of the partnership.

Line 9934 – Adjustment to business-use-of-home expenses

If you have claimed business-use-of-home expenses (including a carry forward from a previous year claimed on line 9940) in arriving at your net income (loss), and the amount on line 9944 is negative (a loss), you must make an adjustment on line 9934. Enter one of the following amounts, whichever is less:

- the expenses you claimed from the business use of your home, including current-year expenses and any expenses you are carrying forward from previous years; or
- the amount of your loss on line 9944.

This does not mean that you cannot use your claim for business-use-of-home expenses. In a future year, you can use any expense you could not deduct in your 2006 fiscal period, as long as you meet **one** of these conditions:

- the work space is your principal place of business; or
- you use the space only to earn your farming business income, and you use it on a regular and ongoing basis to meet your customers.

Use the chart on Form T1175 to calculate your allowable claim for business-use-of-home expenses. In Area B, be sure to include any part of the CCA that you claimed for the business use of your home.

For more details, see Interpretation Bulletin IT-514, *Work Space in Home Expenses.*

Line 9946 – Net farming income or (loss)

Enter your net farming income or loss from line 9946 on line 141 of your income tax return if:

- your fiscal year-end is December 31, 2006; and
- you did not file Form T1139, *Reconciliation of 2005 Business Income for Tax Purposes*, with your 2005 income tax return.

> **Note**
> If you have more than one farming operation or additional expenses that apply to partnerships, add the amounts from line 9946 of Form T1163 (Statement A) and Form T1164 (Statement B). Enter the total of these amounts on line 141 of your income tax return.

If you have a loss, enter the amount in brackets. See Chapter 6 for more information about losses.

You may have to adjust the figure from line 9946 before entering it on your return if your fiscal year-end is not December 31, 2006. See Guide RC4015, *Reconciliation of Business Income for Tax Purposes* to calculate the amount of farming income to report on your 2006 return. The guide includes Form T1139. You may have filed Form T1139 with your 2005 return. If so, you probably have to complete the same form for 2006.

Partnership information chart

Complete the chart if you are a partner of a partnership. Start with your own name on the first line and then add the names of the other partners.

Partners' names

Record the names of each individual, corporate, or co-operative partner, starting with your own. If another partnership is a partner, list the names of the partners in that partnership.

Percentage (%) share

Record each partner's percentage share based on the allocation of partnership net income/loss reported to us unless:

- interest has been paid on the partners' capital; or
- salaries have been paid to partners.

In these cases, exclude these amounts when you determine the partner's percentage share.

If another partnership is a partner, determine the beneficial ownership of each individual partner. (See the example below).

Example
The Fred and Mary Smith Partnership (a 50/50 partnership) owns 60% of the Sunny Skies Partnership. Therefore, Fred and Mary Smith would each have a 30% beneficial ownership in the Sunny Skies Partnership.

Social insurance number (SIN), or Business Number (BN)

Enter the SIN for each individual partner. For corporate or co-operative partners, enter the BN.

Chapter 4 – Capital Cost Allowance (CCA)

What is CCA?

You might acquire a depreciable property, such as a building, machinery, or equipment, to use in your farming business. You cannot deduct the cost of the property when you calculate your net farming income for the year. However, since these properties may wear out or become outdated over time, you can deduct their cost

over a period of several years. The deduction for this is called capital cost allowance (CCA).

Definitions

To calculate your CCA claim, you will need to know the meaning of the following terms.

Available for use

You can claim CCA on a depreciable property only when it becomes available for use.

Property, other than a building, usually becomes available for use on the earliest of the following dates:

- the date you first use the property to earn income;
- the second tax year after the year you acquire the property;
- the time just before you dispose of the property; or
- the date the property is delivered or made available to you. It must be capable of producing a saleable product or service, or of performing the function for which you acquired it.

Example
If you buy a tractor and the seller delivers it to you in 2006, but it was not in working order until 2007, you cannot claim CCA on it until 2007. However, if you buy a tractor and the seller delivers it to you in working order in 2006, but you did not use it until 2007, you can still claim CCA in 2006 because it was available for use.

A **building, or part of a building**, usually becomes available for use on the earliest of the following dates:

- the date you begin using 90% or more of the building for the purpose you acquired it;
- the date the construction is completed;
- the second tax year after the year you acquire the building; or
- the time just before you dispose of the building.

We consider any **construction, renovation, or alteration** to a particular building to be a separate building for the purposes of applying the available-for-use rules.

Capital cost

This is the amount on which you first claim CCA. The capital cost of a depreciable property is usually the total of:

- the purchase price not including the cost of land, which is not depreciable (see "Land" on page 39);
- the part of your legal, accounting, engineering, installation, and other fees that relates to the purchase or construction of the depreciable property (not including the part that applies to land);
- the cost of any additions or improvements you made to the depreciable property after you acquired it, provided you have not claimed these costs as a current expense; and
- soft costs (such as interest, legal and accounting fees, and property taxes) related to the period you are constructing, renovating, or altering the building, provided you have not claimed these costs as a current expense.

Depreciable property

Depreciable property is any property on which you can claim CCA. You usually group depreciable properties into classes. For example, diggers, drills, and tools that cost $200 ($500 after May 1, 2006) or more belong to class 8. You have to base your CCA claim on a rate assigned to each class of property.

See "Classes of depreciable property" on page 41 for the most common classes of depreciable properties you could use in your farming operation and the "Capital Cost Allowance (CCA) Rates" chart on page 65.

Fair market value (FMV)

Fair market value is generally the highest dollar value that you can get for your property in an open and unrestricted market between an informed and willing buyer and an informed and willing seller who are dealing at arm's length with each other.

Non-arm's length transaction

A non-arm's length transaction includes a transaction between parties who are related, such as members of a family. An example of a non-arm's length transaction would be the sale of property between a husband and wife, or a parent and child. For more details on non-arm's length transactions, see Interpretation Bulletin IT-419, *Meaning of Arm's Length.*

Proceeds of disposition

Your proceeds of disposition are usually the amount you receive, or that we consider you to have received, when you dispose of your depreciable property. This could include compensation you receive for depreciable property that has been destroyed, expropriated, damaged, or stolen. For more details about proceeds of disposition, see Interpretation Bulletin IT-220, *Capital Cost Allowance – Proceeds of Disposition of Depreciable Property*, and its Special Release, and Interpretation Bulletin IT-285, *Capital Cost Allowance – General Comments.*

Undepreciated capital cost (UCC)

The UCC is generally the amount left after you deduct CCA from the capital cost of a depreciable property. The CCA you claim each year reduces the UCC of the property each year.

How much CCA can you claim?

Base your CCA claim on your fiscal period, not the calendar year. The amount of CCA you can claim depends on the type of property you own, and the date you acquired it. You group the depreciable property you own into classes. A different rate of CCA applies to each class.

We explain the most common classes of depreciable property in "Classes of depreciable property" on page 41. We list most of the classes of depreciable property and the rates for each class in the "Capital Cost Allowance (CCA) Rates" chart on page 65.

There are a few other things you should know about CCA:

- In most cases, you will use the declining balance method to calculate your CCA. This means that you claim CCA on the capital cost of the property minus the CCA you claimed in previous years, if any. The balance declines over the years as you claim CCA.
- You do not have to claim the maximum amount of CCA in any given year. You can claim any amount you like, from zero to the maximum allowed for the year. For example, if you do not have to pay income tax for the year, you may not want to claim CCA. Claiming CCA reduces the balance of the class by the amount of CCA claimed. As a result, the available CCA for future years will be reduced.
- In the year you acquire a depreciable property, you can usually claim CCA only on one-half of your net additions to a class. We explain this 50% rule in "Column 6 – Adjustment for current-year additions" on page 40. The available-for-use rules may also affect the amount of CCA you can claim. See the definition of available for use on page 37.
- You cannot claim CCA on most land or on living things such as trees, shrubs, or animals. However, you can claim CCA on timber limits, cutting rights, and wood assets. For more details, see Interpretation Bulletin IT-481, *Timber Resource Property and Timber Limits.*
- If you receive income from a quarry, sand, or gravel pit, or a woodlot, you can claim a type of allowance known as a depletion allowance. For more details, see Interpretation Bulletins IT-373, *Farm Woodlots and Tree Farms,* and IT-492, *Capital Cost Allowance – Industrial Mineral Mines*.
- If you claim CCA and you later dispose of the property, you may have to add an amount to your income as a recapture of CCA. Alternatively, you may be able to deduct an additional amount from your income as a terminal loss. For more information, see "Column 5 – UCC after additions and dispositions" on page 40.
- If you used depreciable property in 2006 that you used in your farming business before January 1, 1972, complete "Area A – Part XVII properties" on Form T1175, *Farming – Calculation of Capital Cost Allowance (CCA) and Business-use-of-home Expenses*.
- If you are a partner of a partnership that provides you with a Form T5013 slip, *Statement of Partnership Income*, you cannot personally claim CCA for property owned by the partnership. The T5013 slip you receive will have already allocated to you a share of the partnership's CCA on the depreciable farm property.

You were asking ...?

Q. If I start a farming business on June 1, 2006, how do I determine my CCA claim to December 31, 2006?

A. Since the period is shorter than 365 days, you have to prorate your CCA claim. Calculate your CCA using the rules we discuss in this chapter. However, base your CCA claim on the number of days in your fiscal period compared to 365 days.

In your case, your fiscal period is 214 days. Suppose you calculate your CCA to be $3,500. The amount of CCA you can claim is $2,052 ($3,500 × 214/365).

Form T1175, *Farming – Calculation of Capital Cost Allowance (CCA) and Business-use-of-home Expenses*

Area A – Calculation of capital cost allowance (CCA)

Use Area A on Form T1175 to calculate your CCA deduction. Add lines (i) and (ii) of the chart and enter the result on line 9936 on page 3 of Form T1163 (Statement A) or Form T1164 (Statement B). If any part of the CCA is for business-use-of-home expenses, enter that part in Area B of Form T1175. For more information, see "Area B – Business-use-of-home expenses" on page 47.

If you acquired or disposed of buildings or equipment during the year, you will need to complete Area C, D, E, or F (whichever applies) before you complete Area A. Even if you are not claiming a deduction for CCA for your 2006 fiscal period, you should complete these areas to show any additions or disposals during the year. For details on how to complete all these areas, see the following sections.

Column 1 – Class number

If this is the first year you are claiming CCA, read "Classes of depreciable property" on page 41 for the most common classes of depreciable properties you could use in your farming operation, and "Capital Cost Allowance (CCA) Rates" on page 65.

If you claimed CCA last year, you can get the class numbers from last year's Form T1175. Generally, if you own several properties in the same CCA class, you combine the capital cost of all these properties in one class. You then enter the total in Area A.

Column 2 – Undepreciated capital cost (UCC) at the start of the year

If this is the first year you are claiming CCA, skip this column. Otherwise, enter in this column the UCC for each class at the end of last year. If you completed Area A on Form T1175 last year, you will find these amounts in column 10.

You may have received a GST/HST input tax credit in 2005 for a passenger vehicle you used less than 90% of the time in your business. In this case, subtract the amount of the credit from your beginning UCC for your 2006 fiscal period. For more information, see "Grants, subsidies, and rebates" on page 44.

Subtract any investment tax credit you claimed or were refunded in 2005 from your UCC at the start of your 2006 fiscal period. Also, subtract any 2005 investment tax credit you carried back to a year before 2005.

Note
In 2006, you may be claiming, carrying back, or getting a refund of an investment tax credit. If you still have depreciable property in the class, you have to adjust the UCC of the class to which the property belongs in 2007. To do this, subtract the amount of the investment tax credit from the UCC at the beginning of 2007. If there is no property left in the class, report the amount of the investment tax credit as other income on Line 9600 in 2007.

Column 3 – Cost of additions in the year
If you acquire or make improvements to depreciable property in the year, we generally consider the improvements to be additions to the class in which the property belongs. See "Class 3 (5%)" on page 42 for an exception to this rule. Enter the details of your 2006 additions on your form as follows:

- complete Area C or Area D (whichever applies) on page 2 of Form T1175; and
- for each class, enter in column 3 of Area A the corresponding amount from column 5 in Area C and Area D.

When completing Area C and Area D (see below), enter in column 4 the part of the property that you use personally, separately from the part you use for business. For example, if you use 25% of the building in which you live for your farming business, your personal portion is the other 75%.

Do not include the value of your own labour in the cost of a property you build or improve. Include the cost of surveying or valuing a property you acquire in the capital cost of the property. Remember that a property usually has to be available for use before you can claim CCA. See the definition of available for use on page 37.

Note
If you received insurance proceeds to reimburse you for the **loss** or **destruction** of depreciable property, enter the amount you spent to **replace** the property in column 3 of Area A, and also in column 3 of Area C or D, whichever applies. Include the amount of insurance proceeds as proceeds of disposition in column 4 of Area A and also in column 3 of Area E or F, whichever applies. For more information, see "Insurance proceeds" on page 17.

If you replaced a lost or destroyed property within a year of the loss, special rules for replacement property may apply to you. See Interpretation Bulletin IT-259, *Exchanges of Property,* and Interpretation Bulletin IT-491, *Former Business Property,* and its Special Release.

Area C – Details of equipment additions in the year

List the details of all equipment, machinery, or motor vehicles you acquired or improved in 2006. Group the equipment into the applicable classes, and put each class on a separate line. **Enter on line 9925** the total business portion of the cost of the equipment.

Area D – Details of building additions in the year

List the details of all buildings you acquired or improved in 2006. Group the buildings into the applicable classes, and put each class on a separate line. **Enter on line 9927** the total business portion of the cost of the buildings. The cost includes the purchase price of the building, plus any related expenses that you should add to the capital cost of the building, such as legal fees, land transfer taxes, and mortgage fees.

You should also see "Special situations" on page 43 to find out if any special situations apply in your case when you acquire property.

Land

Land is not depreciable property. Therefore, you cannot claim CCA on its cost. If you acquire a farm property that includes both land and a building, enter in column 3 of Area D only the cost of the building. To work out the building's capital cost, you have to split any fees that relate to the purchase of the property between the land and the building. Related fees may include legal and accounting fees.

Calculate the part of the related fees you can include in the capital cost of the building as follows:

building value / total purchase price	×	legal, accounting, or other fees	=	the part of the fees you can include in the building's cost

You do not have to split a fee if it relates specifically to the land or the building. In this case, you would add the amount of the fee to the cost to which it relates, either the land or the building.

Column 4 – Proceeds of disposition in the year
If you disposed of a depreciable property during your 2006 fiscal period:

- complete Area E and Area F on page 2 of Form T1175, if they apply; and
- for each class, enter in column 4 of Area A, the corresponding amount from column 5 of Area E and Area F.

When completing Area E and Area F, enter in column 3 one of the following amounts, whichever is less:

- your proceeds of disposition (see the definition on page 37), minus any related expenses; or
- the capital cost of your depreciable property.

Note
If you received insurance proceeds to reimburse you for the **loss** or **destruction** of depreciable property, include the amount of insurance proceeds as proceeds of disposition in column 4 of Area A and in column 3 of Area E or F, whichever applies. Enter the amount you spent to **replace** the property in column 3 of Area A, and in column 3 of Area C or D, whichever applies. For more information, see "Insurance proceeds" on page 17.

If you replaced a lost or destroyed property within a year, special rules for replacement property may apply. See Interpretation Bulletin IT-259, *Exchanges of Property,* and Interpretation Bulletin IT-491, *Former Business Property,* and its Special Release.

Special rules may apply if you dispose of a building for less than both its undepreciated capital cost and your capital cost. If this is the case, see "Special rules for disposing of a building in the year" on page 45 for details.

If you dispose of a depreciable property for more than its cost, you will have a capital gain. See Chapter 7 for details on capital gains. You cannot have a capital loss when you sell depreciable property. However, you may have a terminal loss. See "Column 5 – UCC after additions and dispositions" below for an explanation of terminal losses.

Note
When completing Area E and Area F (see below), enter in column 4 the part of the property that you use personally, separately from the part you use for business. For example, if you use 25% of the building in which you live for your farming business, your personal portion is the other 75%.

If you need more details, see Interpretation Bulletin IT-220, *Capital Cost Allowance – Proceeds of Disposition of Depreciable Property*, and its Special Release.

Area E – Details of equipment dispositions in the year

In this area, list the details of all equipment, machinery, or motor vehicles you disposed of in 2006. Group the properties into the applicable classes, and put each class on a separate line. **Enter on line 9926** the total business portion of the proceeds of disposition of the equipment, machinery, and motor vehicles.

Area F – Details of building dispositions in the year

In this area, list the details of all buildings you disposed of in 2006. Group the buildings into the applicable classes, and put each class on a separate line. **Enter on line 9928** the total business portion of the proceeds of disposition of the buildings.

Column 5 – UCC after additions and dispositions

You cannot claim CCA when the amount in column 5 is:

- negative (see "Recapture of CCA" below); or
- positive, and you do not have any property left in that class at the end of your 2006 fiscal period (see "Terminal loss" on the next page).

In either case, enter "0" in column 10.

Recapture of CCA

If the amount in column 5 is negative, you have a recapture of CCA. Include your recapture on line 9600 on page 2 of Form T1163 (Statement A) or T1164 (Statement B). A recapture of CCA can occur, for example, when you get a government grant, or claim an investment tax credit. It can also happen if the proceeds from the sale of depreciable property are more than the total of:

- the UCC of the class at the beginning of the year; and
- the capital cost of any additions during the year.

In some cases, you may be able to postpone a recapture of CCA. For example, you may sell a property and replace it with a similar one, someone may expropriate your property, or you may transfer property to a corporation, a partnership, or your child.

Terminal loss

If the amount in column 5 is positive, and you no longer own any property in that class, you may have a terminal loss. More precisely, you may have a terminal loss when, at the end of your fiscal period, you have no more property in the class, but you still have an amount that you have not deducted as CCA. You can usually subtract this terminal loss from your gross farming income in the fiscal period you disposed of the depreciable property. Include your terminal loss on line 9896 on page 3 of Form T1163 (Statement A) or T1164 (Statement B).

For more information on recapture of CCA and terminal loss, see Interpretation Bulletin IT-478, *Capital Cost Allowance – Recapture and Terminal Loss*.

Note
The rules for recapture of CCA and for terminal loss do not apply to passenger vehicles in class 10.1. However, see the comments in "Column 7 – Base amount for CCA" on this page to calculate your CCA claim.

Column 6 – Adjustment for current-year additions

In the year you acquire or make additions to a property, you can usually claim CCA on only one-half of your net additions (the amount in column 3 minus the amount in column 4). We call this the **50% rule**.

Calculate your CCA claim only on the net adjusted amount. Do not reduce the cost of the additions in column 3, or the CCA rate in column 8. For example, if you acquired a property in 2006 for $30,000, you would base your CCA claim on $15,000 ($30,000 × 50%).

If you acquired and disposed of depreciable property of the same class in 2006, the calculation in column 6 restricts your CCA claim. Calculate the CCA you can claim as follows:

- Determine which of the following amounts is less:
  - the proceeds of disposition of your property, **minus** any related costs or expenses; or
  - the capital cost.
- Subtract the above amount from the capital cost of your addition.
- Enter 50% of the result in column 6. If the result is negative, enter "0."

In some cases, you do not make an adjustment in column 6. For example, in a non-arm's length transaction, you may buy depreciable property that the seller continuously owned from the day that is at least 364 days before the end of your 2006 fiscal period to the day the property was purchased. However, if you transfer personal property, such as a car or a personal computer into your business, the 50% rule applies to the particular property transferred.

Some properties are not subject to the 50% rule. Examples of these are the properties in classes 13, 14, 23, 24, 27, 29, or 34, as well as some of those in class 12, such as small tools that cost less than $200 ($500 after May 1, 2006).

> **Note**
> If you claimed small tools that cost less than $200 ($500 after May 1, 2006) as an expense on line 9820, do **not** claim them again as class 12 CCA.

The 50% rule does not apply when the available-for-use rule (see page 37) denies a CCA claim until the second tax year after the year you acquired the property.

If you need more details on the 50% rule, see Interpretation Bulletin IT-285, *Capital Cost Allowance – General Comments.*

Column 7 – Base amount for CCA
Base your CCA claim on this amount.

For a class 10.1 vehicle you disposed of in your 2006 fiscal period, you may be able to claim 50% of the CCA that would be allowed if you still owned the vehicle at the end of your 2006 fiscal period. This is known as the **half-year rule on sale**.

You can use the half-year rule on sale if, at the end of your 2005 fiscal period, you owned the class 10.1 vehicle you disposed of in 2006. If this applies to you, in column 7 enter 50% of the amount in column 2.

Column 8 – Rate (%)
Enter the rate in this column for each class of property in Area A of Form T1175. For a list of rates, see "Capital Cost Allowance (CCA) Rates" on page 65. For more detailed information on certain kinds of property, see "Classes of depreciable property" on page 41.

Column 9 – CCA for the year
In column 9, enter the CCA you would like to deduct for 2006. The CCA you can deduct cannot be more than the amount you get when you multiply the amount in column 7 by the rate in column 8. You can deduct any amount up to the maximum.

If this is your first year of business, you may have to prorate your CCA claim. See "You were asking...?" on page 38.

For Part XI assets, add the amounts in column 9 and enter the total on line (i). For Part XVII assets, add the amounts in column 6 and enter the total on line (ii). Enter the total of lines (i) and (ii), **minus** any CCA for business-use-of-home expenses, on line 9936 on page 3 of Form T1163 (Statement A) or T1164 (Statement B). Enter any CCA for business-use-of-home expenses in Area B of Form T1175. For more information, see "Area B – Business-use-of-home expenses," on page 47.

See "Personal use of property" on page 44 to find out how to calculate your CCA claim if you are using the property for both business and personal use.

Column 10 – UCC at the end of the year
This is the UCC at the end of your 2006 fiscal period. It is the amount you will enter in column 2 when you calculate your CCA claim next year.

Enter "0" in column 10 if you have a terminal loss or a recapture of CCA. There will not be an amount in column 10 for a class 10.1 passenger vehicle you dispose of in the year.

The example at the end of this chapter sums up CCA.

Classes of depreciable property

The following are the most common classes of depreciable farm property and the rates that apply to each class.

Buildings – Classes 1, 3, and 6

A building may belong to Class 1, Class 3, or Class 6, depending on what the building is made of and the date you acquired it. You also include in these classes the parts that make up the building, such as:

- electrical wiring
- lighting fixtures
- plumbing
- sprinkler systems
- heating equipment
- air-conditioning equipment (other than window units)
- elevators
- escalators

> **Note**
> Land is not depreciable property. Therefore, when you acquire farm property, include in Area A and Area F only the cost that relates to the building.

Class 1 (4%)
Class 1 includes most buildings acquired after 1987, unless they specifically belong in another class. Class 1 also includes the cost of certain additions or alterations you made after 1987 to a Class 3 building. See the next section for more information.

Class 3 (5%)
Most buildings acquired before 1988 were added to Class 3 or Class 6. If you acquired a building before 1990 that does not fall into Class 6, you can include it in Class 3 if **one** of the following applies:

- you acquired the building under the terms of a written agreement entered into before June 18, 1987; or
- the building was under construction by you, or for you, on June 18, 1987.

Do not transfer to Class 1 any property you previously included in Class 3. However, there is a limit to how much you can include in Class 3 for the cost of any additions or alterations made after 1987 to a Class 3 building. This limit is one of the following amounts, whichever is less:

- $500,000; and
- 25% of the building's capital cost (including the cost of additions or alterations to the building included in Class 3, Class 6, or Class 20 before 1988).

Include the cost of any additions or alterations over this limit in Class 1.

Class 6 (10%)
Include a building in Class 6 if you acquired it before 1988 and it is made of frame, log, stucco on frame, galvanized iron, or corrugated iron. If you acquired the building after 1987, it has to be made of frame, log, stucco on frame, galvanized iron, or any corrugated metal.

In addition, **one** of the following conditions has to apply:

- the building is used for farming or fishing; or
- the building has no footings or other base supports below ground level.

If either of the above conditions applies, you also add to Class 6 the full cost of all additions and alterations to the building.

If neither of the above conditions applies, include the building in Class 6 if **one** of the following conditions applies:

- you acquired the building before 1979;
- you entered into an agreement before 1979 to acquire the building, and footings or other base supports were started before 1979; or
- you started construction of the building before 1979 (or it was started under the terms of a written agreement you entered into before 1979), and footings or other base supports of the building were started before 1979.

For additions or alterations to such a building:

- Add to Class 6:
  - all additions made before 1979; and
  - only the first $100,000 of additions or alterations made after 1978.
- Add to Class 3:
  - the part of the cost of all additions or alterations above $100,000 made after 1978 and before 1988; and
  - the part of the cost of additions or alterations above $100,000 made after 1987, but only up to $500,000 or 25% of the cost of the building, whichever is less.
- Add to Class 1 any additions or alterations above these limits.

If you need more information, see Interpretation Bulletin IT-79, *Capital Cost Allowance – Buildings or Other Structures*.

Other property – Class 8 (20%)
Class 8 describes property that is not included in any other class. For example, furniture, appliances, fixtures, most machinery, and equipment you use in your business are all in this class.

Storage facilities for fresh fruit and vegetables – Class 8 (20%)
Include buildings you use to store fresh fruit or vegetables at a controlled temperature in Class 8 instead of Class 1, Class 3, or Class 6. Also include in class 8 any buildings you use to store silage.

Small tools – Class 12 (100%)
The 2006 federal budget proposed to increase the $200 limit to $500 for small tools acquired after May 1, 2006.

Include small tools that cost less than $200 ($500 after May 1, 2006) in Class 12. Most small tools in Class 12 are **not subject** to the 50% rule. They are fully deductible in the year you buy them.

Class 12 tools that are subject to the 50% rule include dies, jigs, patterns, moulds, or lasts, and the cutting or shaping part of a machine. For details, see Interpretation Bulletin IT-285, *Capital Cost Allowance - General Comments*.

> **Note**
> If the tool costs $200 ($500 after May 1, 2006) or more, include it in Class 8 with a CCA rate of 20%.

Electronic office equipment – Class 8 (20%), Class 10 (30%), Class 12 (100%), Class 45 (45%), and Class 46 (30%)
CCA classes for electronic equipment include:

Class 8 (20%)
Include in Class 8 computer software (other than systems software in Class 45), photocopiers and electronic

communication equipment such as fax machines or telephone equipment.

Because this computer software and office equipment can become obsolete before you can fully deduct their cost for income tax purposes, you can elect to include the Class 8 property in a separate class. The election will only apply to each property that costs $1,000 or more. (The election does not apply to property in Class 45 and Class 46.)

This class does not change the CCA rate that applies to the properties. However, the election lets you calculate a separate CCA deduction for a five-year period. In this way, when all the property in the class is disposed of, the undepreciated capital cost (UCC) of the equipment will be fully deductible as a terminal loss. For more information on terminal losses, see "Column 5 – UCC after additions and dispositions" on page 40.

Class 12 (100%)

Class 12 includes computer software that is not systems software. Software in class 12 is subject to the half-year rule.

Class 45 (45%)

Include in Class 45 computer equipment and systems software acquired after March 22, 2004. (Previously, computer equipment and systems software were included in Class 10 with a 30% CCA rate.)

Class 46 (30%)

Class 46 was created for data network infrastructure equipment acquired after March 22, 2004. (Previously, data network infrastructure equipment was included in Class 8 with a 20% CCA rate.)

Passenger vehicles – Classes 10 and Class 10.1 (30%)

Your passenger vehicle may belong to either Class 10 or Class 10.1. We define a passenger vehicle on page 27. Include your passenger vehicle in Class 10 unless it meets a Class 10.1 condition. List each Class 10.1 vehicle separately.

Include your passenger vehicle in Class 10.1 if you bought it in 2006 or 2005, and it cost more than $30,000. We consider the capital cost of that vehicle to be $30,000 plus the related GST and PST, or HST.

The $30,000 amount is the capital cost limit for a passenger vehicle. However, to determine the class to which your passenger vehicle belongs, you have to use the cost of the vehicle before you add GST and PST, or HST.

Effective July 1, 2006, the GST rate is reduced to 6% and the HST rate to 14%.

Example
Vivienne owns a farming business. On June 21, 2006, she bought two passenger vehicles to use in her farming business. The PST rate for her province is 8%. Vivienne noted these details for 2006:

	Cost	GST	PST	Total
Vehicle 1	$33,000	$2,310	$2,640	$37,950
Vehicle 2	$28,000	$1,960	$2,240	$32,200

Vivienne puts Vehicle 1 in Class 10.1, since she bought it in 2006, and it cost her more than $30,000. Before Vivienne enters an amount in column 3 of Area C, she has to calculate the GST and PST on $30,000. She does this as follows:

- GST at 7% of $30,000 = $2,100
- PST at 8% of $30,000 = $2,400

Therefore, Vivienne's capital cost is $34,500 ($30,000 + $2,100 + $2,400). She enters this amount in column 3 of Area C.

Vivienne puts Vehicle 2 into Class 10, since she bought it in 2006, and it did not cost her more than $30,000. Vivienne's capital cost is $32,200 ($28,000 + $1,960 + $2,240). She enters this amount in column 3 of Area C.

Note
For this example we used 7% as the GST rate, and 8% as the PST rate. For your calculation, use the current GST rate and the current PST rate that applies in your province or territory. If you live in a province that has harmonized sales tax (HST), use the current HST rate. For more about GST/HST, see Guide RC4022, *General Information for GST/HST Registrants*.

Special situations

Changing from personal to business use

You may have bought a property for personal use and then started using it in your farming business in your 2006 fiscal period. When you change its use you need to determine the capital cost for business purposes.

Enter the FMV of the property in column 3 of Area C or D, whichever applies, if, at the time of change in use, the FMV of the depreciable property is less than its original cost.

When you start to use your property for your farming business, you are considered to have disposed of it. If the FMV of the property is greater than its cost, you may have a capital gain. See Chapter 7 for an explanation of capital gains.

Use the following chart to determine the amount to enter in column 3 when the FMV is more than its original cost.

Capital cost calculation				
Actual cost of the property			$ ______	A
FMV of the property	$ ______	B		
Amount on line A	$ ______	C		
Line B **minus** line C (if negative, enter "0")	______	D		
Enter all capital gains deductions claimed for the amount on line D* $ ________ × 2 =	______	E		
Line D **minus** line E (if negative, enter "0") $ ________ × 1/2 =			$ ______	F
Capital cost: Line A **plus** line F			$ ______	G

* Enter the amount that relates to the depreciable property only.

Enter the capital cost of the property from line G in column 3 of Area C or D.

We consider that you acquire the land for an amount equal to its FMV when you change its use. Include this amount on line 9923, "Total cost of all land additions in the year," in Area G.

Personal use of property

If you buy property for both business and personal use, there are two ways to show the business portion of the property in Area C or D:

- If your business use stays the same from year to year, enter the total cost of the property in column 3, the personal portion in column 4, and the business portion in column 5. To calculate the CCA you can claim, enter the amount from column 5 in column 3 of Area A.
- If your business use changes from year to year, enter the total cost of the property in column 3 and column 5, and enter "0" in column 4. To calculate the CCA you can claim, enter the amount from column 5 in column 3 of Area A. When you claim CCA, you will have to calculate the allowable portion you can claim for business use.

Example

Jennifer owns a business. She bought a car in 2006 that she uses both for personal and business use. The car cost $20,000, including all charges and taxes. Therefore, she includes the car in class 10. Her business use varies from year to year. She calculates her CCA on the car for 2006 as follows:

She enters $20,000 in column 3 and column 5 of Area C. She also enters $20,000 in column 3 of Area A. By completing the other columns in the chart, she calculates a CCA claim of $3,000. Because Jennifer used her car partly for personal use, she calculates her CCA claim as follows:

$$\frac{12{,}000 \text{ (business kilometres)}}{18{,}000 \text{ (total kilometres)}} \times \$3{,}000 = \$2{,}000$$

Jennifer enters $2,000 on line 9936 on page 3 of Form T1163 (Statement A) or T1164 (Statement B).

Note

The capital cost limits on a Class 10.1 vehicle (a passenger vehicle) still apply when you split the capital cost between business and personal use. See "Passenger vehicles – Class 10.1" on page 43 for more details.

Grants, subsidies, and rebates

You may receive a grant, subsidy, or a rebate from a government or a government agency to buy depreciable property. When this happens, subtract the amount of the grant from the property's capital cost. Do this before you enter the capital cost in column 3 of Area C or D.

If the rebate is more than the remaining undepreciated capital cost in the particular class, add the excess to income on line 9574 or 9575.

You may have incurred GST or HST on some of the depreciable property you acquired for your business. If so, you may have also received an input tax credit from us.

The input tax credit is government assistance. Therefore, subtract it from the property's capital cost. Do this before you enter the capital cost in column 3 of Area C or D, whichever applies. If you receive an input tax credit for a passenger vehicle you use in your business, use **one** of these methods:

- For a passenger vehicle you use 90% or more for your business, subtract the amount of the credit from the vehicle's cost before you enter its capital cost in column 3 of Area C.
- For a passenger vehicle you use less than 90% for your business, do not make an adjustment in 2006. In 2007, subtract the amount of the credit from your beginning UCC.

You may get an incentive from a non-government agency to buy depreciable property. If this happens, you can either include the amount in income, or subtract the amount from the capital cost of the property.

See Interpretation Bulletin IT-273, *Government Assistance – General Comments,* for more details about government assistance.

Non-arm's length transactions

When you acquire depreciable property in a non-arm's length transaction (see the definition on page 37), there are special rules to follow to determine the property's cost. These special rules will not apply if you get the property because of someone's death.

You can acquire depreciable property in a non-arm's length transaction from a:

- resident of Canada;
- partnership with at least one partner who is an individual resident in Canada; or
- partnership with at least one partner that is another partnership.

If you pay more for the property than the seller paid for the same property, calculate the cost as follows:

Capital cost calculation

The seller's cost or capital cost			$ ______	A
The seller's proceeds of disposition	$ ______	B		
Amount from line A	$ ______	C		
Line B **minus** line C (if negative, enter "0")	$ ______	D		
Enter any capital gains deduction claimed for the amount on line D $______ × 2 =	$ ______	E		
Line D **minus** line E (if negative, enter "0") $______ × 1/2 =			$ ______	F
Capital cost Line A **plus** line F			$ ______	G

Enter this amount in column 3 of either Area C or D, whichever applies.

Do not include the cost of the related land. Include the cost of the related land on line 9923, "Total cost of all land additions in the year," in Area G.

We consider that you acquire the land for an amount equal to its FMV when you change its use. Include this amount on line 9923, "Total cost of all land additions in the year," in Area G.

There is a limit on the cost of a passenger vehicle you buy in a non-arm's length capital transaction. The cost is one of these amounts, **whichever is the least**:

- the FMV when you buy it;
- if you bought in 2006 or 2005, $30,000 **plus** any GST and PST, or HST you would pay on $30,000; or
- the seller's cost amount of the vehicle when you buy it.

The cost amount can vary, depending on what the seller used the vehicle for before you bought it. If the seller used the vehicle to earn income, the cost amount will be the undepreciated capital cost (UCC) of the vehicle when you buy it. If the seller did not use the vehicle to earn income, the cost amount will usually be the original cost of the vehicle.

You can also buy depreciable property in a non-arm's length transaction from a corporation or an individual who is not a resident of Canada, or from a partnership with no partners who are individuals resident in Canada or no partners that are members of other partnerships. If you pay more for the property than the seller paid for the same property, calculate the capital cost as follows:

Capital cost calculation for non-resident

The seller's cost or capital cost			$ ______	A
The seller's proceeds of disposition	$ ______	B		
Amount from line A	$ ______	C		
Line B **minus** line C (if negative, enter "0") $ ______ × 1/2 =			$ ______	D
Capital cost Line A **plus** line D			$ ______	E

Enter this amount in column 3 of either Area C or D, whichever applies.

Do not include the cost of the related land. Include the cost of the related land on line 9923, "Total cost of all land additions in the year," in Area G.

You might have bought depreciable property in a non-arm's length transaction and paid less for it than the seller paid. If that is the case, your capital cost is the same amount as the seller paid. We consider you to have deducted as CCA the difference between what you paid and what the seller paid. Enter the amount you paid in column 3 of Area A. Enter the same amount in Area C or D, whichever applies.

For more details on non-arm's length transactions, see Interpretation Bulletin IT-419, *Meaning of Arm's Length*.

Special rules for disposing of a building in the year

If you disposed of a building in the year, special rules may apply that change the amount you use as proceeds of disposition for capital cost purposes. This happens when you meet both of the following conditions:

- you disposed of the building for an amount less than both its cost amount, as calculated below, and its capital cost to you; and
- you, or a person with whom you do not deal at arm's length (see the definition on page 37), owned the land that the building is on, or the land next to it, that was necessary for the building's use.

Calculate the cost amount as follows:

- If the building was the only property in the class, the cost amount is the undepreciated capital cost (UCC) of the class before you disposed of the building.
- If there is more than one property in the same class, you have to calculate the cost amount of each building as follows:

$$\frac{\text{capital cost of the building}}{\text{capital cost of all the properties in the class that have not been disposed of previously}} \times \text{UCC of the class} = \text{cost amount of the building}$$

Note
If any property in the class of the building that was acquired at non-arm's length was previously used for a purpose other than gaining or producing income, or if the part of a property used for gaining or producing income has changed, the capital cost of such property has to be recalculated to determine the cost amount of the property.

If you disposed of a building under these conditions and you or a person with whom you do not deal at arm's length disposed of the land in the same year, calculate your deemed proceeds of disposition as shown in Calculation A on this page.

If you, or a person with whom you do not deal at arm's length, did not dispose of the land in the same year as the building, calculate your deemed proceeds of disposition as shown in Calculation B, on this page.

Calculation A
Land and building sold in the same year

FMV of the building at the time you disposed of it	$ ______	**A**		
FMV of the land just before you disposed of it	$ ______	**B**		
Line A **plus** line B			$ ______	**C**
Seller's cost amount of the land	$ ______	**D**		
Total capital gains (without reserves) from any disposition of the land (such as a change in use) in the three-year period before you or a person not dealing at arm's length with you disposed of the building, to either you or another person not dealing at arm's length with you	$ ______	**E**		
Line D **minus** line E (if negative, enter "0")	$ ______	**F**		
Line B or line F, whichever amount is less			$ ______	**G**
Line C **minus** line G (if negative, enter "0")			$ ______	**H**
Cost amount of the building just before you disposed of it	$ ______	**I**		
Capital cost of the building just before you disposed of it	$ ______	**J**		
Line I or line J, whichever amount is less	$ ______	**K**		
Line A or line K, whichever amount is more			$ ______	**L**
Deemed proceeds of disposition for the building				
Line H or line L, whichever amount is less (enter this amount in column 3 of Area F, and include it in column 4 of Area A)			$ ______	**M**
Deemed proceeds of disposition for the land				
Proceeds of disposition of the building and the land			$ ______	**N**
Amount from line M			$ ______	**O**
Line N **minus** line O (include this amount on line 9924 of Area G)			$ ______	**P**

If you have a terminal loss on the building, include it on line 9896 on page 3 of your form.

Calculation B Land and building sold in different years		
Cost amount of the building just before you disposed of it	$ ______	A
FMV of the building just before you disposed of it	$ ______	B
Line A or line B, whichever amount is more	$ ______	C
Actual proceeds of disposition, if any	$ ______	D
Line C **minus** line D	$ ______	E
Line E $__________ × 1/2	$ ______	F
Amount from line D	$ ______	G
Deemed proceeds of disposition for the building		
Line F **plus** line G (enter this amount in column 3 of Area F, and include it in column 4 of Area A)	$ ______	H
If you have a terminal loss on the building, include it on line 9896 on page 3 of your form.		

Ordinarily, you can deduct all of a terminal loss, but only part of a capital loss. Calculation B ensures that you use the same factor to calculate a terminal loss for a building as you use to calculate a capital loss on land. As a result of this calculation, you add part of the amount on line E to the actual proceeds of disposition from the building (see "Terminal loss" on page 40).

Replacement property

In a few cases, you can postpone or defer adding a capital gain or recapture of CCA to income. You might sell a business property, and replace it with a similar one, or your property might be stolen, destroyed, or expropriated, and you replace it with a similar one. You can defer tax on the sale proceeds if you reinvest in replacement property within a reasonable period of time. To defer reporting the gain or recapture of CCA, you must acquire and you, or a person related to you, must use the new property for the same or a similar purpose as the old one was used for.

See Interpretation Bulletin IT-259, *Exchanges of Property*, and its Special Release, and Interpretation Bulletin IT-491, *Former Business Property*, and its Special Release if you need more details.

You can also defer a capital gain or recapture of CCA when you transfer property to a corporation, a partnership, or your child. For more details on transferring farm property to your child, see page 57.

For information on transfers to a corporation or a partnership, see:

- Information Circular IC76-19, *Transfer of Property to a Corporation Under Section 85*
- Interpretation Bulletin IT-291, *Transfer of Property to a Corporation Under Subsection 85(1)*
- Interpretation Bulletin IT-378, *Winding-Up of a Partnership*
- Interpretation Bulletin IT-413, *Election by Members of a Partnership Under Subsection 97(2)*

Area B – Business-use-of-home expenses

Use Area B on Form T1175 to list your expenses and any amount of CCA for the business use of your home. Include these expenses and any amount of CCA for business-use-of-home expenses on line 9896 "Other (specify)" on page 3 of Form T1163 (Statement A) or Form T1164 (Statement B). You can also record any business-use-of-home expense carryforward from a previous year on the chart. This chart is for information purposes and to help you make an adjustment at line 9934 if you have a loss in the year. See page 36 for more information about this adjustment.

Area G – Details of land additions and dispositions in the year

In this area, enter the total cost of acquiring land in 2006. The cost includes the actual purchase price of the land, plus any related expenses that you should add to the capital cost of the land, such as legal fees, land transfer taxes, and mortgage fees. **Enter on line 9923** the total cost of all land additions in the year. You cannot claim CCA on land. Do **not** enter this amount in column 3 of Area A.

Enter on line 9924 the total of all amounts you received or will receive for disposing of land in the year.

Area H – Details of quota additions and dispositions in the year

Enter on line 9929 of Form T1175 the total cost of acquiring quotas in the year.

Enter on line 9930 of Form T1175 the total of all amounts you received or will receive for disposing of quotas in the year.

Area I – Details of equity

Line 9931 – Total business liabilities

A liability is a debt or an obligation of a business. Total business liabilities is the total of all amounts your farming business owes at the end of its fiscal period. This includes accounts payable, notes payable, taxes payable, unpaid salaries, wages and benefits, interest payable, deferred or unearned revenues, loans payable, mortgages payable, or any other outstanding balance.

Line 9932 – Drawings in 2006

A drawing is any withdrawal of cash or other assets and services of a business by the proprietor or partners. This includes transactions by the proprietor or partners (or family members) such as withdrawing cash for non-business use and using business assets and services for personal use.

Line 9933 – Capital contributions in 2006

A capital contribution is an addition of cash or other assets you made to the farming business during its fiscal period. This includes adding personal funds to the business account, paying business debts with personal funds, and transferring personal assets to the farming business.

The following example summarizes this chapter on CCA.

Example
In 2006, Trevor bought a building to use for his farming business. The total cost was $95,000 (the total of the $90,000 total purchase price and the $5,000 total expenses connected with the purchase), as follows:

Building value	$75,000
Land value	$15,000
Total purchase price	$90,000

Expenses connected with the purchase

Legal fees	$3,000
Land transfer taxes	$2,000
Total fees	$5,000

Trevor's farming business has a December 31 year-end. In 2006, Trevor's farming income was $6,000 and his expenses were $4,900. Therefore, his net income before deducting CCA was $1,100 ($6,000 – $4,900).

Before Trevor can complete his CCA schedule, he has to calculate the capital cost of the building. Since land is not depreciable farm property, he has to calculate the part of the expenses connected with the purchase that relates only to the building. To do this, he has to use the following formula, which we explain on page 39 under the heading "Land."

$$\frac{\$75{,}000}{\$90{,}000} \times \$5{,}000 = \$4{,}166.67$$

This $4,166.67 represents the part of the $5,000 in legal fees and land transfer taxes that relates to the purchase of the building, while the remaining $833.33 relates to the purchase of the land. Therefore, the capital cost of the building is:

Building value	$75,000.00
Related expenses	$ 4,166.67
Capital cost of the building	$79,166.67

Trevor enters $79,166.67 in column 3 of Area D and $15,833.33 ($15,000 + $833.33) on line 9923 of Area G as the capital cost of the land.

Note
Trevor did not own farm property before 2006. Therefore, he has no UCC to enter in column 2 of Area A.

Trevor acquired his farm property in 2006. Therefore, he is subject to the 50% rule that we explain under the heading "Column 6 – Adjustment for current-year additions" on page 40.

Chapter 5 – Eligible Capital Expenditures

What is an eligible capital expenditure?

You may buy property that has no physical existence, but gives you a lasting economic benefit. Some examples are milk and egg quotas. We call this kind of property **eligible capital property**. The price you pay to buy this kind of property is an **eligible capital expenditure**.

What is an annual allowance?

You cannot deduct the full cost of an eligible capital expenditure, since the cost is capital and the eligible capital property gives you a lasting economic benefit. However, you can deduct part of its cost each year. We call the amount you can deduct your **annual allowance**.

What is a cumulative eligible capital (CEC) account?

This is the bookkeeping record you set up to determine your annual allowance. You also use your CEC account to keep track of the property you buy and sell. We call the property in your CEC account your eligible capital property. You base your annual allowance on the balance in your account at the end of your fiscal period. Keep a separate account for each business.

How to calculate your annual allowance

Complete the following chart to calculate your annual allowance and the balance in your CEC account at the end of your 2006 fiscal period.

Calculating your annual allowance and your CEC account balance at the end of your 2006 fiscal period

Balance in the account at the start of your 2006 fiscal period			______	A
Eligible capital expenditures you made in your 2006 fiscal period	______	B		
75% × line B			______	C
Line A **plus** line C			______	D
All the amounts you received or are entitled to receive from the sale of eligible capital property in your 2006 fiscal period	______	E		
All the amounts that became receivable in your 2006 fiscal period from the sale of eligible capital properties before June 18, 1987	______	F		
Line E **plus** line F	______	G		
75% × line G			______	H
CEC account balance Line D **minus** line H			______	I
Annual allowance 7% × line I			______	J
CEC account balance at the end of 2006 Line I **minus** line J			______	K

Note
An eligible capital expenditure is reduced by the amount of any government assistance received or receivable. Also, an amount forgiven (or entitled to be forgiven) on government loans for an eligible capital expenditure reduces your CEC account.

Special conditions may apply to non-arm's length transactions. For additional information, see Interpretation Bulletin IT-123, *Transactions Involving Eligible Capital Property.*

If your fiscal period is less than 365 days, you have to prorate your claim. Base your claim on the number of days in your fiscal period compared to 365 days.

You can deduct an annual allowance if there is a **positive** balance in your CEC account at the end of your 2006 fiscal period. You can deduct up to a maximum of 7% of the balance, but you do not have to deduct the maximum annual allowance. If the balance is **negative,** see "Sale of eligible capital property – Fiscal period ending in 2006" on page 50.

Example
Heather started her farming business on January 1, 2006. Her business has a December 31 year-end. During 2006, she bought a milk quota for $135,000. To calculate her annual allowance and her CEC account balance at the end of her fiscal year, she completes the chart as follows:

Heather's CEC account

Balance at the start of her 2006 fiscal period			$ 0	**A**
Milk quota cost during her 2006 fiscal period	$ 135,000	**B**		
75% × line B			$ 101,250	**C**
Line A **plus** line C			$ 101,250	**D**
Heather does not have any amounts on lines E to H. Therefore, her CEC account balance is the amount on line D.			$ 101,250	**I**
Her annual allowance is 7% × line I			$ 7,087	**J**
Balance at the end of 2006 line I **minus** line J			$ 94,163	**K**

Election

You can elect to treat a disposition of eligible capital property (ECP) as a capital gain instead of including it in the chart "Calculating your annual allowance and your CEC account balance at the end of your 2006 fiscal period," on this page.

If you make the election, the proceeds of disposition on lines E and F of the chart are considered to be equal to the original cost.

You can then declare a capital gain equal to your actual proceeds of disposition **minus** the cost of acquisition. Report the details on the "Real estate, depreciable property, and other properties" line on Schedule 3, *Capital Gains (or Losses) in 2006.*

You can only make this election if you meet the following conditions:

- you disposed of an ECP;
- the cost of the ECP can be determined;
- the proceeds of disposition exceed the cost;
- the ECP that you disposed of is not goodwill; and
- you have no exempt gains balance.

Making the election will help you if you have capital losses to apply against your gain.

The election may also help if you are eligible to claim a capital gains deduction and you disposed of an ECP that is a qualified farm property. If you disposed of an ECP that was a qualified farm property, any deemed gain reported under the election is also considered to be from a disposition of qualified farm property. If this is the case, report the details on the "Qualified farm property" line on Schedule 3, *Capital Gains (or Losses) in 2006,* instead of the "Real estate, depreciable property, and other properties" line. See "Qualified farm property and cumulative capital gains deduction" on page 56. Attach a note to your income tax return stating that you are electing under subsection 14(1.01) of the *Income Tax Act*.

Sale of eligible capital property – Fiscal period ending in 2006

When you sell eligible capital property, you have to subtract part of the proceeds of disposition from your CEC account.

You have to do this calculation if you sell eligible capital property:

- in your 2006 fiscal period; or
- before June 18, 1987, and the proceeds of disposition become due to you in your 2006 fiscal period.

For 2006, the amount you have to subtract is 75% of the **total** of these amounts:

- the proceeds of disposition of all eligible capital property you sell in your 2006 fiscal period (include the total amount from a sale even if you do not get any or all of the proceeds until after 2006); and
- the amount of any proceeds that become due to you in your 2006 fiscal period from eligible capital property you sold before June 18, 1987.

If you have a negative balance in your CEC account after you subtract the required amount, you have to calculate the part of that amount to include in your farming income.

The part of the negative amount in your CEC account that exceeds the annual allowances deducted is multiplied by 2/3. To that result, you add the excess or annual allowances deducted, whichever is less. This is the amount to include in your farming income. The following example shows how to calculate the amount to include in farming income.

Example
Carol started her farming business on January 1, 1999, with a December 31 year-end. In 1999, Carol bought an egg quota for $25,000. Carol sold her farming business on September 1, 2006. She sold her egg quota for $65,000, and she does not have any other eligible capital property in her farming business. She deducted annual allowances each year as follows:

2000	$ 1,313
2001	1,220
2002	1,135
2003	1,056
2004	982
2005	913
Total	$ 6,619

The amount included in Carol's farming income on line 9600, "Other income," is the total of amounts A and C:

Calculation of amount A

The lesser of i) or ii):

i)	Excess amount calculated as follows: Proceeds of disposition: $65,000 $65,000 × 75%	$48,750	
	Plus: total annual allowances deducted	6,619	
		$55,369	
	Minus: 75% of eligible capital expenditures $25,000 × 75%	$18,750	
	Excess amount	$36,619	**i**
ii)	Total annual allowances deducted	$ 6,619	**ii**
	The lesser of i) or ii):	$ 6,619	**A**

Calculation of amount B

Excess amount	$ 36,619		
Minus: total annual deductions taken	6,619	$30,000	**B**

Calculation of amount C

Line B × 2/3	$20,000	**C**
Line A **plus** line C	$26,619	

The amount Carol includes in farming income on line 9600, "Other income," is $26,619.

If the property is considered to be a qualified farm property, part of the farming income may be eligible for the capital gains deduction. For more details, read the following section.

Farming income from the sale of eligible capital property eligible for the capital gains deduction

Part of your farming income from the sale of eligible capital property (ECP) that is **qualified farm property (QFP)** may be eligible for the capital gains deduction. You will find the definition of QFP on page 56. If you have more than one business, do a separate calculation for each. Complete the following chart to calculate the amount eligible for the capital gains deduction from the sale of ECP.

Farming income eligible for the capital gains deduction

Farming income from the sale of ECP (other than recapture of annual allowances deducted in previous years) for 2006 ______ **A**

All proceeds of disposition from the sale of ECP that is QFP during fiscal periods that began after 1987 and ended before February 28, 2000 ______ **B**

All eligible capital expenditures made or incurred for QFP sold during fiscal periods that began after 1987 and ended before February 28, 2000 ______ **C**

Outlays and expenses related to dispositions described on line B not deducted in calculating income ______ **D**

Line C **plus** line D ______ **E**

Line B **minus** line E ______ **F**

Amount from line F _____ × 3/4 = ______ **G**

All proceeds of disposition from the sale of ECP that is QFP during fiscal periods ending after February 27, 2000, and before October 18, 2000 ______ **H**

All eligible capital expenditures made or incurred for QFP sold during fiscal periods ending after February 27, 2000, and before October 18, 2000 ______ **I**

Outlays and expenses related to dispositions described on line H not deducted in calculating income ______ **J**

Line I **plus** line J ______ **K**

Line H **minus** line K ______ **L**

Amount from line L _____ × 2/3 = ______ **M**

All proceeds of disposition from the sale of ECP that is QFP during fiscal periods ending after October 17, 2000 ______ **N**

... continued in next column

Farming income eligible for the capital gains deduction (continued)

All eligible capital expenditures made or incurred for QFP sold during fiscal periods ending after October 17, 2000 ______ **O**

Outlays and expenses related to dispositions described on line N not deducted in calculating income ______ **P**

Line O **plus** line P ______ **Q**

Line N **minus** line Q ______ **R**

Amount from line R_______× 1/2 = ______ **S**

Line G **plus** line M **plus** line S ______ **T**

All taxable capital gains from the disposition of ECP for the farming business that is QFP for fiscal periods that began after 1987 and ended before February 23, 1994 ______ **U**

Farming income eligible for the capital gains deduction from the sale of ECP that is QFP for fiscal periods that began after February 22, 1994, and ended before January 1, 2006 ______ **V**

Line U **plus** line V ______ **W**

Line T **minus** line W ______ **X**

Farming income eligible for the capital gains deduction for 2006 (the lesser of line A and line X) ______ **Y**

If you are a **sole proprietor**, **claim** the amount on **line Y** ______ **Z**

If you are a **partner**, **claim your share** of the amount on **line Y** ______ **AA**

Enter the amount from line **Z** or line **AA** (above) on line 173 of Schedule 3, *Capital Gains (or Losses) in 2006*. To claim the capital gains deduction, use Form T657, *Calculation of Capital Gains Deduction for 2006*.

Exempt capital gains balance (ECGB)

If you filed a Form T664, *Election to Report a Capital Gain on Property Owned at the End of February 22, 1994*, for your shares of, or interest in, a flow-though entity, the elected capital gain you reported created an ECGB for that entity.

Your ECGB expired after 2004. If you did not use all of your ECGB by the end of 2004, you should have added the unused balance to the adjusted cost base of the applicable property in the year 2005.

Replacement property

If you sell an eligible capital property and replace it with another one for the same or similar use, you can postpone all or part of any gain on the sale. This happens if you acquire a replacement eligible capital property within a certain period of time. To do this, you have to replace the property no later than one year after the end of the tax year in which you sell the original property. For more details, see Interpretation Bulletin IT-259, *Exchanges of Property*.

Eligible capital property of a deceased taxpayer

At death, a taxpayer is deemed to have disposed of eligible capital property, just before death, for proceeds of disposition equal to 4/3 of the cumulative eligible capital property at that time.

The person who acquires the eligible capital property from the deceased is deemed to acquire it as stated in the previous paragraph.

For more information about eligible capital expenditures, see Interpretation Bulletin IT-123, *Transactions Involving Eligible Capital Property*, and Interpretation Bulletin IT-143, *Meaning of Eligible Capital Expenditure*.

Chapter 6 – Farm Losses

When the expenses for your farming business are more than the income for the year, you have a net operating loss. However, before you can calculate your net farm loss for the year, you may have to increase or decrease the loss by certain adjustments explained in "Line 9941 – Optional inventory adjustment – current year" and "Line 9942 – Mandatory inventory adjustment – current year" on page 33.

If you have a net farm loss for the year, read this chapter for information on how to treat your loss. For more details on farm losses, see Interpretation Bulletin IT-322, *Farm Losses.*

The amount of the net farm loss you can deduct depends on the nature and extent of your business. Your farm loss may be:

- fully deductible
- partly deductible (restricted farm loss)
- non-deductible

Fully deductible farm losses

If you made your living from farming, we consider farming to be your chief source of income. As long as farming was your chief source of income, you can deduct the full amount of your net farm loss from other income. Farming can still be your chief source of income even if your farm did not show a profit. Other income could come from investments, part-time employment, and so on.

To determine if farming was your chief source of income, you need to consider such factors as:

- gross income
- net income
- capital invested
- cash flow
- personal involvement
- your farm's ability to make a profit (both actual and potential)
- plans to maintain or develop your farm and how you carried out these plans

Although you may have been a partner in a farming business, you still have to determine if farming was your own chief source of income.

When farming is your chief source of income and you have a net farm loss in 2006, you may have to reduce the loss when you have other income in 2006. Any loss that is left is your farm loss for 2006.

Example
Rick's farming business, which is his chief source of income, has a December 31 fiscal year-end. His farm loss before adjustments is $50,000. He wants to reduce his loss by the optional inventory adjustment (OIA). Rick kept the following records for 2006:

Net farm loss before adjustments	$ 50,000
Optional inventory adjustment	$ 15,000
Other income	$ 2,000

To reduce the loss amount, Rick adds back his OIA. He determines his farm loss for 2006 as follows:

Farm loss before adjustments	($ 50,000)
Add optional inventory adjustment	$ 15,000
Farm loss after adjustments	($ 35,000)
Add other income	$ 2,000
Farm loss for 2006	($ 33,000)

Applying your 2006 farm loss

You can carry back your 2006 farm loss for up to 3 years. You can also carry it forward up to 10 years. In both cases, you can deduct it from your income from all sources in those years.

You can also carry it forward up to 20 years.

If you choose to carry back your 2006 farm loss to your 2003, 2004, or 2005 income tax returns, complete Form T1A, *Request for Loss Carryback*. File one copy of the form with your 2006 income tax return. **Do not** file an amended return for the year to which you apply the loss.

Applying your farm losses from years before 2006

On your 2006 income tax return, you may be able to apply farm losses you had in any year from 1996 to 2005. You can apply these losses if you did not already deduct them and you have net income in 2006. To apply these losses to 2006, you have to apply the loss from the earliest year first. Enter the amount you wish to deduct on line 252 on your income tax return.

Restricted farm losses (partly deductible)

You may have run your farm as a business. For your farm to be considered a business, you must have carried on activities with the intent to make a profit, and there is evidence to support that intention.

However, if farming was not your chief source of income (for example, you did not rely on farming alone to make your living), you may be able to deduct only part of your net farm loss.

Each year you have a farm loss, check your situation carefully to see if farming was your chief source of income. It is important to do this, since a farming loss may be restricted in one year, but not in another year.

How to calculate your restricted farm loss

If farming was not your chief source of income and you had a net farm loss, the loss you can deduct depends on the amount of your net farm loss.

When your net farm loss is $15,000 or more, you can deduct $8,750 from your other income. The rest of your net farm loss is your restricted farm loss.

When your net farm loss is less than $15,000, the amount you can deduct from your other income is one of the following two amounts, whichever is **less**:

A) your net farm loss for the year; or

B) $2,500 **plus** 50% × (your net farm loss **minus** $2,500).

The amount remaining is your restricted farm loss.

Note
When the farm loss you deduct is different from your actual farm loss because of the restricted farm loss calculation, you should indicate this on your income tax return on the line "Farming income." You can do this by noting "restricted farm loss," "RFL," or "Section 31" to the left of line 168.

Example
Sharon ran a cattle farm with the intention of making a profit. However, farming was not her chief source of income in 2006. In 2006, she had employment income and a net farm loss of $9,200, which she calculated on line 9946 on page 4 of Form T1163 (Statement A).

The part of Sharon's net farm loss she can deduct from her other income in 2006 is either amount A or amount B, whichever is **less**:

A) $9,200; or

B) $2,500 **plus** 50% × ($9,200 – $2,500)
$2,500 **plus** 50% × $6,700

Therefore, B = ($2,500 + $3,350) = $5,850.

Since Sharon can only deduct A or B, whichever amount is **less**, she enters $5,850 on line 141 of her income tax return and deducts this amount from her other income in 2006. Her restricted farm loss is the amount that remains, which is $3,350 ($9,200 **minus** $5,850). Sharon prints "Section 31" to the left of line 168 on her return to show that the loss she is deducting is the result of a restricted farm loss calculation.

Applying your 2006 restricted farm loss

You can carry back your 2006 restricted farm loss up to 3 years and carry it forward up to 10 years.

You can also carry it forward for up to 20 years.

The amount you deduct in any year cannot be more than your net farm income for that year. If you have no net farming income in any of those years, you cannot deduct any restricted farm loss.

To carry back your 2006 restricted farm loss to any of your 2003, 2004, or 2005 income tax returns, use Form T1A, *Request for Loss Carryback*. File one copy of the form with your 2006 return. **Do not** file an amended return for the year or years to which you apply the loss.

Applying your restricted farm losses from years before 2006

You may have net farm income in 2006. If so, you may be able to apply to your 2006 income tax return restricted farm losses you had in any year from 1996 to 2005. You can apply these losses as long as you did not already deduct them from your farm income. Also, you can only apply them up to the amount of your net farm income in 2006. You have to apply the loss from the earliest year first, before you apply the losses from other years. Claim this amount at line 252 of your income tax return.

You may have sold farmland at a time when you had restricted farm losses that you did not claim. If so, you may be able to reduce the amount of your capital gain from the sale. For more details, see "Restricted farm losses" on page 56.

Non-deductible farm losses

If you did not run your farm as a business, you cannot deduct any part of your net farm loss.

The size and scope of your farm may make it impossible for the farm to make a profit, either now or in the near future. In this case, you cannot deduct your farm loss. We consider this kind of farm to be personal. Therefore, any farm expenses are personal expenses and non-deductible.

Non-capital loss

You may have incurred a loss in 2006 from a business other than farming. If this loss is more than your other income for the year, you may have a non-capital loss. To calculate your 2006 non-capital loss, use Form T1A, *Request for Loss Carryback*.

You can carry back your 2006 non-capital loss up to three years. You can carry forward non-capital losses incurred up to March 22, 2004 for up to seven years. Non–capital losses incurred after March 22, 2004 and before 2006 can be carried forward 10 years.

Non–capital losses incurred after 2005 can be carried forward up to 20 years.

If you choose to carry back your 2006 non-capital loss to your 2003, 2004, or 2005 income tax returns, complete Form T1A. File one copy of the form with your 2006 income tax return. **Do not** file an amended return for the year to which you apply the loss.

For more details about non-capital losses, see Interpretation Bulletin IT-232, *Losses – Their Deductibility in the Loss Year or in Other Years*.

Chapter 7 – Capital Gains

This chapter explains the capital gains rules for people who farm. We cover the general capital gains rules in Guide T4037, *Capital Gains*.

Throughout this chapter, we use the terms **sell, sold, buy**, or **bought**. These words describe most capital transactions. However, the information in this chapter also applies to deemed dispositions or acquisitions. When reading this chapter, you can use the terms **sold** instead of **disposed of,** and **bought** instead of **acquired**, if they more clearly describe your situation.

List the dispositions of all your properties on Schedule 3, *Capital Gains (or Losses) in 2006*. You can get this schedule and other forms and publications from our Web site at **www.cra.gc.ca**, or by calling us at **1-800-959-2221**.

You may be a partner in a partnership that provides you with a T5013 slip, *Statement of Partnership Income*. If the partnership has a capital gain, the partnership will allocate part of that gain to you. The gain will be reported on the partnership's financial statements or on your T5013 slip.

What is a capital gain?

You have a capital gain when you sell, or are considered to have sold, a capital property for **more** than its adjusted cost base **plus** the outlays or expenses you incurred to sell the property. To calculate your capital gain, subtract the adjusted cost base of your property from the proceeds of disposition. From this amount, subtract any outlays or expenses you incurred when selling your property.

In most cases, capital property includes land, buildings, and equipment that you used in your farming business. Therefore, capital property includes depreciable and non-depreciable property.

You have to include your taxable capital gain in income. Not all your capital gain is taxable. For 2006, generally, your taxable capital gain is one-half of your capital gain.

A disposition of depreciable property may result in a recapture of capital cost allowance (CCA). We explain recapture on page 40.

What is a capital loss?

You have a capital loss when you sell, or are considered to have sold, non-depreciable capital property for **less** than its adjusted cost base **plus** the outlays or expenses you incurred to sell the property. To calculate your capital loss, subtract the adjusted cost base of your property from the proceeds of disposition. From this amount, subtract any outlays or expenses you incurred when selling your property.

Not all your capital loss is deductible. For 2006, your allowable capital loss is one-half of your capital loss. You can only deduct an allowable capital loss from a taxable capital gain.

A loss on a disposition of depreciable property may only result in a terminal loss. We explain terminal loss on page 40.

Definitions

Before you can determine your capital gain or capital loss, you will need to know the following terms.

Proceeds of disposition – In most cases, this means the sale price of the property (see page 37).

Adjusted cost base (ACB) – The ACB is the original cost of the property (including amounts you paid to buy it, such as commissions and legal fees). ACB includes other costs such as the cost of any additions, or the cost to renovate or improve the property.

Outlays and expenses – These are amounts you incurred to sell your property. They include costs such as commissions, surveyors' fees, transfer taxes, and advertising costs.

Fair market value (FMV) – This is generally the highest dollar value you can get for your property. We define this term on page 37.

How to calculate your capital gain or loss

To calculate your capital gain or loss, use the following formula:

Proceeds of disposition	$________	A
Adjusted cost base	$________	B
A **minus** B	$________	C
Outlays and expenses	$________	D
C **minus** D = capital gain (loss)	$________	E

Note
You have to calculate the capital gain or loss on each property separately.

Did you sell capital property in 2006 that you owned before 1972?

If you did, you have to apply a special set of rules when you calculate your capital gain or loss, since you did not have to pay tax on capital gains before 1972. To help you calculate your gain or loss from the sale of property you owned before 1972, use Form T1105, *Supplementary Schedule for Dispositions of Capital Property Acquired Before 1972*.

Disposing of farmland that includes your principal residence

Your home is most often your principal residence. If your home was your principal residence for every year you owned it, you generally do not pay tax on any capital gains when you dispose of it. Therefore, if you sold farmland that included your home in 2006, only part of the gain is taxable. You can choose one of two methods to determine your taxable capital gain. Try both methods to see which one is best for you.

We usually consider approximately one acre of land on which your residence is situated to be part of your principal residence. We will allow you more if you can prove that you needed more land to use and enjoy your principal residence.

Method 1

Separately calculate the capital gain on your principal residence and each of your farm properties. To do this, apportion the proceeds of disposition, the ACB, and any outlays and expenses between your principal residence and each of your farm properties.

Then, calculate the **taxable** capital gain on your principal residence, if any, and each of the farm properties.

Value the land that is part of your principal residence at one of the following two amounts, whichever is **more**:

- the FMV of the land; or
- the FMV of a comparable residential building site in the area.

Example

On February 1, 2006, Helena sold her 32-acre farm, which included her principal residence. One acre of land is part of her principal residence. Helena has these details:

Value of land when she bought her farm

FMV of similar farmland per acre	$ 3,750
FMV of a typical residential building site in the area	$ 15,000

Value of land when she sold her farm

FMV of similar farmland per acre	$ 6,250
FMV of a typical residential building site in the area	$ 25,000

Adjusted cost base (ACB) – actual purchase price

Land	$ 120,000
House	60,000
Barn	16,000
Silo	4,000
Total	$ 200,000

Proceeds of disposition – actual sale price

Land	$ 200,000
House	75,000
Barn	20,000
Silo	5,000
Total	$ 300,000

Proceeds of disposition	**Principal residence**	**Farm properties**	**Total**
Land	$ 25,000*	$ 175,000	$ 200,000
House	75,000		75,000
Barn		20,000	20,000
Silo		5,000	5,000
	$ 100,000	$ 200,000	$ 300,000
Minus ACB			
Land	$ 15,000*	$ 105,000	$ 120,000
House	60,000		60,000
Barn		16,000	16,000
Silo		4,000	4,000
	$ 75,000	$ 125,000	$ 200,000
Gain on sale	$ 25,000	$ 75,000	$ 100,000
Minus: Gain on principal residence**	25,000		25,000
Capital gain	$ 0	$ 75,000	$ 75,000
Taxable capital gain (1/2 × $75,000)			$ 37,500

* Helena uses the value of a typical residential building site for the land that is part of her principal residence, since the FMV of a typical site in the area is more than the FMV of one acre of farmland.

** Because Helena's home was her principal residence during all the years she owned it, the capital gain is not taxable.

Note

If your home was **not** your principal residence for every year you owned it, there could be a capital gain on it that you have to include in your income. Form T2091(IND), *Designation of a Property as a Principal Residence by an Individual (Other Than a Personal Trust)*, will help you calculate the number of years for which you are entitled to designate your home as your principal residence and calculate the part of your gain, if any, that is taxable.

Method 2

Determine the capital gain on your land and your principal residence. Then subtract $1,000 from the gain. Subtract an additional $1,000 for each year after 1971 that the property was your principal residence and you were a resident of Canada. Using Method 2, you can reduce a gain to nil, but you cannot create a loss.

To calculate your capital gain, use the following formula:

Proceeds of disposition	$ ______	A
Adjusted cost base	$ ______	B
A **minus** B	$ ______	C
Outlays and expenses	$ ______	D
Capital gain before reduction (C **minus** D)	$ ______	E
Method 2 reduction	$ ______	F
Capital gain after reduction (E **minus** F)	$ ______	G

Note
Transfer the entries on lines A, B, D, and G to the relevant columns on Schedule 3, *Capital Gains (or Losses) in 2006*, under "Qualified farm property" or "Real estate, depreciable property, and other properties".

If you choose this method, attach a letter to your income tax return that includes the following information:

- a statement that you sold your farm and are electing under subparagraph 40(2)(*c*)(ii) of the *Income Tax Act*;
- a description of the property you sold; and
- the number of years after 1971 that the farmhouse was your principal residence while you were a resident of Canada (if you purchased your farm after 1971, give the date you purchased it).

As proof of the value of your property, regardless of which method you choose, keep documents that have the following information:

- a description of the farm, including the size of the buildings and construction type;
- the cost of the property and date of purchase;
- the cost of any additions or improvements you made to the property;
- the assessment for property tax purposes;
- any insurance coverage;
- the type of land (arable, bush, or scrub); and
- the type of farm operation.

If you need more details, see Interpretation Bulletin IT-120, *Principal Residence*.

Restricted farm losses

You may have a capital gain from farmland you sell in 2006. You may also have restricted farm losses from previous years that you have not yet used. In this case, you can deduct part of these losses from the gain. The part you can deduct is the property taxes and the interest on money you borrowed to buy the land, if you included these amounts in the calculation of the restricted farm loss in question.

You cannot use the restricted farm loss to create or increase a capital loss on the sale of your farmland.

Qualified farm property and cumulative capital gains deduction

If you have a taxable capital gain from the sale of qualified farm property, you may be able to claim a capital gains deduction. We explain **qualified farm property** on this page. For details on how to calculate your capital gains deduction, get Form T657, *Calculation of Capital Gains Deduction for 2006*, and Form T936, *Calculation of Cumulative Net Investment Loss* (*CNIL) to December 31, 2006*.

You may be a partner in a partnership that sold capital property. In this case, the partnership includes any taxable capital gain in its income. However, as a partner, you can only claim the capital gains deduction for your share of the gain on qualified farm property.

What is qualified farm property?

Qualified farm property is certain property you, your spouse or common-law partner own. It is also certain property owned by a family-farm partnership in which you, your spouse or common-law partner holds an interest. We define spouse and common-law partner in the "Identification" area of your *General Income Tax and Benefit Guide*.

Qualified farm property includes:

- a share of the capital stock of a family-farm corporation that you, your spouse, or common-law partner owns
- an interest in a family-farm partnership that you, your spouse, or common-law partner owns
- real property, such as land and buildings
- eligible capital property, such as milk and egg quotas

Real property or eligible capital property as qualified farm property

Real property or eligible capital property is qualified farm property only if it is used to carry on a farming business in Canada by any **one** of the following:

- you, your spouse or common-law partner, or any of your parents or children (we define children on this page);

- the beneficiary of a personal trust, or the spouse or common-law partner, parent, or child of such a beneficiary;
- a family-farm corporation where any of the above persons owns a share of the corporation; or
- a family-farm partnership where any of the above persons (except a family-farm corporation) owns an interest in the partnership.

You may have bought or entered into an agreement to buy real or eligible capital property before June 18, 1987. We consider you to have used this property in carrying on a farming business in Canada if you meet **one** of these conditions:

- In the year you disposed of it, the property or the one it replaced was used principally in a farming business in Canada by any of the above persons, a family-farm partnership, a corporation, or by a personal trust from which one of the above individuals acquired the property.
- The property, or the property it replaced, was used principally in a farming business in Canada for at least five years by any of the above persons, a family farm partnership, a corporation, or by a personal trust from which one of the above individuals acquired the property. During this time, the property was owned by any of the above persons or a family-farm partnership or corporation.

We will also consider other real or eligible capital property to be used to carry on a farming business in Canada if you meet the following conditions:

- throughout the 24 months before the sale, you, your spouse or common-law partner, any of your children, parents, a personal trust from which one of these persons acquired the property, or a family-farm partnership (in which any of these persons has an interest) must have owned the property; and
- you meet **one** of the following two conditions:
  - the property, or the property it replaced, was used mainly in a farming business in Canada in which any of the above persons was actively engaged on a regular and ongoing basis. Also, in any 24 months of ownership, the person's gross income from the farming business was larger than the person's income from all other sources in the year; or
  - a family-farm partnership or corporation used the property for at least 24 months, mainly to carry on a farming business in Canada. Also, during this time, you, your spouse or common-law partner, any of your children, or your parents must have been actively engaged on a regular and ongoing basis in the farming business.

Transfer of farm property to a child

You may be able to transfer Canadian farm property to your child. When you do this, you can postpone tax on any taxable capital gain and any recapture of capital cost allowance until the child sells the property. To do this, **both** these conditions have to be met:

- Your child is a resident of Canada just before the transfer.
- The farm property is used mainly in a farming business in which you, your spouse or common-law partner, or any of your children were actively engaged on a regular and ongoing basis before the transfer.

Your **children** include:

- your natural child, your adopted child, or your spouse or common-law partner's child
- your grandchild or great-grandchild
- your child's spouse or common-law partner
- another person who is wholly dependent on you for support and who is, or was immediately before the age of 19, in your custody and control

The following types of property qualify for this transfer:

- farmland
- depreciable property, including buildings
- eligible capital property

Furthermore, a share of the capital stock of a family-farm corporation and an interest in a family-farm partnership also qualify for this transfer if your child is a resident of Canada just before the transfer.

For depreciable property, the transfer price can be any amount between its undepreciated capital cost (UCC) and its FMV. For land, the transfer price can be any amount between its adjusted cost base (ACB) and its FMV. For eligible capital property, the transfer price can be any amount between:

- its FMV; and
- $4/3 \times$ your cumulative eligible capital property from the farming business $\times \dfrac{\text{FMV of the property}}{\text{FMV of all your eligible capital property from the farming business}}$

Example
Wade wants to transfer these farm properties to Vicky, his 19-year-old daughter.

Land	ACB	$ 85,000
	FMV at the time of transfer	$ 100,000
Combine	FMV	$ 9,000
	UCC at the time of transfer	$ 7,840

Therefore, Wade can transfer:

- the land at any amount between $85,000 (ACB) and $100,000 (FMV); and
- the combine at any amount between $7,840 (UCC) and $9,000 (FMV).

If Wade chooses to transfer the land at its ACB and the combine at its UCC, he postpones any taxable capital gain and any recapture of CCA. Also, if he does this, we consider that Vicky acquires the land at $85,000 and the combine at $7,840. When Vicky disposes of the land and the combine, she includes in her income any taxable capital gain and recapture that Wade postpones.

For more details and information about transfers of eligible capital property, see Interpretation Bulletin IT-268, *Inter Vivos Transfer of Farm Property to Child*.

Transfer of farm property to a child if a parent dies in the year

We allow a tax-free transfer of a deceased taxpayer's Canadian farm property to a child if **all** of these conditions are met:

- The child was resident in Canada just before the parent's death.
- The property was used mainly in a farming business on a regular and ongoing basis by the deceased, the deceased's spouse or common-law partner, or any of the children before the parent's death.
- The property was transferred to the child no later than 36 months after the parent's death. In some cases, we may allow the transfer, even if it took place later than 36 months after the parent's death.

The following types of farm property qualify for this transfer:

- land and buildings, or other depreciable property used in a farming business;
- eligible capital property for a farming business; and
- a share of the capital stock of a family-farm corporation, and an interest in a family-farm partnership, if the child was resident in Canada just before the parent's death and the property transfers to the child no later than 36 months after the parent's death. In some cases, we may allow the transfer, even if it took place later than 36 months after the parent's death.

For most property, the transfer price can be any amount between the ACB and its FMV.

For depreciable property, the transfer price can be an amount between the property's FMV and a special amount. For more information, see Chapter 4, "Deemed Disposition of Property" in Guide T4011, *Preparing Returns for Deceased Persons*.

The deceased's legal representative will choose the amount in the year of death. We consider that the child acquires these properties at the amount chosen.

Similar rules apply for property that a deceased person leased to the family-farm corporation or partnership.

For eligible capital property, the transfer amount is equal to 4/3 of the cumulative eligible capital at that time. See "Eligible capital property of a deceased taxpayer" on page 52.

If a child gets a farm from a parent and the child later dies, the property can be transferred to the surviving parent, based on the same rules.

Shares or other property of a family-farm holding corporation can also be transferred based on the same rules from a spouse or common-law partner trust to a child of the settlor. The settlor is the person who sets up a trust, or the person who transfers property to a trust.

For more details on these transfers, see Interpretation Bulletin IT-349, *Intergenerational Transfers of Farm Property on Death.*

Transfer of farm property to a spouse or common-law partner

A farmer can transfer farm property to a spouse or common-law partner or to a spouse or common-law partner trust during the farmer's lifetime. At the time of the transfer, the farmer can postpone any taxable capital gain or recapture of CCA.

If the spouse or common-law partner later disposes of the property, the farmer generally has to report any taxable capital gain, not the spouse or common-law partner. This rule applies to transfers made after 1971 where the farmer is living when the spouse or common-law partner sells the property. However, there are exceptions to this rule. For more details, see Interpretation Bulletin IT-511, *Interspousal and Certain Other Transfers and Loans of Property.*

A transfer of farm property can also occur after the farmer dies. For more information, see Chapter 4, "Deemed Disposition of Property," in Guide T4011, *Preparing Returns for Deceased Persons*.

The rollover provisions available for farm property are now extended to land and depreciable property used principally in a woodlot farming business. They will apply where the deceased, the deceased's spouse or common-law partner, or any of the deceased's children were engaged in the woodlot operation as required by a **prescribed forest management plan** for the woodlot. These provisions apply to transfers of property that occur after December 10, 2001.

Other special rules

You may also be able to postpone paying tax on capital gains in the following situations.

Reserves

When you dispose of a capital property, you usually receive full payment at that time. However, sometimes you receive the amount over a number of years. Generally, a reserve allows you to defer reporting part of the capital gain to the year in which you receive the proceeds. For example, you may sell a capital property for $50,000 and receive $10,000 at the time of the sale. You receive the remaining $40,000 over four years. In this situation, you can claim a reserve. However, there is a limit to the number of years you can do this. For more information on reserves, see Guide T4037, *Capital Gains* and Form T2017, *Summary of Reserves on Dispositions of Capital Property.*

Exchanges or expropriations of property

There are special rules that apply when you dispose of a property and replace it with a similar one, or when someone expropriates your property. For more details, see Interpretation Bulletin IT-259, *Exchanges of Property*. You may also want to see Interpretation Bulletin IT-491, *Former Business Property*, and its Special Release.

Commodity List

COMMODITY	CODE
GRAINS, OILSEEDS, AND SPECIAL CROPS	
Barley (seed)	003
Barley (feed)	018
Beans (dry edible)	004
Borage	006
Buckwheat	007
Canadian Wheat Board payments	002
Canary seed	008
Canola	010
Chick peas/garbanzo beans	023
Corn (seed)	011
Corn (feed)	019
Faba beans	012
Field peas (seed)	013
Field peas (feed)	022
Flaxseed	014
Forage (including pellets, silage)	264
Forage seed	015
Grain (pellets, screenings, silage)	039
Hemp	030
Khorasan wheat/kamut	036
Lathyrus	040
Lentils	041
Lupins	042
Millet	043
Mustard seed	044
Oats (seed)	045
Oats (feed)	020
Oilseed radish	038
Prepared feed and protein supplements	046
Quinoa	047
Rice	048
Rice, wild	270
Rye	049
Safflower	050
Soybeans, including canatto, nato (seed)	053
Soybeans, including canatto, nato (feed)	057
Spelt	037
Straw	267
Sugar beets (including molasses)	268
Sunflowers	054
Tobacco	269
Triticale	055
Vegetable seed (seed production only)	051
Wheat (seed)	056
Wheat (feed)	021

COMMODITY	CODE
EDIBLE HORTICULTURE	
Apples and by-products	060
Berries	
Black/red currants	065
Blackberries	066
Blueberries	067
Cranberries	068
Gooseberries	069
Loganberries	070
Raspberries	071
Saskatoon berries	072
Strawberries	073
Tame elderberries	074
Fruit	
Fruit juice (except apple)	081
Grapefruit	082
Grapes	083
Kiwi fruit	084
Lemons	085
Oranges	086
Watermelons	087
Wine (except apple)	088
Fruit – Tender	
Apricots	091
Cherries (sweet, sour)	092
Nectarines	093
Peaches	094
Pears	095
Plums	096
Prunes	097
Herbs and Spices	
Anise	101
Basil	102
Caraway seed	103
Chives	104
Cilantro	105
Comfrey	106
Coriander	107
Dill	108
Evening primrose	109
Fennel	110
Fenugreek	111
Fresh herbs	112
Garlic	113
Ginseng	114
Marjoram	115

COMMODITY	CODE
EDIBLE HORTICULTURE (continued)	
Mint	116
Monarada	117
Oregano	118
Parsley	119
Pepper	120
Rosemary	121
Sage	122
Salsify	123
Scorzonera	124
Summer savory	125
Tarragon	126
Thymol	127
Watercress	128
Medicinal herbs	145
Borage (herb)	146
Mushrooms (including spawn)	131
Nuts (all)	140
Potatoes and by-products	147
Potatoes (for potato chips)	148
Potatoes (feed)	149
Vegetables – Field fresh	
Artichokes	160
Asparagus	161
Beets	162
Bok choi	163
Broccoflower	164
Broccoli	165
Brussels sprouts	166
Cabbage (green, red)	167
Cantaloupe	168
Carrots	169
Cauliflower	170
Celery	171
Chinese cabbage	172
Chinese vegetables	173
Collards	174
Cucumbers	175
Eggplant	176
Endive	177
English cucumbers	178
Fiddleheads	179
Flowers (edible)	180
Horseradish	181
Kohlrabi	182
Leeks	183
Lettuce	184
Melons	185
Mustard leaves	186
Onions	187
Onions (yellow seeded)	188

COMMODITY	CODE
EDIBLE HORTICULTURE (continued)	
Onion sets	189
Parsnip	190
Peppers (red, green, or sweet)	191
Pumpkins	192
Radish	193
Rhubarb	194
Rocket	195
Romaine lettuce	196
Rutabagas	197
Shallots	198
Snap beans	199
Spanish onions	200
Spinach	201
Squash	202
Sweet corn	203
Sweet peas	204
Sweet potatoes/yams	205
Swiss chard	206
Tomatoes	207
Turnips	208
Vegetable marrow	209
Wax beans	210
Weeds (edible)	211
Witloof chicory	212
Zucchini	213
Vegetables – Field processing	
Adzuki beans	216
Baby carrots	217
Broad beans	218
Cabbage (for coleslaw only)	297
Cabbage	298
Carrots	219
Cauliflower	299
Chick peas/garbanzo beans	220
Cucumbers	300
Gherkins	221
Green beans	222
Green peas	223
Jacob beans	224
Lima beans	225
Mung beans	226
Okra	227
Peppers	301
Pumpkins	302
Red beets	303
Snap beans	228
Soldier beans	229
Squash	304
Sweet corn	305
Stevia	230

COMMODITY	CODE
EDIBLE HORTICULTURE (continued)	
Tomatoes	231
Wax beans	306
Vegetables – Greenhouse	
Cherry tomatoes	233
Cucumbers	234
Lettuce	235
Peppers	236
Tomatoes	237
NON-EDIBLE HORTICULTURE	
Bedding plants	132
Flowers and ornamental foliage	133
Fruits and vegetables (non-edible)	134
Seeds and bulbs	135
Shrubs	136
Sod (peat-moss-based)	137
Sod (mineral-based)	141
Trees (cultivated Christmas)	138
Trees (fruit and ornamental)	139
POULTRY	
Chickens	
Pullets for meat production	360
Broilers	361
Roasters	362
Pullets for egg production	365
Chicken eggs	
Chicken eggs for consumption	343
Broiler chicken hatching eggs	344
Commercial game birds	336
Ducks (including eggs)	332
Geese (including eggs)	333
Turkeys	334
Turkey eggs	342
CATTLE AND CALVES (including hides)	
Slaughter cattle	
Cattle raised from birth	702
Cows and bulls	706
Grain-fed veal	704
Purchased cattle	700
Feeder cattle	
Cattle raised from birth	710
Purchased cattle	708
Calves	
Calf sales (excluding purebreds)	712
Bull semen, cattle embryos	712
Non-purebred breeding stock (sold for breeding purposes)	712
Purebreds	
Purebred cattle	718

COMMODITY	CODE
CATTLE AND CALVES (including hides, continued)	
Cattle and calf purchases	762
Bull semen and cattle embryo purchases	762
SHEEP AND LAMBS (including hides)	
Slaughter lambs	
Ewes and rams	734
Lambs raised from birth	730
New crop lambs (less than 85 lbs)	732
Purchased feeders	728
Feeder lambs	736
Purebreds	
Purebred sheep and lambs	742
Sheep and lamb purchases	763
OTHER RED MEATS (including hides, velvet, pelts)	
Buffalo/bison	350
Commercial game animals	351
Deer	352
Elk	353
Alpacas	370
Llamas	355
Goats (including milk)	354
Rabbits	356
Swine/hogs	341
OTHER COMMODITIES	
Bee by-products	375
Leaf cutter bees	312
Honey	129
Honey bees	374
Dogs	313
Donkeys/mules	367
Dulse	314
Exotic birds/game	368
Pheasants (including eggs)	338
Ostriches	371
Rheas	372
Emus	373
Fish meal	263
Groundhogs/hedgehogs	369
Horses (including hides)	316
Pregnant mare urine (PMU)	322
Kenaf	317
Maple products	130
Milk and cream (cattle)	319
Wool	328
Ranch fur	238
Manure	318
Wood	259

Note
For information on any commodities not included in this listing, contact your CAIS Administration.

Program Payment List

See the following lists to determine the correct code to be used for recording the payment type on Form T1163 (Statement A) or Form T1164 (Statement B).

Program payments received from the following list of payments as compensation for commodity income or loss are included in calculating your CAIS program year production margin.

PROGRAM PAYMENT	CODE
BC Cull Animal Program	457
BC Negative Margin Insurance Pilot Program	497
BC Steer and Heifer Market Transition Program	496
Bovine Spongiform Encephalopathy (BSE) Recovery program	468
Canadian Food Inspection Agency (CFIA) Compensation	469
Crop Cover Protection Program	473
Crop/Hail insurance	
Grains, oilseeds, and special crops	401
Edible horticulture crops	402
Non-edible horticulture crops	470
Other commodities, including livestock	463
Farm Income Payment (FIP) Direct	485
Farm Income Payment (FIP) General	484
Fed Cattle Set-Aside Program (all provinces)	483
Feeder Calf Set-Aside Program (all provinces)	482
Grain and Oilseed Program Payment (GOPP)	486
Insurance proceeds for allowable expense items	406
Livestock Feed Insurance Program	412
Manitoba Cull Cow Program	492
Manitoba Drought Assistance Program	489
Manitoba Feeder Assistance Program	480
Manitoba Other Ruminant Industry Transitional Program	488
Manitoba Slaughter Deficiency Program	481
Nova Scotia Modified BSE Recovery Program	491
Nova Scotia Ruminant Industry Support Program	487
Saskatchewan Cull Animal Program	494
Saskatchewan Herd Retention Program	493
Saskatchewan Unseeded Acreage Support Program	477
Transitional Industry Support Program (TISP)	498
Waterfowl/Wildlife Damage Compensation	
Grains, oilseeds, and special crops	418
Horticulture	419
Other commodities	425

Program Payment List

Program payments received from the following list of payments as compensation for commodity income or loss are **NOT** included in calculating your CAIS program year production margin.

PROGRAM PAYMENT	CODE
Alberta Revenue Insurance Coverage	456
Alberta Spring Price Endorsement	495
Canada–Ontario Grain and Oilseed Payment	410
Canada–Ontario Grain Stabilization Payment	410
Canadian Farm Families Options Program	420
CAIS Inventory Transition Initiative (CITI)	421
Dairy subsidies	435
Green Plan, Farm-Based Program	
Permanent cover practices	466
Industry Transition Production Assistance Program	478
Market Revenue Insurance (MRI)	
Grains, oilseeds, and special crops	410
Edible horticulture crops	411
Non-edible horticulture crops	474
Ontario Edible Horticulture Crop Payment	475
Ontario Grain and Oilseed Program Payment	471
Production Insurance (PI) premium adjustment	499
Transitional Financial Assistance Program (TFA)	427

Capital Cost Allowance (CCA) Rates

In this list, you will find the more common depreciable properties a farming business may use. The CCA rates appear at the end of the list. **For details on the CCA rates for Class 13, Class14, Class34, Class 43.1, and Part XVII of the *Income Tax Act*, call our Business Enquiries line at 1-800-959-5525.**

Depreciable property	Class No.
Aircraft – Acquired before May 26, 1976	16
Aircraft – Acquired after May 25, 1976	9
Automobiles	10
Bee equipment	8
Boats and component parts	7
Breakwaters	
Cement or stone	3
Wood	6
Brooders	8
Buildings and component parts	
Wood, galvanized, or portable	6
Other:	
Acquired after 1978 and before 1988*	3
Acquired after 1987	1
Fruit and vegetable storage (after Feb. 19, 1973)	8
Casing, cribwork for water wells	8
Chain-saws	10
Cleaners – grain or seed	8
Combines	
Drawn	8
Self-propelled	10
Computer equipment and systems software	
Acquired before 2005	10
Acquired after March 22, 2004	45
Computer software (other than systems software)	8
Coolers – Milk	8
Cream separators	8
Cultivators	8
Dams	
Cement, stone, wood, or earth	1
Data network infrastructure equipment – Acquired after March 22, 2004	46
Diggers – All types	8
Discs	8
Docks	3
Drills – All types	8
Dugouts, dikes, and lagoons	6
Electric-generating equipment – portable	8
Electric motors	8
Elevators	8
Engines – Stationary	8
Fences – All types	6
Forage harvesters	
Drawn	8
Self-propelled	10
Graders – Fruit or vegetable	8
Grain-drying equipment	8
Grain loaders	8
Grain separators	8
Grain-storage building	
Wood, galvanized steel	6
Other	1
Greenhouses (all except as noted below)	6
Greenhouses of rigid frames covered with replaceable flexible plastic	8
Grinder	8
Harness	10
Harrows	8
Hay balers and stookers	
Drawn	8
Self-propelled	10
Hay loaders	8
Ice machines	8
Incubators	8
Irrigation equipment – Overhead	8
Irrigation ponds	6
Leasehold interest	13
Manure spreaders	8
Milking machines	8
Mixers	8
Mowers	8
Nets	8
Office equipment including photocopiers, fax machines	8
Outboard motors	10
Passenger vehicles (see Chapter 3)	10 or 10.1
Piping – Permanent	2
Planters – All types	8
Ploughs	8
Pumps	8
Rakes	8
Roads or other surface areas – Paved or concrete	17
Silo fillers	8
Silos	8
Sleighs	10
Sprayers	8
Stable cleaners	8
Stalk cutters	8
Swathers	
Drawn	8
Self-propelled	10
Threshers	8
Tillers – All types	8
Tools	
Less than $200 ($500 after May 1, 2006)	12
$200 and more ($500 after May 1, 2006)	8
Tractors	10
Trailers	10
Trucks	10
Trucks (freight)	16
Wagons	10
Water towers	6
Weeders	8
Welding equipment	8
Well equipment	8
Wharves	
Cement, steel, or stone	3
Wood	6
Wind chargers	8
Wind-energy conversion equipment	
acquired before February 22, 1994	34
acquired after February 21, 1994	43.1

* You may add to or alter a Class 3 building after 1987. In this case, there is a limit on the amount you can include in Class 3. The most you can include in Class 3 is the lower of $500,000 or 25% of the building's cost on December 31, 1987. In Class 1, include any costs you incur that are over this limit.

Class	Rates
Class 1	4%
Class 2	6%
Class 3	5%
Class 6	10%
Class 7	15%
Class 8	20%
Class 9	25%
Class 10	30%
Class 10.1	30%
Class 12	100%
Class 16	40%
Class 17	8%
Class 45	45%
Class 46	30%

How to Calculate the Mandatory Inventory Adjustment (MIA)

For instructions on how to complete the following charts, see page 33 in Chapter 3.

Chart 1
Cash cost of purchased inventory

Enter the amount you paid by the end of the 2006 fiscal period for the specified animals you bought:

Fiscal period	Cash cost	
■ in your 2006 fiscal period	$ ______	A
■ in your 2005 fiscal period	$ ______	B
■ in your 2004 fiscal period	$ ______	C
■ in your 2003 fiscal period	$ ______	D
■ before your 2003 fiscal period	$ ______	E

Enter the amount you paid by the end of your 2006 fiscal period for all other inventory you bought:

■ in your 2006 fiscal period	$ ______	F
■ in your 2005 fiscal period	$ ______	G
■ in your 2004 fiscal period	$ ______	H
■ in your 2003 fiscal period	$ ______	I
■ before your 2003 fiscal period	$ ______	J

Chart 2
Value of purchased inventory for specified animals

Inventory bought in your 2006 fiscal period
Enter an amount that is not more than the amount on line A but not less than 70% of this amount. $ ______ **K**

Inventory bought in your 2005 fiscal period
Enter an amount that is not more than the amount on line B, but not less than 70% of the total of the value at the end of your 2005 fiscal period plus any amounts you paid in your 2006 fiscal period toward the purchase price. $ ______ **L**

Inventory bought in your 2004 fiscal period
Enter an amount that is not more than the amount on line C, but not less than 70% of the total of the value at the end of your 2005 fiscal period plus any amounts you paid in your 2006 fiscal period toward the purchase price. $ ______ **M**

Inventory bought in your 2003 fiscal period
Enter an amount that is not more than the amount on line D, but not less than 70% of the total of the value at the end of your 2005 fiscal period plus any amounts you paid in your 2006 fiscal period toward the purchase price. $ ______ **N**

Inventory bought before your 2003 fiscal period
Enter an amount that is not more than the amount on line E, but not less than 70% of the total of the value at the end of your 2005 fiscal period plus any amounts you paid in your 2006 fiscal period toward the purchase price. $ ______ **O**

Chart 3
Value of purchased inventory for all other inventory

Inventory bought in your 2006 fiscal period:
Enter the amount on line F or the fair market value, whichever is less. $ ______ **P**

Inventory bought in your 2005 fiscal period:
Enter the amount on line G or the fair market value, whichever is less. $ ______ **Q**

Inventory bought in your 2004 fiscal period:
Enter the amount on line H or the fair market value, whichever is less. $ ______ **R**

Inventory bought in your 2003 fiscal period:
Enter the amount on line I or the fair market value, whichever is less. $ ______ **S**

Inventory bought before your 2003 fiscal period:
Enter the amount on line J or the fair market value, whichever is less. $ ______ **T**

Chart 4
Calculation of MIA

Enter the amount of your net loss from line 9969 of Form T1163 or T1164. $ ______ **U**

Enter the value of your inventory from Chart 2 and Chart 3:

■ the amount on line K	$ ______		
■ the amount on line L	$ ______		
■ the amount on line M	$ ______		
■ the amount on line N	$ ______		
■ the amount on line O	$ ______		
■ the amount on line P	$ ______		
■ the amount on line Q	$ ______		
■ the amount on line R	$ ______		
■ the amount on line S	$ ______		
■ the amount on line T	$ ______		
Total value of inventory	$ ______	$ ______	**V**

MIA – enter the amount on line U or line V, whichever is less. $ ______ **W**

GST/HST Rates

Farm goods and services subject to GST or HST include:

- crop dusting;
- contract work, including field clearing, tilling, harvesting done by one farmer on behalf of another;
- road-clearing services;
- stud or artificial insemination services;
- storing goods (i.e., storing grain in a grain elevator);
- beeswax;
- maple sugar candy;
- canary seed, lawn seed, and flower seed;
- bedding plants, sod, cut flowers, living trees, and firewood;
- furs, animal hides, and dead animals not suitable for human consumption;
- fertilizer in bulk quantities of less than 500 kg, or any quantities of soil or soil mixture whether or not it contains fertilizer;
- gravel, stones, rock, soil, and soil additives;
- livestock or poultry not normally raised as food or to produce food for human consumption (i.e., horses, mules, rabbits, exhibition poultry, and mink); and
- processed wool, feathers, and down.

Many farm products and purchases, such as milk sales and feeder-cattle purchases, are taxable, but at 0%. We refer to these as zero-rated. You do not pay GST/HST when you buy these products and you do not charge GST/HST when you sell them to your customers.

Zero-rated farm products are:

- fruit and vegetables;
- grains or seeds in their natural state, treated for seeding purposes or irradiated for storage purposes, hay or silage, or other fodder crops, when they are sold in quantities larger than ordinarily offered for sale to consumers, **except** grains and seeds sold to use as feed for wild birds or pet food;
- feed sold by a feedlot operator, as long as the price is separately identified on the invoice or written agreement;
- hops, barley, flaxseed, straw, sugar cane, or sugar beets;
- livestock such as cattle, hogs, poultry, bees, or sheep that are raised or kept to produce food, or to be used as food, for human consumption, or to produce wool;
- poultry or fish eggs that are produced for hatching;
- rabbits, except those that are to be sold as pets;
- frozen, salted, smoked, dried, scaled, eviscerated or filleted fish, or seafood sold for human consumption;
- fertilizer sold in individual bags of at least 25 kg when the total quantity is at least 500 kg;
- wool that is not further processed than washed; and
- tobacco leaves that are not further processed than dried and sorted.

Zero-rated farm purchases are:

- large farm tractors (60 PTO hp. and over);
- pull and self-propelled combines, swathers, and wind-rowers;
- headers for combines, forage harvesters, swathers or wind-rowers;
- combine or forage harvester pickups;
- forage harvesters, and self-propelled, tractor-mounted, or pull-type mechanical fruit or vegetable pickers or harvesters;
- mouldboard and disc ploughs (3 or more furrows), and chisel ploughs and subsoil chisels (at least 8 feet or 2.44 metres);
- discers, rod weeders, or bean rods (at least 8 feet or 2.44 metres);
- field and row crop cultivators (at least 8 feet or 2.44 metres);
- combination discer-cultivators (at least 8 feet or 2.44 metres);
- rototillers and rotovators (at least 6 feet or 1.83 metres);
- harrows sold in complete units and pulverizers (at least 8 feet or 2.44 metres);
- land packers, mulchers, and rotary hoes (at least 8 feet or 2.44 metres);
- airflow seeders, grain and seed drills (at least 8 feet or 2.44 metres), and farm-type row-crop or toolbar seeders or planters designed to seed two or more rows at a time;
- mower conditioners, hay balers, hay cubers, hay rakes, hay conditioners, hay crushers, hay crimpers, hay tedders, swath turners, and wind-row turners;
- bale throwers, elevators, or conveyors, silage baggers and round bale wrapping machines;
- grain bins or tanks with a capacity of 181 m^3 or less (5,000 bushels);
- transportable grain augers, utility augers, elevators and transportable conveyors with belts less than 76.2 cm (30 inches) wide and 0.48 cm (3/16 inch) thick;
- bin sweep or cleaner attachments for portable grain augers;
- tractor-powered pneumatic grain conveyors;
- feed mills, including roller mills and hammer mills;
- feed mixers, grinders, grinder mixers, and tub grinders;
- ensilage mixers, and self-propelled feed or ensilage carts;
- grain toasters to use in livestock feed production;

- grain dryers;
- farm bulk milk coolers;
- assembled and fully operational milking systems or individual components of these systems;
- automated and computerized farm livestock or poultry feeding systems or individual components of these systems;
- self-propelled, tractor-mounted, or pull-type agricultural wagons or trailers designed for off-road handling and transporting of grain, forage, livestock feed, or fertilizer, and to be used at speeds not exceeding 40 km per hour;
- mechanical rock or stone pickers, rock or root rakes, and rock or root wind-rowers, forage blowers, silo unloaders, and shredders with an operational width of at least 3.66 m or 12 feet;
- tractor-mounted, self-propelled, or pull-type field sprayers with tank capacities of at least 300 litres or 66 gallons;
- granular fertilizer or pesticide applicators with an operational capacity of at least 0.2265 m^3 or 8 cubic feet;
- liquid box, tank, or flail manure spreaders and injection systems for liquid manure spreaders;
- leafcutter bees;
- complete feeds, supplements, micro-premixes, macro-premixes, and mineral feeds other than trace mineral salt feeds, labelled in accordance with the *Feeds Regulations*, and designed for rabbits or a specific type of farm livestock, fish, or poultry ordinarily raised or kept for human consumption or to produce wool, and sold in bulk quantities or bags of 20 kg or more;
- feed sold in bulk quantities or bags of 20 kg or more and designed for ostriches, rheas, emus, or bees;
- food processing by-products sold in bulk quantities or bags of 20 kg or more and used as feed or as ingredients in feed for farm livestock, fish, or poultry that is ordinarily raised or kept for human consumption or to produce wool, or for rabbits, ostriches, rheas, emus, or bees;
- pesticides used for agricultural purposes labelled by the *Pest Control Products Regulations* and not designed for domestic use;
- sales of quotas between farmers for zero-rated products (including dairy, turkey, chicken, eggs, and tobacco leaves); and
- farmland rented to a registrant under a sharecropping arrangement, where a share of the production that is zero-rated is part of the price (any other extra payments are taxable).

GST/HST registrants can claim an **input tax credit** for the GST/HST they paid or owe for expenses used to provide taxable goods and services at the rates of 0%, 7%, and 15% before July 1, 2006, and 0%, 6%, and 14% after June 30, 2006.

A limited number of goods and services you purchase are exempt from GST/HST. Since you do not pay GST/HST on these goods and services, there is no input tax credit to claim.

Examples of **exempt** goods and services include:

- insurance services sold by insurance companies, agents, or brokers;
- most services provided by financial institutions, such as arranging loans or mortgages; and
- most health, medical, and dental services.

For more information about GST/HST, see Guide RC4022, *General Information for GST/HST Registrants*.

Index

Page

Accounting fees 26
Accrual method 6
Adjustments. 11
Advertising and promotion 22
Annual allowance on eligible capital property 48
Arm's length salaries 21
Assistance 19
Available for use 37

Base amount for capital cost allowance 41
Breeding fees. 21
Breeding herd chart 14
Building additions 39
Building dispositions 40, 45
Building repairs… 22
Buildings 41
Business liabilities 47
Business records 6
Business Risk Management (BRM) and disaster assistance 16
Business use of a motor vehicle 27
Business-use-of-home expenses 20

CAIS program, Canadian Agricultural Income Stabilization Program 9
Capital contributions in 2006 48
Capital cost allowance (CCA) 8, 32, 36
Capital cost allowance (CCA) rates 65
Capital gains 54
Capital gains deduction 56
Cash method 5
Change in use of depreciable property 43
Changing your method of reporting income 6
Clearing land 23
Commodity List 60
Commodity purchases 20
Commissions and levies 22
Containers 21
Contract work 17, 23
Cost of additions to depreciable property 39
Crop insurance 21
Cumulative eligible capital (CEC) account 48
Current or capital expenses 18

Custom Feeding 17, 22

Dates to remember 7
Deadlines 7
Deceased participant 10
Definitions
- Adjusted cost base (ACB) 54
- Automobile 27
- Available for use 37
- Capital cost 37
- Cash cost 33
- Child 57
- Depreciable property 37
- Fair market value (FMV) 33, 37, 54
- Farm Inventory 33
- Imputed interest 30
- Inventory 33
- Motor vehicle 27
- Non-arm's length 37
- Outlays and expenses 54
- Passenger vehicle 27
- Proceeds of disposition 37
- Purchased inventory 33
- Specified animals 33
- Undepreciated capital cost (UCC) 37

Destroying livestock 14
Disability-related modifications 6
Disposing of farmland that includes your principal residence 55
Draining land 23
Drawings in 2006 48
Drying 22

Electricity expenses 21
Electronic office equipment 42
Eligible capital expenditures 8, 48
Eligible capital property 32, 48
Eligible leasing costs chart for passenger vehicles 30
Equipment additions 39
Equipment dispositions 40
Equity 47
Exchanges or expropriations of property 59
Expense records 7

Farm losses 52
Farming income 5, 12
Fence repairs 22
Fertilizers 21
Fiscal period 5, 12
Forms 10, 38
Freight and shipping 21

Gifts 13
Goods and services tax (GST/HST) rebate 9
Grain 13
Grants 19
Gravel 17, 29
GST/HST rates 67
GST/HST registration 8

Heating fuel expenses 21

Income records 6
Industry codes 11
Input tax credits 19
Instalment payments 7
Insurance proceeds 17
Interest chart 29
Interest expenses 26
Interest income 17
Interest on the money you borrow for a passenger vehicle 29
Inventory 33
Investment tax credit (ITC) 9

Joint ownership of a passenger vehicle 32

Land 39
Leases 17
Leasing costs for a passenger vehicle 29

Page

Legal fees 26
Licenses 29
Lime 21
Livestock sold 13
Livestock insurance premiums 20
Losses
  Fully deductible 52
  Non-deductible 53
  Partly deductible (restricted farm loss) 53

Machinery expenses 21, 22
Mandatory inventory adjustment – current year 33
Mandatory inventory adjustment – prior year 32
Mandatory inventory adjustment charts 66
Medicine expenses 21
Memberships/subscription fees 26
Minerals and salts 21
More than one vehicle 28
Motor vehicle expenses 27

Non-arm's length salaries 27
Non-arm's length transactions 37

Office expenses 26
Oilseeds 13
Optional inventory adjustment – current year 33
Optional inventory adjustment – prior year 32
Other expenses 32
Other income 17
Other insurance premiums 23
Other property 42

Partnerships 8
Passenger vehicles 27, 43
Patronage dividends 17
Payment in kind 12
Permits 29
Personal use of property 44
Pesticides (herbicides, insecticides, fungicides) 21
Premiums to private health services plans 23
Prepaid expenses 20
Prepared feed 22
Prescribed drought region (PDR) 14
Proceeds of disposition 39,55
Program Payment List 63
Program payments 15
Property taxes 26

Qualified farm property 50, 56
Quotas 29, 47

Page

Real property or eligible capital property as qualified farm property 56
Rebates 9, 17
Recapture of capital cost allowance (CCA) 17, 40
Rent (land, buildings, pastures) 26
Rental income 16
Rentals 17
Repayment of program benefits 20
Replacement property 47, 51
Reporting farming income 5
Reporting partnership income 8
Resales 17
Reserves 14, 59
Restricted farm losses 53, 56

Salaries (Arm's length) 21
Salaries (Non-arm's length) 27
Sale of eligible capital property 50
Selling capital property in 2006 that you owned before 1972 55
Small tools 28
Soil testing 28
Storage 22
Storage facilities for fresh fruits and vegetables 42
Subsidies 44

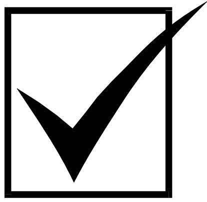
Telephone expenses 29
Terminal loss 40
Time limits 7
Transfer of farm property to a child 57
Transfer of farm property to a child if a parent dies in the year 58
Transfer of farm property to a spouse or common-law partner 58
Trucking 17
Twine 21

UCC after additions and dispositions 40
UCC at the end of the year 41
UCC at the start of the year 38

Valuing your purchased inventory 33
Vehicle definitions 28
Veterinary fees 21

What is capital cost allowance 36
What is a capital gain? 54
What is a capital loss? 54
Woodlots 15

Your opinion counts!



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