Revenue Canada Taxation

Supplementary Guide

Farming Income Tax Guide

1992

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Canada

Before You Start

Is this guide for you?

Read this guide if you earn income as a self-employed farmer or as a member of a farm partnership. It will help you figure out your farm income for 1992. The *General Tax Guide* will help you fill in your 1992 return.

What is farm income?

Farm income includes income you earn from the following:

- Tilling the soil.
- Raising or showing livestock.
- Maintaining race horses.
- Raising fish.
- Raising poultry.
- Dairy farming.
- Fur farming.
- Tree farming.
- Fruit growing.
- Beekeeping.
- Market gardening.
- Growing Christmas trees.
- Running a:
  - feedlot,
  - wild-game reserve,
  - nursery or greenhouse, or
  - chicken hatchery.

Farm income does not include income you earn from working as an employee in a farm business or from trapping.

You may get amounts from a Net Income Stabilization Account (NISA). Legislation proposes that these amounts will not be farm income but will still be taxable. Therefore, report NISA amounts at line 130 on your income tax return.

If you want more details about the NISA program, call 1-800-665-NISA. You can also write to:

NISA Administration
P.O. Box 6100
Winnipeg, Manitoba
R3C 3A4

If you are not sure you are earning income from a farming business, contact your district tax office.

How do we divide the guide?

This guide has eight chapters, a list of examples of farm support payments that are income and a list of capital cost allowance rates.

Chapter 1 has general information in it. It talks about partnerships, how to report your farm income and about what records you need to keep.

Chapter 2 talks about Form T2042, *Statement of Farming Income and Expenses*. You can use this form to figure out the income you have to show and the expenses you can deduct.

Chapter 3 talks about Form T2041, *Capital Cost Allowance Schedule for Farmers and Fishermen*. This chapter explains capital cost allowance and tells you how much you may be able to claim.

Chapter 4 talks about eligible capital expenditures and how much of an annual allowance you may be able to claim.

Chapter 5 tells you what happens when you have a loss from your farm business.

Chapter 6 tells you what happens when you have a capital gain from your farm business.

Chapter 7 covers the investment tax credit and how much you may be able to claim.

Chapter 8 tells you about what happens after you file your income tax return.

In some parts of the guide, we refer you to the business enquiries section of your district tax office. This section deals with the more complex business enquiries that you may have.

You can direct all of your other questions to the general enquiries section of your tax office. The *General Tax Guide* has a list of telephone numbers for both the business and general enquiries sections in your district tax office.

Should you read this guide?

You do not have to read all of this guide. Only read the parts that interest you or that you need more information on. Look in the "Table of Contents" or the "Index" for the topics that the guide covers.

Forms and publications

This guide has two copies of each of these forms.

- Form T2042, *Statement of Farming Income and Expenses*. Use this form to figure out your farm income or loss if you use the cash method. If you use the accrual method, you will still find information in this guide useful to you. See page 6 for definitions of the cash and accrual methods. If you do not want to use Form T2042, you can use your own statements.
- Form T2041, *Capital Cost Allowance Schedule for Farmers and Fishermen*. Use this form to figure out the capital cost allowance (CCA) on your depreciable property. If you do not want to use Form T2041, you can use your own statement.
- Form T1A, *Request for Loss Carry-back*. Use this form to ask for a loss carry-back.
- Form T2038 (IND.), *Investment Tax Credit (Individuals)*. Use this form to ask for an investment tax credit.

We will tell you how to fill in the more common lines on each form. For any form you fill out, attach one copy to your return and keep the other for your records.

This guide refers to other forms that you may need and that you must attach to your return. It also refers to other publications such as Interpretation Bulletins (ITs) and Information Circulars (ICs). These publications cover topics in greater detail and are more technical than the guide. Also, they may give you more details on less common income tax situations.

As you read this guide, list the forms and publications you need on the order form at the back. You can then take or mail the order form to your district tax office. You can also call the "Requests For Forms" telephone number listed in your general tax guide package.

Dates to remember

February 28, 1993 — File your 1992 T4 and T4A Returns. Also, give your employees their copies of the Supplementary slips.

March 31, 1993 — Most farm partnerships will file a Partnership Information Return by March 31, 1993. However, there are exceptions. See the *Guide to the Partnership Information Return* and IC 89-5, *Partnership Information Return.*

April 30, 1993 — File your 1992 income tax return and pay any balance due.

April 30, 1993 — File Form T581, *Forward Averaging Tax Credits,* if you would like to bring all or some of your accumulated averaging amount into income.

December 31, 1993 — Pay your installment for income tax and Canada Pension Plan contributions.

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This guide uses plain language to explain the most common income tax situations. If you need more help after you read this guide, please contact your district tax office.

What's new for 1992

We outline the major changes to this guide below. For more details on all changes for 1992, see the areas highlighted in yellow in this guide.

Proposed changes

This guide includes tax changes announced by the Minister of Finance. These changes had not yet become law at the time of printing. However, we are getting ready to apply them.

Gross Revenue Insurance Plan (GRIP)

In 1992, you may get GRIP payments. See "Line 500 — Other farm income" on page 11 for details.

If in 1992 you pay a GRIP premium, see "Line 320 — Other expenses" on page 14 for details.

Class 10.1

Legislation proposes some changes to the capital cost allowance you can claim when you dispose of a Class 10.1 passenger vehicle. See page 24 for details.

Net Income Stabilization Account (NISA)

In 1992, you may get NISA amounts. Legislation proposes that these amounts will not be farm income but will still be taxable. See "What is farm income?" on page 2 for more details.

If in 1992 you pay a NISA administration fee, see "Line 320 — Other expenses" on page 14 for details.

Greenhouses

Changes propose to allow you to claim a CCA rate of 20% on some types of greenhouses. See page 25 for more details.

Breeding animals

Legislation proposes that for tax years that end after 1990, breeding animals will also include deer, elk and similar animals. See page 9 for more details.

Temporary small business investment tax credit (SBITC)

The government proposes to introduce a temporary non-refundable 10% SBITC on certain property. Contact your district tax office for details.

Chapter 1
General Information

You can earn farm income as a self-employed farmer or by being a member of a farm partnership. Most of the rules that apply to a self-employed farmer also apply to a partner. However, before we cover items common to both, read "What is a partnership?" below if you are a partner.

What is a partnership?

A partnership is a relationship between two or more people carrying on a business to earn a profit. You can be in a valid partnership with or without a written agreement. To decide whether you are in a partnership, refer to the laws for your province.

When you form, change or dissolve a partnership, you should consider these points:

- Is your relationship a partnership?
- That there are special rules about capital gains or capital losses and recapture of capital cost allowance when partners give property to the partnership.
- That there are special rules when you dissolve a partnership.
- That you may have a gain or loss when you sell your interest in a partnership.

You may dissolve a partnership, change partners or transfer property to a partnership. If you need more details, you can contact the business enquiries section of your district tax office. Your *General Tax Guide* has a list of telephone numbers if you want to call the business enquiries section.

As a member of a partnership, there are two ways to report your share of the partnership income.

You may be in a partnership that has five members or less throughout the year and no member is another partnership. If this applies to you and you use the cash method, fill out the partnership schedule on Form T2042, *Statement of Farming Income and Expenses.* You do not have to use Form T2042. You can use your own statement as long as it has the same information as the T2042.

Partnership information return (PIR)

You have to file a PIR if **one** of the following applies to you:

- You are in a partnership that has five members or less throughout the year and one or more members is another partnership.
- You are in a partnership that has six members or more.

It is not necessary for all members of the partnership to file a PIR. Any partner can file for the others. If you are filing a PIR for your partnership, get the *Guide to the Partnership Information Return.*

Each partner gets from the partnership two copies of Form T5013 Supplementary, *Statement of Partnership Income.* Report on page 1 of your return the gross partnership income and your share of the net partnership income or

loss as shown on Form T5013. Attach copy 2 of Form T5013 to your return.

Sometimes, you may need to adjust your share of the net partnership income or loss that is on Form T5013. One example is when you have business expenses that the partnership has not paid back to you. In this case, read the part "Area II" on page 20.

If you need more details, read IT-138, *Computation and Flow-through of Partnership Income.*

How do you report your farm income?

You can use either the cash method or the accrual method to report your farm income. Once you choose a method, use it in future years.

Before we tell you about the two methods, we will need to define the term "fiscal period."

Fiscal period

Your business year does not have to be the same as the calendar year. You can choose the dates of your business year when you file your first income tax return for your business. The period your business year covers is your fiscal period.

You report farm income in the calendar year your fiscal period ends. For example, you report income for the fiscal period July 1, 1991 to June 30, 1992 on your 1992 return. You do this because the fiscal period ends in 1992.

A fiscal period cannot be more than 12 months. But a fiscal period can be less than 12 months in some cases. This can happen when you start or end a business, or when you change your fiscal period.

To change your fiscal period you have to get permission from the director of your district tax office. Ask for this change in writing. We will only approve the change if it is for sound business reasons. We will not approve the change if the main reason is to minimize taxes.

Cash method

When you use this method you:

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

You may get a post-dated cheque as a payment for a debt. In this case, include the amount in income at the time you get the cheque. If the bank does not honour the cheque, you can adjust your income then.

You may get a post-dated cheque as security for a debt. When this happens, include the amount in income when the cheque is payable.

However, you may get a post-dated cheque as security for a debt and the cheque is payable before the debt is due. In this case, include the amount in income on the earlier of the date:

- the debt is payable, or
- you cash or deposit the cheque.

When you use the cash method, you do not include inventory when you calculate your income. However, there are two exceptions to this rule. We explain one at "Line 635 — Mandatory inventory adjustment (MIA)" on page 16. We explain the other at "Line 651 — Optional inventory adjustment" on page 19.

A partnership can use the cash method only if all the partners agree to use it.

If you want more details on the cash method for farm income, read IT-433, *Farming — Use of Cash Method.*

Accrual method

When you use this 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 you pay them in that period or not.

When you calculate your income, include the value of all inventories of livestock, crops, feed, fertilizer and so on. 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.

The value you give to your year-end inventory is important for calculating your income. If this is your first year of farming, there are three methods you can use to value your inventory:

- Value all inventory at its fair market value. Fair market value is the price you would buy or sell something for in a normal business deal.
- Value individual items at the lower of cost or fair market value. When you cannot easily tell one item from another, you can value the items as a group.
- Value livestock according to the unit price base. For this method, fill in Form T2034, *Election to Establish Inventory Unit Prices for Animals.*

In your first year, you will not have an opening inventory at the start of your fiscal period.

If this is not your first year of farming, use the same method you used in past years to value your inventory. The value of your inventory at the start of your 1992 fiscal period is the same as the value at the end of your 1991 fiscal period.

If you need more details on inventories, read IT-473 and Special Release, *Inventory Valuation.*

Changing your method of reporting income

You may decide to change your method of reporting income from the accrual method to the cash method. If this is the case, use the cash method when you file your return. Make sure your income and expense statement shows each adjustment you have to make because of the difference in methods.

On the other hand, you may decide to change from the cash method to the accrual method. In this case, you have to first get permission from the director of your district tax office. Ask for this change in writing before the date you have to file your income tax return. In your letter, give the reasons why you want to change methods.

There is a difference between the cash and accrual methods. Therefore, the first time you file your return using the accrual method, make sure your income and

expense statement shows each adjustment you have to make.

How should you keep your records?

You will need to keep at least one record book to figure out your farm income or loss for each year. This book should show all your business transactions including your daily income and expenses. A book with columns and with separate pages for income and expenses is helpful. The examples below show this type of book.

Your records should show the assets you bought or sold such as land, buildings, tractors and ploughs. Show who sold you the asset, its cost and the date you bought it. When you sell or trade in an asset, show the date you sold it and the amount you got from the sale or a trade-in.

Keep your record book along with any receipts, duplicate deposit slips, bank statements, and cancelled cheques. If you do not keep this information and there is no other evidence to support your figures, we may reduce the expenses you claim. We may also increase the income you report.

Always get receipts or other documents for every income and expense item. Other documents include:

- cash purchase tickets from the sale of grain;
- cheque stubs from marketing boards; and
- invoices for buying livestock, seeds, plants, and so on.

If a supplier does not give you a receipt, keep your own record. Show the name and address of the supplier, the date you made the payment, the amount you paid, and the details of the transaction.

We do not provide record books and do not suggest you use a particular type. There are many record books and bookkeeping systems. Some provincial departments of agriculture put out bookkeeping records you can use.

INCOME ITEMS (Farm)

DATE	PARTICULARS	WHEAT	OATS	BARLEY	RYE	OTHER CROPS	CDN WHEAT BOARD	FORAGE CROPS	CATTLE	OTHER LIVESTOCK	DAIRY PRODUCTS	CUSTOM WORK	PETROLEUM PAYMENTS	OTHER INCOME		LIST OF CAPITAL ITEMS
Jan. 6	Canada Milling Co.	625.00														
Jan. 30	Man. Packers (4 steers)								4,000.00							
Feb. 10	Pleasant Dairy (milk)										350.75					
Mar. 18	Man. Packers (10 hogs)									2,930.00						
Apr. 1	Seed Fair (prize money)													PRIZE 25.00		
Apr. 15	Auto Wreckers (old car)															75.00

EXPENSE ITEMS (Farm)

DATE	PARTICULARS	WAGES	TAXES LICENSES	FIRE & CROP INS.	BLDG. & FENCE REPAIRS	MACHY. REPAIRS	MOTOR VEHICLE EXPENSES	GAS-OIL EXCEPT MOTOR VEHICLE	CATTLE	OTHER LIVESTOCK	SEEDS PLANTS	FEED STRAW	FERTILE SPRAYS	OTHER EXPENSES	CAPITAL ITEMS	PERSONAL EXPENSES
Jan. 30	L. Smith	120.00														
Feb. 12	Craig Hardware													SMALL TOOLS 12.60		
Feb. 12	Poulin Lumber Co.				72.75											
Feb. 28	Fred's Service Station						14.40	22.50								
Mar. 8	Rural Telephone													PHONE 8.20		
Apr. 2	Implements Ltd.														TRACTOR 10,600.00	

How long should you keep your records?

You must keep business records and supporting documents for at least six years after the end of the tax year to which they relate. For example, you have to keep business records and documents for the 1987 tax year until December 31, 1993. If you file your return late, keep your records and supporting documents for six years from the date you filed that return.

Also, if you appeal, keep your records until we or a court settle the issue and the time for filing another appeal has passed. You can find more details in ''Appeal process'' on page 35.

You may want to destroy your records before the six year period is up. Before you can, you must first get written permission from the director of your district tax office. To do this, either use Form T137, *Request for Destruction of*

Books and Records, or make your own written request. If you need more details, get IC 78-10, *Books and Records Retention/Destruction*.

Block averaging

In most cases, 1991 was the last year you could block average your income. This is because block averaging does not apply for five-year blocks that start after 1987. However, in a few cases, you may be able to average. If you are able to block average, you must file Form T2011, *Election to Average Income by Farmers and Fishermen* by April 30, 1993. For more details, contact your district tax office.

Chapter 2
Form T2042, *Statement of Farming Income and Expenses*

General information

As a self-employed farmer, you have to prepare a farming income and expense statement. If you use the cash method, you can use Form T2042, *Statement of Farming Income and Expenses*. However, you do not have to use this form. You can use your own statement of income and expenses as long as you can accurately show your farm income and expenses.

This chapter has seven parts which are the same as the parts on Form T2042. Read the parts that apply to you. These parts are as follows:

- Income. See below.
- Expenses. See page 11.
- Adjustments to the income and expenses statement. See page 15.
- Mandatory inventory adjustment (MIA). See page 16.
- Optional inventory adjustment (OIA). See page 19.
- Business use of home expenses. See page 19.
- Partnership schedule. See page 19.

In this chapter, we will tell you how to fill in the more common lines on the form. Do not confuse the line numbers we use below with the ones on the income tax return.

If you are a member of a partnership, there are two ways to report your share of the partnership income. We explain this in "What is a partnership?" on page 5. You may want to read this part before you fill in your partnership's income and expense statement.

Income

Lines 400 to 407 — Grain

If you sell grain directly or through an agency, include in income all the amounts you get from these sales. For example, include any Wheat Board payments you get from the sale of wheat, oats, barley, rye, flaxseed or canola.

When you deliver grain to a licensed public elevator or process elevator, you will get a storage ticket, a cash purchase ticket, or a deferred cash purchase ticket.

If you get a storage ticket, a sale has not taken place. Therefore, you do not have to include any amount in income at that time.

However, if you get a cash purchase ticket, a sale has taken place. Since we consider that you get a payment at the time you get the ticket, you have to include the amount in income.

You may get a deferred cash purchase ticket. When this happens, you may be able to defer the income until your next fiscal period. You can do this if the ticket calls for payment after the end of the fiscal period in which you deliver the grain. If you need more details, see IT-184, *Deferred Cash Purchase Tickets Issued for Grain.*

Under the *Advance Payments for Crops Act* and the *Prairie Grain Advance Payments Act,* you may be able to get advances for crops that someone stores in your name. We consider these advances to be loans. Therefore, do not include them in income in the fiscal period you get them. Instead, include in income the full amount from the sale of these crops in the fiscal period the sale takes place.

Lines 408 to 414 (inclusive), 435, 445, 450, 460, 461 and 465 — Other produce

If you sell any other produce directly or through an agency, include in income all the amounts you get from these sales.

Line 430 — Western grain stabilization payments

You may get payments or refunds under the *Western Grain Stabilization Act.* When you get these payments, include them in income in the fiscal period you get them.

Lines 440 to 444 (inclusive) — Livestock

In most cases, you include in income the amounts you get from the sale of livestock. However, there are cases when you can defer including some amounts in income. We explain these cases below.

Destroying livestock

You may get payments for destroying livestock. You can defer amounts such as payments you get under the *Animal Contagious Diseases Act.* To do this, include in income the payments you got for destroying the animals. Then deduct as an expense all or part of the payment.

However, in 1993 you must include in income the amount you deducted in 1992. If you deferred payments last year, you will have to include the deferred amounts in this year's income.

Prescribed drought region (PDR)

In some cases, you may be able to defer income you get when you sell breeding animals in your 1992 fiscal period. To be able to do this, you must meet these **two** conditions:

- Your farm business has to be in a prescribed drought region (PDR) at any time in your 1992 fiscal period.
- The number of breeding animals in your breeding herd must be reduced by at least 15%.

A PDR is a region the Minister of Agriculture identifies as suffering from drought conditions. For a list of PDRs, contact your local Department of Agriculture office or your district tax office.

Breeding animals include cattle, bison, goats, and sheep you keep for breeding. Breeding animals also include horses you keep for breeding to produce the pregnant mare's urine that you sell. All these animals must be over 12 months old.

Note
Legislation proposes that for tax years that end after 1990, breeding animals will also include deer, elk and similar animals that you keep to breed. These animals must be over 12 months old.

To find out the size of your breeding herd for your 1992 fiscal period, fill in the chart below.

Breeding herd chart

Part I			
How many breeding animals do you have?		____	1
How many cattle gave birth?		____	2
How many female cattle have never given birth?		____	3
What is one-half of the answer to question 2?		____	4
Write down the lower of the answers for lines 3 and 4.		____	5
Part II			
Write down your answer to question 1		____	A
Write down your answer to question 3	____ B		
Write down your answer to question 5	____ C		
B − C		____	D
A − D		____	E

Line E is the number of breeding animals in your breeding herd for your 1992 fiscal period.

Before you figure out how much you can defer, you need to calculate a few amounts. First, figure out your sales of breeding animals for your 1992 fiscal period. Then subtract from this amount, the cost of breeding animals you bought in your 1992 fiscal period. The result is your "net amount."

You then figure out how much you can defer as follows:

- If your breeding herd is reduced between 15% and 30%, you can defer up to 30% of the net amount.
- If your breeding herd is reduced by 30% or more, you can defer up to 90% of the net amount.

Note that you do not have to defer all of this income. You can include any part of it in your 1992 income.

Also note that as long as your farm business is in a PDR at any time in your 1992 fiscal period, you do not have to include income you deferred in earlier years.

Your farm business may not be in a PDR at any time in your 1992 fiscal period. When this happens, you

- cannot defer income you get in your 1992 fiscal period, and
- include in your income for 1992, all amounts you deferred from prior years.

Line 455 — Dairy subsidies

You have to include in income, any milk or dairy subsidies that you get.

Line 470 — Wood

If you operate or regularly harvest a woodlot, include in income the amounts you get from the sale of trees, lumber, logs, poles or firewood.

You can deduct a type of capital cost allowance known as a depletion allowance from this income. We explain this in IT-481, *Timber Resource Property and Timber Limits*.

From time to time you may get income from letting other people remove standing timber from your woodlot. In this case, we consider this income to be a capital receipt. A taxable capital gain or an allowable capital loss may result. For more details on capital gains and losses, read the *Capital Gains Tax Guide*.

If you would like more details on the sale of wood, read IT-373, *Farm Woodlots and Tree Farms*.

Line 480 — Patronage dividends

Include all patronage dividends (other than those for consumer goods or services) in income in the year you get them. A patronage dividend that is a share or a certificate of indebtedness is income at the time you get it.

Lines 485, 486 and 487 — Rebates

You may get federal or provincial rebates on gasoline tax or property tax that apply to your farm business. You can either include the amount of the rebates in income or reduce your expenses by the amount of the rebates.

You may get a GST rebate if you are a member of a GST registered partnership. Revenue Canada pays this rebate on the expenses you incur to earn partnership income for which the partnership did not repay you. Revenue Canada bases the rebate on the amount of expenses to which GST applies, that you deducted on your return. Expenses include vehicle costs, meals, entertainment, and certain business use of home expenses. You may also get a GST rebate for capital cost allowance (CCA) you claimed on a vehicle you buy for the business.

If the GST rebate is for expenses, include the amount of the rebate in income. If the rebate is for CCA, subtract the amount of the rebate from the property's capital cost. See Chapter 3.

If you think you may be eligible for this rebate, fill in Form GST-370(E), *Employee and Partner GST Rebate* and attach it to your return. You can get this form from your district tax office.

Line 495 — Other subsidies

You may get a grant, subsidy or other assistance from a government or non-government agency. In most cases, you can either include the amount in income or reduce the amount of the expense. For example, you may get a GST input tax credit from Revenue Canada for your farm expenses. You can either include the amount of the credit in income or reduce the expenses by the amount of the credit. However, there are some cases where you do not have a choice.

You may get government assistance to buy depreciable property, such as tools or equipment. For example, you may get a GST input tax credit to buy a tractor. Since this credit is government assistance, deduct the amount you get from the cost of the tractor. This will affect your capital cost allowance and investment tax credit. See Chapter 3 and Chapter 7.

When you get non-government assistance to buy depreciable property you have a choice. You can either deduct the amount from the cost of the property or include the amount in your income.

Line 500 — Other farm income

If you have other types of farm income that are not on the form, write them down on the space at this line. If you do not have enough space, use a separate sheet of paper and attach it to your return.

Farm support payments

You may get farm support payments. At the end of the guide, we list examples of those payments that you must include in income. See "Farm support payments" on page 36.

Gross Revenue Insurance Plan (GRIP)

In 1992 you may get GRIP payments. It is proposed that you must include these payments in your farm income for 1992.

Gifts

Include in income, the fair market value of livestock or other items you gave away that you would normally sell. Fair market value is the price you would buy or sell something for in a normal business deal.

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

Payment in kind

A payment in kind is when you get or give something instead of money. For instance to pay someone, you may give them a side of beef instead of money.

You may get a payment in kind for a product you would normally sell. When this happens, include the value of the product in income.

You may make a payment in kind for a business expense. When you do this, include the value of the payment in income. Deduct the value of the payment as an expense.

Surface rental for petroleum or natural gas exploration

You may get payments for leasing your farmland for petroleum or natural gas exploration. These payments will be either income or a capital receipt.

Include in income, the payment you get every year 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 rental, severance or inconvenience. When this happens, in the year you get the first payment, include in income an amount that is equal to the annual payment you will get 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. See Chapter 6 for details about a capital gain.

Rental income

You do not usually include rental income in your farm income. To figure out your rental income, use Form T776, *Statement of Real Estate Rentals*. You will find this form in the *Rental Income Tax Guide*. You can get the guide and form from your district tax office. Write the amount of your rental income on line 126 on page 1 of your return.

Recapture of capital cost allowance (CCA)

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

You may want to fill out Form T2041, *Capital Cost Allowance Schedule for Farmers and Fishermen* to find out if you have any recapture. See Chapter 3.

Miscellaneous

Include in income, amounts you get from the sale of soil, sod, sand, gravel or stone. For some of these items, you can claim a depletion allowance. For more details contact your district tax office.

You may deduct as an expense, the cost of property such as small tools. If you do this and you later sell the property, include the amount you get from the sale in income.

Include in income, prizes from fairs or exhibitions. When your children win these prizes they can report the income. For more details on prizes, read IT-213, *Prizes from Lottery Schemes, Pool Systems Betting and Giveaway Contests.*

Line 505 — Gross farm income

Gross farm income is your total farm income before you deduct expenses. Write your gross farm income on line 168 on page 1 of your return.

Expenses

Prepaid expenses

A prepaid expense is the cost of a service you pay for in advance. This could include insurance, taxes and rent you pay for in one year but you don't get the benefits until the next year.

You can deduct the full amount of any prepaid expenses you paid in the year if you meet two conditions. You have to use the cash method to figure out your farm income and you must have a binding contract with a supplier.

You may use the accrual method to figure out your farm income. In this case, you can deduct the part of the prepaid expenses that are for the year you get the benefit.

Line 195 — Salaries

Deduct the wages you pay your employees. You can also deduct the cost of board for hired help. However, you cannot deduct the cost of board for dependants.

As the employer, you also deduct your share of the Canada or Quebec Pension Plan (CPP or QPP) contributions and Unemployment Insurance (UI) premiums. Do not deduct the amounts you withhold on behalf of your employees.

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

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

- You pay the salary.
- The work your child does is necessary for you to earn farm income. If you did not employ your child, you would have to employ someone else.
- The salary is reasonable when you consider your child's age and the amount you pay is what you would pay someone else.

Keep documents to support the salary you pay to your child. When you pay your child by cheque, keep the cancelled cheque. When you pay cash, get your child to sign a receipt.

You may pay wages in kind to your child. For example, you may give your child livestock or grain instead of cash and deduct the wages as an expense. When you do this:

- your child includes in income the value of the livestock or grain, and
- you include the same amount in your gross sales for the year.

You can also deduct wages you pay your spouse as long as you follow the same rules. You may be a member of a partnership that employs your spouse. In this case, the partnership can deduct your spouses's wages if it pays them to earn income for the business. Also, the wages must be reasonable.

You have to fill in a T4 and T4A return as well as the T4 and T4A Summary and Supplementary forms. Report on the T4 slips, the wages you paid to your employees, children or spouse. Also show the amounts you withheld.

For more details on wages and how to fill in the T4 and T4A returns, see the *Employers' Guide to Payroll Deductions*. You can get the guide from your district tax office.

Line 205 — Rent

Deduct the rent you pay for land, buildings and pasture.

You may farm on a sharecrop basis and you pay your landlord a share of the crop. When you do this, you can do **one** of the following:

- Add to your income, the fair market value of the crops you give your landlord. Deduct the same amount as an expense.
- Do not include the amount in income nor deduct the amount as an expense.

Lines 210 and 211 — Interest

Deduct the interest you pay on money you borrow to earn farm income. An example would be interest you pay on a loan you use to buy a baler. However, there is a limit on the interest you can deduct on money you borrow to buy a passenger vehicle you use in your farm business. We explain this at "Line 225 — Motor vehicle."

Do not deduct interest on money you borrow for personal purposes, overdue income taxes or the principal part of loan or mortgage payments.

Line 225 — Motor vehicle

The kind of vehicle you own can affect the expenses you can deduct. For tax purposes, there are three types of vehicles you should know about. They are:

- Motor vehicles.
- Automobiles.
- Passenger vehicles.

If you own or lease a passenger vehicle, there can be a limit on the amounts you can deduct for capital cost allowance (CCA), interest and leasing costs. We cover the limits on CCA in Chapter 3. You will find the limits on interest and leasing costs later in this section.

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

An **automobile** is a motor vehicle that is designed or adapted mainly to carry people on streets and highways and seats no more than the driver and eight passengers. However, an automobile does not include:

- An ambulance.
- A motor vehicle you acquire to use more than 50% as a
  - taxi,
  - bus to transport passengers, or
  - hearse in a funeral business.
- A motor vehicle you acquire to sell, rent or lease in a motor vehicle sales, rental or leasing business.
- A motor vehicle (except a hearse) you acquire 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. Also, in the tax year you acquire it, you use it more than 50% to transport goods or equipment to earn income.
- A van, pick-up truck or similar vehicle that, in the tax year you acquire it, you use it 90% or more to transport goods, equipment or passengers to earn income.

A **passenger vehicle** is any automobile you buy after June 17, 1987 or that you lease under an agreement you enter, extend or renew after June 17, 1987.

An automobile you bought or leased under the terms of a written agreement you entered before June 18, 1987 is not a passenger vehicle.

Business use of a motor vehicle

You may use your motor vehicle for personal and business reasons. When you do this, you can deduct the part of your expenses that is for business use.

Business use includes trips to pick up parts, farm supplies, deliver grain and so on. If you do not live on your farm, the travel between the farm and your home is not business travel.

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

Example

Phil is a pig farmer. His farm 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. Phil wrote down the following for 1992:

Business kilometres	27,000 km
Total kilometres	30,000 km
Gasoline and oil	$ 3,500
Repairs and maintenance	500
Insurance	1,000
Interest (on loan to buy truck)	1,900
License and registration fees	100
Total expenses for the truck	$ 7,000

This is how Phil figures out the motor vehicle expense he can deduct in 1992:

$$\frac{27{,}000 \text{ (business kilometres)}}{30{,}000 \text{ (total kilometres)}} \times \$7{,}000 = \$6{,}300$$

Interest on the money you borrow for a passenger vehicle

When you use a passenger vehicle to earn farm income, there is a limit on the amount of interest you can deduct.

If you use either the cash or accrual method to figure out your income, fill in the chart below to calculate the interest you can deduct. If you use your passenger vehicle for both personal and business use, fill in the chart before you figure out how much interest you can deduct as an expense.

Interest chart

Write down the total interest paid (cash method) or payable (accrual method) in the year ______ A

$ ____ * × the number of days in the year for which interest was paid or payable ______ B

Your available interest expense is the lower of A or B.

* For passenger vehicles bought before September 1, 1989, use $8.33. For passenger vehicles you buy after August 31, 1989, use $10.00.

Example

Frank's farm business has a December 31, 1992 year-end. In March 1988 he bought a new car that he uses for both personal and business use. The car is a passenger vehicle. Frank borrowed money to buy the car and the interest he paid in 1992 was $5,000. Frank wrote down the following for 1992:

Business kilometres	20,000 km
Total kilometres	25,000 km
Gasoline and oil	$ 2,000
Repairs and maintenance	1,000
Insurance	1,891
Interest (on loan to buy car)	3,049**
License and registration	60
Total car expenses	$ 8,000

** Since the car Frank bought is a passenger vehicle, there is a limit on the interest he can deduct. Frank's available interest is the smallest of these two amounts:

- $5,000 (the total interest he paid in 1992).
- $3,049 ($8.33 × 366 days).

Since Frank bought the passenger vehicle before September 1, 1989, he uses the rate of $8.33.

Here is how Frank figures out the motor vehicle expense he can deduct in 1992:

$$\frac{20{,}000 \text{ (business kilometres)}}{25{,}000 \text{ (total kilometres)}} \times \$8{,}000 = \$6{,}400$$

Leasing costs for a passenger vehicle

There is a limit on the leasing costs you can deduct as an expense if you lease a passenger vehicle for use in a business.

If you use the cash method to figure out your income, use the chart "Eligible Leasing Costs Chart for Passenger Vehicles" in the *Employment Expenses Tax Guide.* If you use the accrual method to figure out your income, use the chart in the *Business and Professional Income Tax Guide.* You can get both guides from your district tax office.

Joint ownership

If you and someone else own or lease 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 that one person owning or leasing the passenger vehicle could deduct.

More than one vehicle

You may use more than one motor vehicle for your business. In this case, keep a separate record that shows the total and business kilometres you drove, and the cost to run and keep each vehicle. Calculate each vehicle's expenses separately.

If you need more details on motor vehicle expenses, read IT-521, *Motor Vehicle Expenses Claimed by Self-Employed Individuals.*

Line 255 — Veterinary fees, medicine, and breeding fees

Deduct the amounts you pay for veterinary fees, medicine for your animals and breeding fees. Breeding fees include artificial insemination.

Line 260 — Building repairs

Deduct the amounts you pay for repairs to all buildings you use for farming, except your farmhouse. However, if the repairs improve a building beyond its original condition, these costs are capital expenditures. This means you add the cost of the repairs to the cost of the building on your capital cost allowance (CCA) schedule. We explain the CCA schedule in Chapter 3. If you are not sure whether your repairs are capital, contact your district tax office.

If you need more details on capital expenditures, read IT-128, *Capital Cost Allowance — Depreciable Property.*

If you use your farmhouse for business reasons, see "Line 660 — Business use of home expenses" on page 19.

Line 270 — Small tools

If a tool cost you less than $200, deduct its full cost. If it cost you $200 or more, it is a capital item. See Chapter 3.

Line 275 — Insurance

Deduct the amounts you pay to insure your farm buildings, crops and livestock.

In most cases, you cannot deduct the amounts you pay to insure personal property such as your home or car. However, if you use the property for your farm, you can deduct the business part of these costs.

For more details, see "Line 660 — Business use of home expenses" on page 19 and "Line 225 — Motor vehicle" on page 12.

In most cases, you cannot deduct your life insurance premiums.

Line 280 — Accounting, legal, office, advertising, memberships, subscriptions

Accounting and legal fees

In most cases, you can deduct legal fees that are for your farm business. Also, deduct any fees you pay to have someone do your income tax return.

You may pay accounting and legal fees to file an appeal against your assessment for income tax, Canada or Quebec Pension Plan contributions, or Unemployment Insurance premiums. Deduct these fees on line 232 of your income tax return. You may get an amount to offset these fees. In this case, subtract from the fees the amount you get and write the result on line 232.

Do not deduct the legal and other fees you pay to buy property, such as land, buildings and equipment. Add these fees to the cost of the property.

If you need more details, read IT-99, *Legal and Accounting Fees*.

Office and advertising expenses

Deduct the cost of office expenses, such as stationery, invoices, and receipt and accounting books. Deduct the cost of any advertising you do for your business.

Membership fees and subscriptions

Deduct the fees you pay for memberships in farm organizations and to subscribe to materials for farming.

Line 285 — Telephone

Do not deduct the basic cost of your home telephone. However, you can deduct any business long-distance telephone calls you make on your home telephone.

You may put in a separate telephone to use in your business and you use it for business calls only. In this case, you can deduct its basic cost.

Lines 290, 295, and 215 — Electricity, heating fuel, and property taxes

You can deduct only a part of these costs. To figure out the part you can deduct, keep a separate record of the amounts you pay for the farmhouse and other farm properties.

For example, the business part of your electricity expense will depend on how much hydro you use for the barns and shops. The hydro for the farmhouse is a personal expense. Therefore, you cannot deduct it unless you meet the conditions we explain at "Line 660 — Business use of home expenses" on page 19.

You may be repaying through your property tax payments to your township, a loan for land drainage. In this case, you cannot include the amount you are repaying as a property tax expense.

Do not include as a farm expense, the expenses for a house that you rent to someone else. This is a rental expense. Put rental expenses on a separate statement. You can use Form T776, *Statement of Real Estate Rentals*. You will find this form in the *Rental Income Tax Guide*. You can get this form and guide from your district tax office.

Line 310 — Clearing, levelling or improving land

Clearing or levelling land

In most cases, you can deduct the cost to:

- clear the land of brush, trees, roots, stones, and so on;
- first plough the land for farm use;
- build an unpaved road; and
- install land drainage.

You do not have to deduct all the cost in the year you pay it. If you pay the whole cost, you can deduct any part of it in the year you pay it. You can carry forward to another year, any part of the cost you did not deduct.

You may rent land to someone else. In this case, you cannot deduct the above costs. Instead, you have two choices. You can add these costs to the cost of the land. Or if you build on the land right away, you can add these costs to the cost of the building. Note that you add costs for land drainage to Class 8. See Chapter 3.

If you need more details, see IT-485, *Cost of Clearing or Levelling Land*.

Improving land

You cannot deduct the cost of a paved road. Instead, you add this cost to class 17. See Chapter 3.

You can deduct most of the cost to drill or dig water wells in the year you do the work. However, you have to add some of the costs to Class 8. The costs you add to Class 8 are:

- The casing and cribwork for the well.
- The cost of the system that distributes water. This includes the pump, installing the pump, pipes and trenches.

Deduct amounts you pay to have public utilities brought to your farm, as long as the installations remain the property of the utility.

Deduct amounts you pay under *The Co-operative Associations Act* to build a distribution system under a gas service contract.

Line 320 — Other expenses

You may have other expenses that we do not cover. Deduct these other expenses at this line.

You can pay some of your expenses by having them deducted from your cash grain tickets or grain stabilization payments. These expenses include seed, feed, sprays,

fertilizers or the Western Grain Stabilization levy on grain. You can deduct these expenses if you include in your income, the gross amount of the grain sale or stabilization payment.

You may take a deferred cash purchase ticket. When you do this, we consider that you pay the Western Grain Stabilization levy on the date you deliver the grain for sale. You can deduct the levy as an expense for that year.

Note

For 1991 and later years, legislation proposes that you can deduct an amount you paid as:

- a premium for the Gross Revenue Insurance Program (GRIP), or
- an administration fee for a Net Income Stabilization Account (NISA).

Leasing costs

Deduct the lease payments you make in the year for property you use on your farm. If you lease a passenger vehicle, see "Line 225 — Motor vehicle" on page 12.

If you enter a lease agreement after April 26, 1989, you can choose to treat your payments in a different way. You can treat the lease payments as combined payments of principal and interest.

However, you and the person you are leasing from have to agree to treat the payments this way. Also, **both** these rules apply:

- We consider that you buy the property rather than lease it.
- We consider that you borrow an amount equal to the fair market value of the leased property.

You can deduct the interest part of the payment as an expense. You can also claim capital cost allowance on the property.

You can make this choice as long as the property qualifies and its fair market value (FMV) is more than $25,000. A combine that you lease and has a FMV of $35,000 is an example of property that qualifies. However, office furniture and automobiles often do not.

To treat your lease this way, file **one** of these forms with your return for the year you make the lease agreement:

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

If you want more details about this kind of lease arrangement, contact your district tax office.

Line 326 — Mandatory inventory adjustment included in prior year

You may have included an amount for the mandatory inventory adjustment in your income for 1991. In this case, deduct the amount as an expense for 1992.

Line 327 — Optional inventory adjustment included in prior year

You may have included an amount for the optional inventory adjustment in your income for 1991. In this case, deduct the amount as an expense for 1992.

Line 330 — Capital cost allowance

Write the amount you calculate on Form T2041, *Capital Cost Allowance Schedule for Farmers and Fishermen* or from your own schedule. See Chapter 3.

Line 331 — Allowance on eligible capital property

We explain how to figure out this allowance in Chapter 4.

Line 335 — Total farm expenses

Add up your farm expenses for the year and write the total on line 335. Then write the same amount on line 515.

Line 520 — Net income (loss) before adjustments

Subtract your total farm expenses (line 515) from your gross farm income (line 505). This is your net farm income (loss) before adjustments. Write this amount on line 520. Then turn over the page and write the same amount at the top of the page.

Adjustments to the income and expenses statement

You may have to make adjustments. If you do, fill in this part of the T2042. We cover the common adjustments below.

Add lines 605 to 625. Then add the result to the amount on line 520. Then write the total on line 630. Note that when you add an amount to a loss you are reducing the loss.

Line 605 — Salary or wages paid to self, partner(s) or both

Include in income any amount you paid yourself if you deducted the amount as an expense.

Your partnership may pay a partner a wage and deduct the wage as an expense. In this case, include in income the amount of the wage. You do this because the partners' salaries or wages are a distribution of the partnership's income.

Line 615 — Cost of saleable goods used

Include in income the cost of producing the goods you would normally sell that you, your family, or your partners and their families used. You do this if you deducted the cost of producing these items as an expense. Saleable goods include items such as milk, cream, butter, eggs, potatoes, poultry and meat.

Line 620 — Personal expenses

You may deduct personal expenses from your farm income. If you do this, add these expenses back to income. Personal expenses include:

- Donations to charities and political contributions. You may be able to claim these expenses on the proper lines of your income tax return.
- Interest and penalties you paid on income tax.
- Life insurance premiums.
- Fines and penalties.

Line 625 — Other

Use this line for other items that we do not cover. For example, you may use partnership property on which the partnership claims expenses or CCA. When you use the property for personal use, include in income the value of any benefit you get from using this property.

Line 635 — Mandatory inventory adjustment (MIA)

Please read this part even if you do not have to make the MIA. This part will show you how to figure out the value of the farm inventory you bought and still have at the end of your 1992 fiscal period. You will need to know this value if you have to make the MIA in the future.

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

- You use the cash method to report your income.
- You have a net loss on line 630.
- You bought inventory and still have it at the end of your 1992 fiscal period.

Add the amount of your MIA on line 635 to the amount on line 630 and copy the result onto line 640.

You will deduct from your farm income in 1993, the MIA you add to your net loss in 1992.

If you started your farm business after 1988, your MIA is the smaller of these two amounts:

- The net loss on line 630.
- The value of the purchased inventory you still have at the end of your 1992 fiscal period. Below, we tell you how to get this value.

If you started your farm business before 1989, you can use one of two methods to figure out your MIA. You can use either the fixed dollar method or the elective method. We will show you these methods below. However, if you choose the elective method, you must tell us on your return that you are using this method. If you do not tell us, we will assume you are using the fixed dollar method.

To figure out your MIA, the first step you have to do is to value your inventory. To do this, fill in Charts 1, 2 and 3 on pages 17 and 18. The next step is to use both methods to calculate your MIA before you decide which one to use. To do this, fill in Chart 4 on page 18 for the fixed dollar method and Chart 5 on page 19 for the elective method.

To value your inventory, you need to know the meaning of these terms.

Inventory is a group of items that a business holds and either uses or sells to its customers.

Farm inventory includes livestock, fertilizer, chemicals, feed, seed, fuel and so on. Seeds that are planted and fertilizer or chemicals that are already applied are not part of your inventory.

Purchased inventory is inventory you bought and paid for.

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

Cash cost is the amount you paid toward the purchase of your inventory.

Fair market value (FMV) is the price you would buy or sell something for in a normal business deal.

Valuing your purchased inventory

To value your purchased inventory, read the text that follows. We give you an example of how to fill in the MIA charts. On pages 39 and 40 of this guide, there are blank charts for you to use. Keep these charts as part of your records.

Except for specified animals, value purchased inventory bought in or before your 1992 fiscal period at the smaller of these two amounts:

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

To figure out which amount is less, compare each item or class of items in the inventory separately.

Value the specified animals you bought in your 1992 fiscal period and still have at the end of the period at any one of these amounts:

- (A) The cash cost.
- (B) 70% of the cash cost.
- Any amount between (A) and (B).

Value specified animals you bought before your 1992 fiscal period that you still have at the end of your 1992 fiscal period at any one of these amounts:

- (C) The cash cost
- (D) 70% of
  - the total value of the specified animals at the end of your 1991 fiscal period, plus
  - any amounts paid in your 1992 fiscal period toward the purchase price.
- Any amount between (C) and (D).

Note

You may buy a specified animal in a non arm's-length transaction. When you do this, we consider that you buy the animal in the same year the seller buys it. A non arm's-length transaction is, for example, a transaction between members of a family, such as a husband and wife, or father and son.

To show you how the MIA works, read this example.

Example

Jake's farming business has a December 31 year-end. He uses the cash method to report his income. Jake shows a net loss of $55,000 on line 630. Jake has purchased inventory at the end of his 1992 fiscal period. This means he must decrease his net loss by the MIA. Jake set up a chart for the cash cost of his purchased inventory at the end of his 1992 fiscal period.

Livestock

Year of purchase	Cost of purchase	Amount Jake paid by the end of his 1992 fiscal period
1992	$30,000	$25,000
1991	$26,000	$26,000*
1990	$22,000	$22,000
1989	$20,000	$20,000
1988	$16,000	$16,000

* For livestock bought in his 1991 fiscal period, Jake paid $19,000 in 1991 and $7,000 in 1992.

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

bought in his 1992 fiscal period $15,000
bought in his 1991 fiscal period .... $ 6,000
bought in his 1990 fiscal period .... $ 5,000

At the end of his 1992 fiscal period, Jake did not have any other inventory that he bought before his 1990 fiscal period.

Jake's livestock is registered under the *Animal Pedigree Act*. He wants to treat these animals as specified animals. Jake fills in Chart 1 as follows:

Chart 1
Cash cost of purchased inventory

Jake writes down the amount he paid by the end of his 1992 fiscal period for the specified animals he bought:

- in his 1992 fiscal period $25,000 **1**
- in his 1991 fiscal period $26,000 **2**
- in his 1990 fiscal period $22,000 **3**
- in his 1989 fiscal period $20,000 **4**
- before his 1989 fiscal period $16,000 **5** *

* To figure out the amount for line 5, Jake multiplies the amount he paid by the percentage shown below. Then he writes the result in the "Cash cost" column. Then Jake totals all the years and writes this total on line 5.

Fiscal period of purchase	Amount paid	Percentage	Cash cost
1988	$16,000	100%	$16,000
1987 & 1986	0	50%	0
1985 & prior	0	25%	0
Total			$16,000

Jake writes down the amount he paid by the end of his 1992 fiscal period for all the other inventory he bought:

- in his 1992 fiscal period $15,000 **6**
- in his 1991 fiscal period $ 6,000 **7**
- in his 1990 fiscal period $ 5,000 **8**
- in his 1989 fiscal period $ 0 **9**
- before his 1989 fiscal period $ 0 **10**

Jake now knows the cash cost of his purchased inventory, including his specified animals. He uses this to figure out the value of his purchased inventory at the end of his 1992 fiscal period. To do this, he fills in Charts 2 and 3 as follows:

Chart 2
Value of purchased inventory for specified animals

The small letter beside each line matches the paragraphs at the end of this chart. These paragraphs explain how Jake gets the number for each line.

Inventory bought in his 1992 fiscal period
Jake writes down an amount that is not more than the amount on line 1 but not less than 70% of this amount. (a) $20,000 **11**

Inventory bought in his 1991 fiscal period
Jake writes down an amount that is not more than the amount on line 2 but not less than 70% of the total of the value at the end of his 1991 fiscal period plus any amounts paid in his 1992 fiscal period toward the purchase price. (b) $14,210 **12**

Inventory bought in his 1990 fiscal period
Jake writes down an amount that is not more than the amount on line 3 but not less than 70% of the total of the value at the end of his 1991 fiscal period plus any amounts paid in his 1992 fiscal period toward the purchase price. (c) $ 7,546 **13**

Inventory bought in his 1989 fiscal period
Jake writes down an amount that is not more than the amount on line 4 but not less than 70% of the total of the value at the end of his 1991 fiscal period plus any amounts paid in his 1992 fiscal period toward the purchase price. (d) $ 4,802 **14**

Inventory bought before his 1989 fiscal period
Jake writes down an amount that is not more than the amount on line 5 but not less than 70% of the total of the value at the end of his 1991 fiscal period plus any amounts paid in his 1992 fiscal period toward the purchase price. (e) $ 3,842 **15**

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

(b) Jake chose to value the inventory he bought in his 1991 fiscal period at 70% of the cash cost. Therefore, the value of this inventory at the end of his 1991 fiscal period was $13,300 ($19,000 × 70%). Remember, Jake paid $19,000 for these specified animals in 1991. He paid $7,000 in 1992.

For his 1992 fiscal period, Jake chose to value the inventory he bought in his 1991 fiscal period at 70% of the total of the value at the end of the 1991 fiscal period plus any amounts he paid in the 1992 fiscal period toward the purchase price. The amount he writes on line 12 is $14,210, which is 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) Jake chose to value the inventory he bought in his 1990 fiscal period at 70% of the cash cost. Therefore, the value of this inventory at the end of his 1990 fiscal period was $15,400 ($22,000 × 70%).

For his 1991 fiscal period, Jake chose to value the inventory he bought in his 1990 fiscal period at 70% of the total of the value at the end of his 1990 fiscal period. Therefore, the value of this inventory at the end of his 1991 fiscal period was $10,780 ($15,400 × 70%).

For his 1992 fiscal period, Jake chose to value the inventory he bought in his 1990 fiscal period at 70% of the total of the value at the end of his 1991 fiscal period. Therefore, the amount he writes on line 13 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) Jake chose to value the inventory he bought in his 1989 fiscal period at 70% of the cash cost. Therefore, the value of this inventory at the end of his 1989 fiscal period was $14,000 ($20,000 × 70%).

For his 1990 fiscal period, Jake chose to value the inventory he bought in his 1989 fiscal period at 70% of the total of the value at the end of his 1989 fiscal period. Therefore, the value of this inventory at the end of his 1990 fiscal period was $9,800 ($14,000 × 70%).

For his 1991 fiscal period, Jake chose to value the inventory he bought in his 1989 fiscal period at 70% of the total of the value at the end of his 1990 fiscal period. Therefore, the value of this inventory at the end of his 1991 fiscal period was $6,860 ($9,800 × 70%).

For his 1992 fiscal period, Jake chose to value the inventory he bought in his 1989 fiscal period at 70% of the total of the value at the end of his 1991 fiscal period. Therefore, the amount he enters on line 14 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) Jake chose to value his pre-1989 inventory at 70% of the cash cost. Therefore, the value of this inventory at the end of his 1989 fiscal period was $11,200 ($16,000 × 70%).

For his 1990 fiscal period, Jake chose to value his pre-1989 inventory at 70% of the total of the value at the end of his 1989 fiscal period. Therefore, the value of this inventory at the end of his 1990 fiscal period was $7,840 ($11,200 × 70%).

For his 1991 fiscal period, Jake chose to value his pre-1989 inventory at 70% of the total of the value at the end of his 1990 fiscal period. Therefore, the value of this inventory at the end of his 1991 fiscal period was $5,488 ($7,840 × 70%).

For his 1992 fiscal period, Jake chose to value his pre-1989 inventory at 70% of the total of the value at the end of his 1991 fiscal period. Therefore, the amount he enters on line 15 is $3,842 ($5,488 × 70%). He could choose any amount between the cash cost of $16,000 and the lowest acceptable inventory value of $3,842.

Chart 3
Value of purchased inventory for all other inventory

Inventory bought in his 1992 fiscal period Jake writes down the lower of the amount on line 6 or the fair market value.	$15,000	**16**
Inventory bought in his 1991 fiscal period Jake writes down the lower of the amount on line 7 or the fair market value.	$ 6,000	**17**
Inventory bought in his 1990 fiscal period Jake writes down the lower of the amount on line 8 or the fair market value.	$ 5,000	**18**
Inventory bought in his 1989 fiscal period Jake writes down the lower of the amount on line 9 or the fair market value.	$ 0	**19**
Inventory bought before his 1989 fiscal period Jake writes down the lower of the amount on line 10 or the fair market value.	$ 0	**20**

Since Jake started farming before 1989, he can use either the fixed dollar method or the elective method to figure out his MIA. Before he decides which method to use, Jake uses both methods to figure out his MIA. He fills in Charts 4 and 5 as follows:

Chart 4
Fixed dollar method

Jake writes down the amount of his net loss.		$55,000	**21**
Jake writes down the value of his inventory from Charts 2 and 3:			
• the amount on line 11	$20,000		
• the amount on line 12	14,210		
• the amount on line 13	7,546		
• the amount on line 14	4,802		
• the amount on line 15	3,842		
• the amount on line 16	15,000		
• the amount on line 17	6,000		
• the amount on line 18	5,000		
• the amount on line 19	0		
• the amount on line 20	0		
Total value of inventory	$76,400	$76,400	**22**
Jake writes down the lower of the amount on line 21 or line 22.		$55,000	**23**
Jake deducts:		7,500	*
MIA (if negative write 0).		$47,500	**24**

* Since Jake's 1992 fiscal period starts in 1992, he uses $7,500. If his 1992 fiscal period began in 1991, he would use $10,000.

If Jake's fiscal period was less than 51 weeks, he would prorate as follows:

$$\$\,7{,}500 \text{ (amount he deducts)} \times \frac{\text{number of days in his fiscal period}}{365}$$

Chart 5
Elective method

If Jake was a member of a partnership, all the partners would have to agree to use this method.

Jake writes down the amount of his net loss.		$55,000	25
Jake writes down the value of his inventory from Charts 2 and 3:			
• the amount on line 11	$20,000		
• the amount on line 12	14,210		
• the amount on line 13	7,546		
• the amount on line 14	4,802		
• the amount on line 16	15,000		
• the amount on line 17	6,000		
• the amount on line 18	5,000		
• the amount on line 19	0		
Total	$72,558	$72,558	26
Jake writes down the value of his inventory from Charts 2 and 3:			
• the amount on line 15	$ 3,842		
• the amount on line 20	0		
Total	$ 3,842 27		
Line 27 × 4/7*		2,195	28
Line 26 + line 28		$74,753	29
The MIA is the lower of the amount on line 25 or line 29.		$55,000	

* Since Jake's 1992 fiscal period starts in 1992, he uses 4/7. If his 1992 fiscal period began in 1991, he would use 3/7.

With the fixed dollar method, Jake's MIA is $47,500. With the elective method, Jake's MIA is $55,000.

Jake has to reduce his net loss by at least $47,500. However, he can reduce his net loss by $55,000 if he chooses.

Line 651 — Optional inventory adjustment (OIA)

If you want to include an inventory amount in income, read this part. The OIA lets you include in income, an amount up to the fair market value of your inventory minus the MIA. The OIA applies to you only if you use the cash method. We explain the terms inventory and fair market value at "Line 635 — Mandatory inventory adjustment (MIA)" on page 16.

The inventory does not have to be purchased inventory like it has to be for the MIA. It is all the inventory you still have at the end of your 1992 fiscal period.

Add the amount of your optional inventory adjustment on line 651 to the amount on line 640. Write the total on line 655.

You deduct from your farm income in 1993, the amount of your optional inventory adjustment for 1992.

Line 660 — Business use of home expenses

Use this part of the form if your business is not a partnership and you want to deduct expenses for the business use of a work space in your home. If you are a member of a partnership, use the "Partnership schedule" to deduct these expenses.

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

- The work space is your main place of business.
- You use the work space only to earn farm income and you use it on a regular and ongoing basis to meet your customers.

You can deduct a part of your light, heat, water, home insurance, mortgage interest, property taxes and capital cost allowance (CCA). You can also deduct a part of the rent if you rent the house you live in.

To figure out the amount you can deduct, you can use this formula:

$$\frac{\text{area of your home used for business}}{\text{total area of your home}} \times \text{expenses}$$

You cannot deduct an amount that is more than your net farm income before you deduct these expenses. Therefore, you cannot use these expenses to make or increase a loss. Next year, you can deduct any expense you could not deduct this year as long as you meet one of the above two conditions. You also follow the same rules.

You may deduct CCA on the business use part of your home and later sell your home. In this case, the rules for a recapture of CCA and taxable capital gains apply. See Chapters 3 and 6.

If you need more details, see IT-514, *Work Space in Home Expenses*.

Line 665 — Net farm income (loss)

Write your net farm income or loss on line 141 on page 1 of your return.

Partnership schedule

You may be in a partnership that has five members or less throughout the year and no member is another partnership. If this applies to you, fill in this part of the form. You may have to fill in both Areas I and II depending on your situation.

You can also fill in Area II if **one** of the following applies to you:

- You are in a partnership that has five members or less throughout the year and one or more members is another partnership.
- You are in a partnership that has six members or more.

Area I

In this area, show the names of all the partners. You also show your share and each partner's share, of the net income or loss, according to the terms of the partnership agreement.

Some agreements call for a salary to be paid to the partners before the partnership divides the income on a percentage basis. Or the agreement may call for the interest on capital invested in the partnership to be paid to the partners. If the partnership does not base these amounts on a straight percentage of its net income, attach a note to tell us how you got these amounts.

Area II

Show your share of the partnership income or loss from line A in Area I or from copy 2 of Form T5013 Supplementary. Deduct any expenses you paid to earn partnership income that the partnership did not pay back to you. For instance, you may use your automobile for the partnership business. When you do this, you can deduct part of your motor vehicle expenses.

To figure out your business use of home expenses, see ''Line 660 — Business use of home expenses'' on page 19.

Line 665 — Net farm income (loss)

Write your net farm income or loss on line 141 on page 1 of your return.

Chapter 3
Form T2041, *Capital Cost Allowance Schedule for Farmers and Fishermen*

What is capital cost allowance (CCA)?

Capital cost allowance is a tax term for depreciation.

You cannot deduct the entire cost of the depreciable property, such as equipment and buildings, that you use in your farm business. However, since these types of properties can wear out or become out-dated, you can deduct a part of their cost each year. We call the part of the cost that you can deduct, capital cost allowance (CCA).

You do not have to claim the maximum amount of CCA in the year. You can claim any amount you like, from nothing right up to the maximum amount for the year. The maximum amount you can deduct for CCA is the same if you use the cash method or the accrual method.

Note
You may use depreciable property in 1992 that you used in your farm business before January 1, 1972. In this case, you may want to read IC 86-5, *Part XVII — Capital Cost Allowance, Farming and Fishing* to find out how to claim CCA on that property. If you would like more details, contact your district tax office.

Definitions

To fill in Form T2041, you will need to know these terms.

Available for use

A property, except for a building, is available for use when the seller delivers it to you and it is in working order. For example, suppose you buy a tractor and the seller delivers it to you in 1992, but it was not in working order until 1993. You cannot claim CCA on it until 1993.

However, suppose you buy a tractor and the seller delivers it to you in working order in 1992, but you did not use it until 1993. In this case, you can still claim CCA in 1992 because it was available for use.

A building that you bought or are constructing, renovating or altering may be subject to different rules. If you need more details, contact your district tax office.

Capital cost

In most cases, the capital cost of a property is what you pay for it, plus any expenses you had to pay to buy it. These expenses include commissions, legal fees, tax and so on. For instance, suppose you buy a building for $50,000 plus expenses of $3,500. Your capital cost is $53,500.

Depreciable property

This any property on which you can claim CCA. You usually group depreciable properties into classes. For example, diggers, drills and tools that cost $200 or more belong to Class 8. You base your CCA claim on a rate assigned to each class of property.

See "Rates of capital cost allowance" on page 37 for a list of classes and rates of the more common depreciable properties you would use in a farm business. Part XI of the *Income Tax Regulations* has a full list of all depreciable properties.

Fair market value (FMV)

Fair market value is the price you would buy or sell something for in a normal business deal.

Non arm's-length transaction

A non arm's-length transaction is, for example, a transaction between members of a family, such as a husband and wife, or father and son.

Proceeds of the sale

The proceeds of the sale are often the sale price of a property after you subtract any expenses related to its sale. When you trade in a property to buy a new one, the value of the trade-in is your proceeds of the sale.

Undepreciated capital cost (UCC)

The UCC is the amount left over after you deduct CCA from the cost of a depreciable property. The CCA you claim each year will reduce the UCC of the property each year.

How to fill in Form T2041

Follow the instructions for each column. If you have more than one business, fill in a separate CCA form for each business.

Column 1 — Class number

If you started farming in 1992, read column 3 first and then fill in column 1.

If you had a CCA claim in past years, write the same class numbers in column 1. See your CCA schedule from last year for this information.

Column 2 — UCC at the start of the year

The UCC amounts for each class at the start of your 1992 fiscal period are the same amounts as those at the end of your 1991 fiscal period. If you used Form T2041 last year, these amounts will be in column 10.

You have to reduce your UCC at the start of 1992 by any investment tax credit deducted, refunded, or both in 1991. You also have to reduce your UCC by any 1991 investment tax credit you carried back to a year before 1991. See Chapter 7.

You may have received a GST input tax credit in 1991 for a passenger vehicle you use less than 90% for your farm business. In this case, subtract the amount of the credit from your UCC at the start of the year.

If you started to farm in 1992, put nil in this column for all the classes.

Column 3 — Cost of additions in the year

If you buy depreciable property in the year, you must figure out the cost of the property. To do this, fill in

Area A of the form. Remember that your property has to be available for use for you to claim CCA.

You must also write down the class the property belongs to. For a list of the more common depreciable properties, see "Rates of capital cost allowance" on page 37. Part XI of the *Income Tax Regulations* has a full list of all depreciable properties.

There are some cases where you may need to adjust the cost of your property. The following will show you how to do this.

Change in use

You may buy a property for personal purposes and then start to use it in your business. When you do this, you need to find out the amount to put in column 3. In most cases, the amount you write in is the fair market value (FMV) of the property at the time of the change in use.

However, the cost of the property may be less than the FMV. In this case, fill in the following chart to find out the amount to put in column 3.

Cost of the property		$______ A
FMV of the property	$______ B	
Amount from line A	______ C	
Line B — line C (if negative, write "0")	$______ D	
Write down any capital gains deduction* claimed for the amount on line D $______ × 4/3 =	$______ E	
Line D — line E (if negative write "0") $______ × 3/4 =		______ F
The amount you put in column 3 is line A + line F		$______ G

* We explain the capital gains deduction in the *Capital Gains Tax Guide*.

Passenger vehicles

We define passenger vehicle at "Line 225 — Motor vehicle" on page 12.

Your passenger vehicle can belong to either Class 10 or Class 10.1. List each Class 10.1 passenger vehicle separately.

Your passenger vehicle belongs to Class 10.1 if it meets **one** of these conditions:

- You bought it before September 1, 1989 and it cost your more than $20,000.
- You bought it after August 31, 1989 and it cost you more than $24,000.

Starting on January 1, 1991, to figure out the class of your passenger vehicle, use the vehicle's cost before you add the goods and services tax (GST) and the provincial sales tax (PST).

Example

Joao runs a farm business. On June 21, 1992 he bought two passenger vehicles that he uses for his business. Joao has these details for 1992:

	Cost	GST	PST	Total
Vehicle 1	$25,000	1,750	2,000	$28,750
Vehicle 2	$23,000	1,610	1,840	$26,450

Joao puts vehicle 1 in Class 10.1 since he bought it after August 31, 1989 and it cost him more than $24,000 before the GST and PST. Before Joao writes an amount in column 3, he needs to figure out the GST and PST on $24,000. He does this as follows:

- GST @ 7% on $24,000 = $1,680, and
- PST @ 8% on $24,000 = $1,920.

Therefore, the amount Joao writes in column 3 is $27,600 ($24,000 + $1,680 + $1,920).

Joao puts Vehicle 2 into Class 10 since he bought it after August 31, 1989 and it did not cost him more than $24,000 before the GST and PST. The amount Joao writes in column 3 is $26,450 ($23,000 + $1,610 + $1,840).

Cost of building or improving a property

If you build depreciable property for use in your business, its cost includes the cost of materials and labour. Do not include the value of your own labour.

Add to its cost, the cost to improve, add to or renovate the property. If you would like more details on building costs, see "Line 260 — Building repairs" on page 13.

Survey or valuation costs

Add to the cost of the property you buy, the cost to survey or value it. You cannot deduct these costs as expenses.

Property you buy for personal and business use

You may buy property for personal and business use. When you do this, there are **two** ways to show the business part on your CCA form:

- If the part you use for business is the same from year to year, write the business part of the cost of the property in column 3.
- If the part you use for business changes from year to year, put the whole cost of the property in column 3. When you claim CCA as we explain in column 9, you will have to add to income the part you use for personal purposes.

The cost limits for passenger vehicles still apply when you divide the cost between business and personal-use. See "Passenger vehicles" on this page.

Grant, subsidy, or other incentive or inducement

You may get a subsidy or grant from a government or government agency to buy depreciable property. In this case, you have to reduce the cost of the property. An input tax credit for the GST you paid on a depreciable property that you use in your farm business is government assistance. Therefore, before you write the cost in column 3, deduct the amount of the grant, subsidy or input tax credit from the total cost of the property.

You may get an input tax credit for a passenger vehicle you use 90% or more in your farm business. In this case, you reduce the cost by the amount of the credit. However, you may get an input tax credit for a passenger vehicle that you use less than 90% in your farm business. In this case, you reduce your UCC in 1993.

If you get an incentive or inducement from a non-government agency to buy depreciable property, you have a choice. You can either include the amount in income or deduct it from the cost of the property. We explain this at "Line 495 — Other subsidies" on page 10.

Non arm's-length transactions

When you acquire property in a non arm's-length transaction, there are special rules to follow to figure out the property's cost. These special rules will not apply if you get the property because of someone's death or if it is a timber resource property.

You can buy depreciable property in a non arm's-length transaction from an individual who is a resident of Canada or a partnership that is a resident of Canada. If you pay more for the property than the seller paid for the same property, calculate the cost as follows:

The seller's cost		$ ______	1
The higher of the seller's proceeds of disposal or the FMV of the property	$ ______		2
Amount from line 1	______		3
Line 2 — line 3 (if negative, write "nil")	$ ______		4
Write down any capital gains deduction* claimed for the amount on line 4 $ ______ × 4/3 =	$ ______		5
Line 4 — line 5 (if negative, write "nil") $ ______ × 3/4 =		______	6
Your cost is line 1 + line 6		$ ______	

* We explain the capital gains deduction in the *Capital Gains Tax Guide.*

You can also buy depreciable property in a non arm's-length transaction from an individual who is not a resident of Canada or a partnership that is not a resident of Canada. If you pay more for the property than the seller paid for the same property, calculate the cost as follows:

The seller's cost		$ ______	1
The higher of the seller's proceeds of disposal or the FMV of the property	$ ______		2
Amount from line 1	$ ______		3
Line 2 — line 3 (if negative, write "nil") $ ______ × 3/4 =		______	4
Your cost is line 1 + line 4		$ ______	

You may buy depreciable property in a non arm's-length transaction and pay less for it than what the seller paid. In this case, your cost is the same amount as the seller's. We consider that you have deducted as CCA, the difference between what you paid and the seller paid.

Example

John bought a tractor from his father Charlie in 1992 for $4,000. Charlie paid $10,000 for the tractor in 1985. Since the amount John paid is less than the amount Charlie paid, we consider John's cost to be $10,000. We also consider that John has deducted CCA of $6,000.

When John fills in Form T2041, he writes $10,000 in "Area A — Details of additions in the year" under "Column 3, Total cost." However, he writes $4,000 in "Column 3, Cost of additions in the year" as the addition for 1992.

There is a limit on the cost of a passenger vehicle you buy in a non arm's-length transaction. The cost is the **smaller** of these three amounts:

- The FMV at the time you buy it.
- $24,000 plus any GST and PST you would pay on $24,000 if you buy it after 1990.
- The seller's "cost amount" of the vehicle at the time you buy it.

The "cost amount" can vary depending on what the seller used the vehicle for before you buy it. If the seller used the vehicle to earn income, the cost amount will be the UCC of the vehicle at the time 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.

For more details on non arm's-length transactions, read IT-405, *Inadequate Considerations — Acquisitions and Dispositions*, and IT-419 and Special Release, *Meaning of Arm's Length*.

Column 4 — Proceeds from disposals in the year

If you sell or trade in depreciable property, write in this column the **smaller** of these two amounts:

- Proceeds of the sale.
- Capital cost of the property.

Use "Area B — Details of disposals in the year" to help you figure out the correct amount. If you sold a building, there are special rules that can apply to you. For more details on what to do when you sell a building, read IT-220, *Capital Cost Allowance — Proceeds of Disposition of Depreciable Property*.

You may dispose of depreciable property for more than its cost. In this case, a capital gain will result. However, you may be able to claim a capital gains deduction. If you had a capital gain in 1992, read the *Capital Gains Tax Guide* to help you figure out your gain and deduction.

In some cases, you may be able to postpone a capital gain. An example is when you sell a property and replace it with a similar one. Other examples are when someone expropriates your property or when you transfer property to either a corporation or a partnership. If you need more details, contact your district tax office.

Column 5 — UCC after additions and disposals

Add the amount in column 2 to the amount in column 3. Then subtract the amount in column 4 from this total. Write the result in column 5.

Recapture of CCA

A recapture of CCA happens when the amount in column 5 is negative. Include this amount as farm income. A recapture can happen when you sell a property, get a government grant or assistance, or claim the investment tax credit.

In some cases, you may be able to postpone a recapture of CCA. One example is when you sell a property and replace it with a similar one. Two more examples are when someone expropriates your property or when you transfer property to a corporation, a partnership or your child. If you need more details, contact your district tax office.

Terminal loss

A terminal loss happens when the amount in column 5 is positive and there is no property left in the class. Deduct the terminal loss from your farm income.

Note
The rules for recapture and terminal loss do not apply to passenger vehicles in Class 10.1. However, see the comments in column 7.

Column 6 — Adjustment for current year additions

You can claim CCA on only 50% of the cost of the property you buy in 1992. For example, suppose that in 1992 you buy a Class 8 property for $3,000. You would base your CCA claim on $1,500 ($3,000 × 50%). We call this the "50% rule."

The 50% rule can affect you if you had a change in use of the property in the year. The rule can also affect you if you buy and sell depreciable property of the same class.

If the 50% rule affects you, do this calculation:

column 3 — column 4	______	A
50% × A	______	B

Write the amount on line B in column 6.

If the amount in column 4 is more than the amount in column 3, write "nil" in column 6.

There are some cases when you do not make an adjustment in column 6. One case is property you buy in a non arm's-length transaction and until you buy it, the seller continuously owned the property for at least 364 days before the end of your 1992 fiscal period.

Also, some properties are not subject to the 50% rule. Some examples are those in Classes 12 (for instance, tools that cost less than $200), 13, 14, 23, 24, 27, 29, or 34.

Column 7 — Base amount for CCA claim

Subtract the amount in column 6 from the amount in column 5. Write the result in column 7. You base your CCA claim on the amount in this column.

You may dispose of a Class 10.1 vehicle in 1992. In this case, you may be able to claim 50% of the CCA you would be allowed if you still owned the vehicle at the end of the year. We call this the "half-year rule on sale." This is based on a proposed change to the tax law.

You can use the half-year rule on sale if you owned, at the end of your 1991 fiscal period, the Class 10.1 vehicle you dispose of in 1992. If this applies to you, write in column 7, half of the amount that is in column 2.

Note
The half-year rule above is different from the way we explained it in earlier guides. Before the proposed change, to claim the half-year rule you had to meet these two conditions:

- You had to own the Class 10.1 vehicle at the end of the year prior to the disposal.
- In the year you dispose of the Class 10.1 vehicle you had to buy another Class 10.1 vehicle and still own it at the end of that year.

Because of this change, your CCA claim for a fiscal period that started after June 17, 1987 and ended after 1987 may be too low. It may be too low if you did not claim the half-year rule because:

- You did not buy another Class 10.1 vehicle to replace the one you disposed of.
- You bought another Class 10.1 vehicle but you disposed of it before the end of the year.
- You replaced the Class 10.1 vehicle with a Class 10 vehicle.

If you need more details or want us to adjust your return, contact your district tax office.

Column 8 — Rate (%)

Write in this column, the rate or percentage for each class. For a list of rates, see "Rates of capital cost allowance" on page 37.

Column 9 — CCA for the year

Multiply the amount in column 7 by the rate in column 8 and write the result in column 9. This is the most you can deduct. You can deduct any amount up to the maximum.

The following are some special comments for some classes of properties.

Buildings (Class 1)

You put in Class 3 or Class 6, most buildings bought before 1988. Since 1988 however, you include most Class 3 buildings in Class 1. The maximum CCA rate for Class 1 is 4%.

You do not have to transfer to Class 1, property you include in Class 3. You may alter or add to a Class 3 building after 1987. When you do this, you include the cost of the addition or change in Class 3. However, the amount you can include in Class 3 is the smaller of:

- $500,000, or
- 25% of the building's capital cost on December 31, 1987.

You include in Class 1, the rest of the amount that is over this limit.

You may have bought a Class 3 building before 1990. In this case, you can include it in Class 3 as long as **one** of the following applies:

- You bought the building under the terms of a written agreement entered before June 18, 1987.
- The building was being built on June 18, 1987.

If you need more details about CCA for buildings, read IT-79, *Capital Cost Allowance — Buildings or Other Structures*.

Storage facilities for fresh fruit and vegetables (Class 8)

Include buildings you use to store fresh fruit or vegetables at a controlled temperature in Class 8 instead of Classes 1, 3 or 6. Also include in Class 8, buildings that you use to store silage.

Special rates for certain manure handling equipment (Classes 24 and 27)

You may buy certain manure handling equipment that stops, reduces, or gets rid of air or water pollution. In this case, it may qualify for an accelerated rate of capital cost allowance. This type of equipment includes pads, liquid manure tanks, pumps, other related items and new spreaders you buy when you install the equipment.

For this equipment to qualify for the accelerated CCA rate, it must meet certain conditions. It has to be new and the Minister of the Environment must accept it as equipment you use solely to stop, reduce or get rid of pollution. To apply or get more details, contact:

Manager ACCA Program
Environment Canada
Ottawa, Ontario
K1A 1C8
Telephone: (819) 997-2057

If you need more details on the special CCA rates, read IT-336, *Capital Cost Allowance — Pollution Control Property*.

Note

Changes propose to allow you to claim a CCA rate of 20% on some types of greenhouses. These greenhouses must be made of rigid frames covered with flexible plastic that you can replace. You put these types of greenhouses in Class 8 instead of Class 6. This change will apply to tax years after 1988 for greenhouses you acquire after 1987. If you need more details, contact your district tax office.

Column 10 — UCC at the end of the year

Subtract the amount in column 9 from the amount in column 5. Write the result in column 10. This is the UCC at the end of your 1992 fiscal period. This will be your UCC for each class at the start of your 1993 fiscal period.

You will not have an amount in column 10 if you have a terminal loss or a recapture of CCA. For a Class 10.1 passenger vehicle, there will not be an amount in column 10 if you sell or trade it in the year.

Chapter 4
Eligible Capital Expenditures

What is an eligible capital expenditure?

You may buy a property that has no physical existence, but gives you a lasting economic benefit. Some examples are milk quotas and egg quotas. We call this kind of property intangible 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 original cost of an eligible capital expenditure. This is because the cost is capital and you get a lasting 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 account you set up to figure out your annual allowance. You also use your CEC to keep track of the property that 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

CEC account

You figure out the balance in your CEC account at the end of your 1992 fiscal period as follows:

Balance in the account at the start of your 1992 fiscal period. This balance is the same amount as the amount at the end of your 1991 fiscal period.			$_____	A
Eligible capital expenditures you made in your 1992 fiscal period.	$_____	B		
3/4 of B			_____	C
A + C			_____	D
All the amounts you got or are entitled to get from the sale of eligible capital property in your 1992 fiscal period.	$_____	E		
All the amounts that became receivable in your 1992 fiscal period from the sale of eligible capital properties before June 18, 1987.	_____	F		
E + F	$_____	G		
3/4 of G			_____	H
D − H			$_____	I

Your annual allowance is 7% × I.

You can deduct an annual allowance as long as there is a positive balance in your CEC account at the end of your 1992 fiscal period. The amount you can deduct can be up to 7% of the balance. You do not have to deduct the maximum annual allowance. You can deduct any amount you like, from nothing right up to 7%.

Example
Renata started her farming business in 1992. The business has a December 31 year-end. That year, she bought a milk quota for $16,000. Renata's maximum annual allowance for 1992 is $840. She calculates it as follows:

Renata's CEC account

Balance at the start of Renata's 1992 fiscal period.		$ 0 A
Renata's eligible capital expenditure; milk quota.	$16,000 B	
3/4 of B		12,000 C
A + C		$12,000 D
Renata has not sold any eligible capital property. Therefore, she will not have any amounts on lines E to H.		
7% × D		$ 840

Sale of eligible capital property

You must subtract an amount from your cumulative eligible capital account when you sell eligible capital property. The amount you have to subtract is the eligible capital amount.

You have to do this if you sell eligible capital property:

- in your 1992 fiscal period, or
- before June 18, 1987, and the proceeds from the sale become due to you in your 1992 fiscal period.

For 1992, the eligible capital amount is three-quarters of **both** of these amounts:

- The total amount you sell eligible capital property for in your 1992 fiscal period. You include the total amount from a sale even if you do not get any or all the proceeds until after 1992.
- The amount of any proceeds that become due to you in your 1992 fiscal period from eligible capital property you sold before June 18, 1987.

There may be a negative amount in your CEC account after you subtract the eligible capital amount. In this case, you will have to include an amount in your farm income.

The amount you include in farm income is the **smaller** of these two amounts:

- The negative balance in your CEC account.
- The total of all the annual allowances you deducted from your farm income in past years.

If you still have a negative amount in your CEC account, you will have a taxable capital gain. To calculate the gain, subtract from the negative amount you do not include in income, one-half of the annual allowances you deducted for fiscal periods that started before 1988. Write on line 543 of Schedule 3 the amount of any taxable capital gain. Schedule 3 is in your T1 guide and return package.

Example

Mike started his farming business in 1987. The business has a December 31 year-end. In 1987, he bought a milk quota for $10,000. He deducted annual allowances each year as follows:

1987	$ 500
1988	473
1989	440
1990	409
1991	380
Total	$2,202

At the start of his 1992 fiscal period, the balance in Mike's CEC account was $5,048. In 1992, Mike sold his milk quota for $14,000. Mike's CEC account for 1992 is as follows:

Mike's CEC account

Balance in the account at the start of Mike's 1992 fiscal period	$ 5,048
Subtract: eligible capital amount; sale of milk quota ($14,000 × 3/4)	10,500
Balance	$ (5,452)

Mike deducted $2,202 in annual allowances from income in past years. Since this amount is less than the negative amount in his account, he includes $2,202 in his farm income.

Mike also has a taxable capital gain because he still has a negative amount in his CEC account:

Negative balance in CEC account	$ 5,452
Subtract: Amount he includes in farm income	2,202
Negative balance that is not farm income	3,250
Subtract: Annual allowances that he deducted for fiscal periods that started before 1988 (one-half of $500)	250
Taxable capital gain	$ 3,000

Replacement property

You may sell eligible capital property and replace it with another one. In this case, you can postpone all or part of any gain on the sale. To do this, you have to replace the property within one year after the end of the tax year in which you sell the original property. The replacement property must be for the same or similar use and for the same or similar business. If you need more details, read IT-259, and Special Release, *Exchanges of Property*.

Chapter 5
Farm Losses

When the expenses for your farm business are more than the income for the year, you end up with a net operating loss. However, before you can get your net farm loss for the year, you may have to increase or decrease the loss by certain adjustments. We explain these adjustments in Chapter 2.

If you show a net farm loss for the year, read this chapter to find out how to treat your loss. If you would like more details on farm losses, read 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), or
- non-deductible.

After you read the parts that follow, you may still not be sure how to treat your farm loss or whether farming is your chief source of income. In this case, you can contact the business enquiries section of your district tax office. Your *General Tax Guide* has a list of telephone numbers if you want to call the business enquiries section.

Fully deductible

If you make your living from farming, we will consider farming to be your chief source of income. As long as farming is 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 though your farm does not show a profit. Other income could come from investments, part-time employment and so on.

To figure out if farming is your chief source of income, you need to consider such factors as:

- Gross income.
- Net income.
- Capital invested.
- Cash flow.
- Personal involvement.
- Farm's ability to make a profit (both actual and potential).
- Plans to maintain or develop your farm and how you carry out these plans.

Note that although you may be a partner in a farm business, you must still figure out if farming is your chief source of income.

When farming is your chief source of income and you show a net farm loss in 1992, you may have to reduce the loss. You do this when you have other income (including any forward averaging income) in 1992. Any loss that is left is your farm loss for 1992.

Example

Claude makes his living running a tree farm. His business 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. Claude wrote down the following for 1992:

Net farm loss before adjustments	$ 50,000
Optional inventory adjustment	$ 15,000
Other income	$ 2,000

Claude figures out his farm loss for 1992 as follows:

Farm loss before adjustments	$50,000
Subtract: optional inventory adjustment	15,000
Farm loss after adjustments	35,000
Add: other income	2,000
Farm loss for 1992	$33,000

Carry-back — 1992 farm loss

You can carry your 1992 farm loss back three years. You can also carry it forward up to ten years. In both cases, you can apply it against your income from all sources in those years.

If you choose to carry back your 1992 farm loss to your 1989, 1990 or 1991 returns, fill in Form T1A, *Request for Loss Carry-Back*. File one copy of the form with your 1992 return. Do not file an amended return for the year in which you apply the loss.

Applying your farm losses from years before 1992

You may have net farm income in 1992. If so, you may be able to apply to your 1992 return, farm losses you had in 1983, 1984, 1985, 1986, 1987, 1988, 1989, 1990 or 1991. You can apply these losses as long as you did not already deduct them. To apply these losses to 1992, you have to apply the loss from the earliest year first.

Non-capital loss

You may have a farm loss in 1992 plus a loss from a business that is not farming or fishing. If these losses are more than your other income for the year, you may have a non-capital loss. Use Form T1A, *Request for Loss Carry-Back* to figure out your 1992 non-capital loss.

You can carry back your 1992 non-capital loss three years and forward up to seven years.

If you choose to carry back your 1992 non-capital loss to your 1989, 1990 or 1991 returns, fill in Form T1A, *Request for Loss Carry-Back*. File one copy of the form with your 1992 return. Do not file an amended return for the year in which you apply the loss.

For more details about non-capital losses, read IT-232, *Non-Capital Losses, Net Capital Losses, Restricted Farm Losses, Farm Losses and Limited Partnership Losses — Their Composition and Deductibility in Computing Taxable Income*.

Applying losses — exceptions to the rules

There are two exceptions to the general rules for applying farm losses or non-capital losses. These exceptions apply only when you block average your income.

First, you cannot deduct a loss after the averaging period if you deducted that loss to calculate your income in the averaging period.

Second, if you have a farm loss in the first three years after the averaging period, you cannot use it in the averaging period. You can only deduct it in the ten years following the year of the loss. Or you can deduct it in an earlier year that you did not include in the averaging period.

Partly deductible (restricted farm losses)

You may run your farm as a business. For your farm to be a business, it must be able to make a profit or you expect it to make a profit in the near future.

However, farming may not be your chief source of income. In other words, you do not rely only on farming to make your living. In this case, you may be able to deduct a part of your net farm loss.

Each year you have a farm loss, check your situation carefully to see if farming is your chief source of income. It is important to do this since a loss that is restricted in one year may not be restricted in another year.

How to calculate your restricted farm loss

Farming may not your chief source of income and you may have 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 the lower of these two amounts:

(A) Your net farm loss.

(B) $2,500 plus the smaller of:

- 1/2 × (your net farm loss minus $2,500); or
- $6,250.

The amount that is left is your restricted farm loss.

Example

Corinne runs a cattle farm which is capable of making a profit. However, farming is not her chief source of income in 1992. In 1992, she has a net farm loss of $9,200. The part of Corinne's net farm loss that she can deduct in 1992 is the lower of amount (A) or (B):

(A) $9,200; or

(B) $2,500 plus the smaller of:

- $3,350 which is 1/2 × ($9,200 – $2,500); or
- $6,250.

Therefore (B) is $2,500 + $3,350, which is $5,850.

Since Corinne must deduct the lower of (A) or (B), she deducts $5,850 from her other income in 1992. Her restricted farm loss is the amount that is left, which is $3,350 ($9,200 – $5,850).

Applying your 1992 restricted farm loss

You can carry your 1992 restricted farm loss back three years and forward up to ten years. The amount you deduct in any year cannot be more than your net farm income for that year. In other words, if you have no farm income in any of those years, you cannot deduct any restricted farm loss.

To carry back your restricted farm loss, you can use Form T1A, *Request for Loss Carry-Back*. File one copy of the form with your 1992 return. Do not file an amended return for the year you would like the loss applied to.

Applying your restricted farm losses from years before 1992

You may have net farm income in 1992. If so, you may be able to apply to your 1992 return, restricted farm losses you had in 1983, 1984, 1985, 1986, 1987, 1988, 1989, 1990 or 1991. You can apply these losses as long as you did not already deduct them. Also, you can only apply them up to the amount of your net farm income in 1992. You have to apply the loss from the earliest year first, before you apply the losses from other years.

You may sell farmland and have restricted farm losses that you did not claim. When this happens, you can reduce the amount of your capital gain from the sale. For more details, see "Restricted farm losses" on page 31 in Chapter 6.

Non-deductible

If you do not run your farm as a business, you cannot deduct any part of your net farm loss. For your farm to be a business, it must be able to make a profit. If it's not making a profit, you must show that it will make a profit in the near future.

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.

Chapter 6
Capital Gains

This chapter explains the capital gains rules for people who farm. We cover the general capital gains rules in the *Capital Gains Tax Guide.*

What is a capital gain?

A capital gain is a profit when you dispose of capital property. In most cases, capital property includes land, buildings and equipment. Therefore, capital property includes depreciable and non-depreciable property.

Not all of your capital gain is taxable. For 1992, your taxable capital gain is 75% of your capital gain. You include your taxable capital gain in income.

You can only have a capital loss when you dispose of non-depreciable capital property, such as land. However, a loss on depreciable property may result in a terminal loss. We explain terminal losses on page 24 in Chapter 3.

Not all of your capital loss is deductible. The allowable capital loss is 75% of your capital loss. You can only deduct an allowable capital loss from a taxable capital gain. Use Schedule 3 in your T1 guide and return package to figure out your gain or loss.

Before we can explain how to figure out your capital gain or capital loss, you will need to know these terms.

Proceeds of disposal

In most cases, the proceeds of disposal is the price you sell your property for.

Adjusted cost base (ACB)

The adjusted cost base (ACB) is the original cost of the property plus any other costs, such as the cost of any additions, or the cost to renovate or improve the property.

Selling expenses

Selling expenses include costs such as commissions, surveyors' fees, transfer taxes and advertising costs.

Fair market value (FMV)

The FMV is the price you would buy or sell something for in a normal business deal.

How to calculate your capital gain or loss

To figure out your capital gain or capital loss, subtract the ACB of the property and any selling expenses from the proceeds of disposal:

Proceeds of disposal	______	A
Selling expenses	______	B
A − B	______	C
Adjusted cost base (ACB)	______	D
C − D = Capital gain (loss)	______	E

You do not pay tax on any capital gains from the sale of your principal residence. Your home is often your principal residence. Therefore, if in 1992 you sold farmland that includes your home, only part of the gain is taxable.

You can choose one of two methods to figure out your taxable capital gain. Use both methods so you can decide which method is best for you.

Method 1

Calculate separately, the capital gain on your principal residence and the rest of your farm property. To do this, you divide the proceeds of disposal, the ACB and any selling expenses between:

- your principal residence; and
- the rest of the farm property (land, buildings and equipment).

Then you figure out the taxable capital gain on the farm property only.

We consider one-half hectare of land to be part of your principal residence. We will allow you more if you can prove that you need more land for the use and enjoyment of your principal residence. One-half hectare is about one acre.

Value the land that is part of your principal residence at the **largest** of these two amounts:

- the FMV of the land, or
- the FMV of a typical residential building site in the area.

Example

Ernie sold his 16 hectare farm, which includes his principal residence. One-half hectare of land is part of his principal residence. Ernie has these details:

Value of land when he bought his farm:	
FMV of similar farm land per hectare	$ 7,500
FMV of a typical residential building site in the area	$ 15,000
Value of land when he sold his farm:	
FMV of similar farm land per hectare	$ 12,000
FMV of a typical residential building site in the area	$ 25,000
Adjusted cost base:	
Land	$120,000
House	60,000
Barn	16,000
Silo	4,000
Total	$200,000
Proceeds of disposal:	
Land	$200,000
House	$ 75,000
Barn	$ 20,000
Silo	$ 5,000
Total	$300,000

Proceeds of disposal	Principal Residence	Farm Land	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	NIL	$ 75,000	$ 75,000
Taxable capital gain (3/4 × $75,000)			$ 56,250

* Ernie uses the value of a typical residential building site for the land that is part of his principal residence. He does this because the FMV of a typical site in the area is more than the FMV of one-half (1/2) hectare of farmland.

Method 2

Figure out the capital gain on your land and your principal residence. Then from the gain, you deduct $1,000 plus $1,000 for each year after 1971 the property was your principal residence and you were a resident of Canada.

If you choose this method, attach a letter to your return with the following:

- Tell us that the sale of your farm is under subparagraph 40(2)(c)(ii) of the *Income Tax Act*.
- Describe the property you sold.
- The number of years after 1971 that the farm house was your principal residence during which you were a resident of Canada. If you bought the farm after 1971, give the date you bought it.

To help you figure out your taxable capital gain, you can use Form T2090, *Capital Dispositions Supplementary Schedule — Election Available to Farmers Disposing of Farmland.*

To show the value of your property, keep documents that have the following:

- A description of the farm. This would include the size of the buildings and construction type.
- The cost 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).
- Your type of farm operation.

Restricted farm losses

You may have a capital gain from farmland you sell in 1992. You may also have restricted farm losses from prior years that you have not yet used. In this case, you can deduct part of these losses from the gain. Deduct the part of the loss that is the property taxes and the interest on money you borrowed to buy the land.

You cannot use the restricted farm loss to create or increase a capital loss on the sale of your farmland.

Qualified farm property

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 property below. To figure out your capital gains deduction, read the *Capital Gains Tax Guide*.

You may be a member of a partnership that sells depreciable property. In this case, the partnership includes in income any taxable capital gain. However, as a partner you can claim the capital gains deduction.

What is qualified farm property?

Qualified farm property is property you or your spouse own. It is also a family farm partnership in which you or your spouse hold an interest. Qualified farm property includes:

- A share of the capital stock of a family farm corporation that you or your spouse own.
- An interest in a family farm partnership that you or your spouse own.
- 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 farm business in Canada by any **one** of the following:

- You, your spouse, or any of your parents or children. We define children below.
- A family farm corporation where any of the above persons own a share of the corporation.
- A family farm partnership where any of the above persons own an interest in the partnership.

Your children include:

- your natural child, adopted child or step-child;
- your grandchild or great-grandchild;
- your son-in-law or daughter-in-law; or
- a person who, while under 19, was in your custody and control and was wholly dependent on you for support.

You may have bought or entered an agreement to buy real or eligible capital property before June 18, 1987. We consider this property to be used in carrying on a farm business in Canada if **one** of these conditions are met:

- In the year the property is sold, it or any replacement property was used in a farm business in Canada by any of the above persons or a family farm partnership or corporation.
- The property was used in a farm business in Canada for at least five years and was owned by either any of the above persons or a family farm partnership.

We will consider real or eligible capital property bought at any time to be used to carry on a farm business in Canada if you meet **certain** conditions.

Throughout the 24 months before the sale, you, your spouse, any of your children, parents or a family farm partnership (in which any of these persons have an interest) must own the property. Also, you must meet **one** of the following:

- The property or its replacement was used in a farm business in Canada by any of the above persons. Also, for at least 2 years, the person's gross income from the farm business was larger than the person's income from all other sources in the year.
- A family farm partnership or corporation used the property to carry on a farm business in Canada for at least 24 months. Also, during this time any of the above persons must have been actively engaged in the farm business.

Special registered retirement savings plan (RRSP) rule for farmers

The lifetime capital gains deduction came into effect in 1985. Therefore, the special RRSP contribution is only available for qualified farm property sold in 1984.

You may have sold qualified farm property in 1984 and had a gain on the sale. Also, you may be adding this gain to income over a number of years by reserves. In this case, you can still claim the special RRSP contribution.

You can contribute to your RRSP each year you include part of the 1984 gain in income. Note that the maximum lifetime amount you can contribute is $120,000.

Transfer of farm property to a child

You may transfer Canadian farm property to your child. When you do this, we will not tax you on any capital gain as long as just before the transfer, you meet **both** of these conditions:

- Your child is a resident of Canada.
- You, your spouse or any of your children use the property in a farm business.

We define child on page 31.

You postpone any taxable capital gain and any recapture of capital cost allowance until the child sells the property.

These types of properties qualify for this transfer:

- Farmland.
- Depreciable property, including buildings.
- Eligible capital property.
- A share in a family farm corporation.
- An interest in a family farm partnership.

For most property, the transfer price can be any amount between the adjusted cost base (ACB) and its fair market value (FMV).

For depreciable property, the transfer price can be any amount between its undepreciated capital cost (UCC) and FMV.

For eligible capital property, the transfer price can be any amount between 1 1/3 times the cumulative eligible capital (CEC) and its FMV.

Example

Stan wants to transfer these farm properties to Jan, 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, Stan can transfer:

- the land at any amount between $85,000 (ACB) and $100,000 (FMV).
- the combine at any amount between $7,840 (UCC) and $9,000 (FMV).

Stan can choose to transfer the land at its ACB and the combine at its UCC. If he does this, he postpones any taxable capital gain and any recapture of CCA. Also if he does this, we consider that Jan acquires the land at $85,000 and the combine at $7,840. When Jan sells the land and the combine, she includes in income any taxable capital gain and recapture that Stan postpones.

If you need more details, read IT-268 and Special Release, *Inter Vivos Transfer of Farm Property to Child.*

Transfer of farm property to a child if a parent dies in 1992

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 in a farm business by the deceased, the deceased's spouse or any of the children, just before the parent's death.
- 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.

We define child on page 31.

These types of properties qualify for this transfer:

- Land, buildings and depreciable property used in a farm business.
- A share of a family farm corporation.
- An interest in a family farm partnership.

For most property, the transfer price can be any amount between the adjusted cost base (ACB) and its fair market value (FMV).

For depreciable property, the transfer price can be any amount between its undepreciated capital cost (UCC) and FMV.

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 also apply for property that a deceased person leases to the family farm corporation or partnership.

If a child gets a farm from a parent and the child later dies, the property can be transferred to the surviving parent.

Shares of a family farm holding corporation can be transferred from a spouse trust to a child of the settlor.

If you need more details on these transfers, read IT-349 and Special Release, *Intergenerational Transfers of Farm Property on Death*, and IT-449, *Meaning of "Vested Indefeasibly."*

Transfer of farm property to a spouse

A transfer of farm property to a spouse or a spouse trust can be made during the farmer's lifetime or after the farmer dies. At the time of the transfer, you can postpone any taxable capital gain or recapture of CCA.

If the spouse later sells the property, the farmer reports any taxable capital gain, not the spouse. This rule applies to transfers after 1971 where the farmer is living at the time the spouse sells the property. However, there are exceptions to this rule. If you need more details, read IT-511, *Interspousal Transfers and Loans of Property made after May 22, 1985.*

Other special rules

There are some other rules that allow you to postpone paying tax on capital gains.

Property you sold before November 13, 1981

You may have sold capital property before November 13, 1981. In this case, you can deduct a reasonable reserve for amounts due after the end of the year.

If you deduct a reserve in one year, include it in income as a capital gain in the next year. You can deduct a new reserve in the next year as long as there are still proceeds due after the end of that year.

You may sell capital property after November 12, 1981 but you sell it under the terms of a written offer or agreement you made or entered before November 13, 1981. In this case, you can apply the same rules.

Property you sold after November 12, 1981

You may sell capital property after November 12, 1981. In this case, you can deduct a reasonable reserve for amounts due after the end of year. You can deduct a reserve for either up to 5 or 10 years, depending on the type of property you sell and to whom you sell it.

You can deduct a reserve for Canadian farm property you sell to your child. You can deduct reserves of up to 10 years, if just before the sale:

- your child is a resident of Canada, and
- you, your spouse or any of your children use the property in a farm business.

These types of properties qualify for the 10 year reserve:

- Farmland.
- Depreciable property, including buildings.
- A share in a family farm corporation.
- An interest in a family farm partnership.

If you decide to deduct such a reserve, you report at least 10% of the taxable capital gain in each of the 10 years.

In all other cases, you can deduct reserves of up to 5 years on the sale of any property to any person. If you decide to deduct such a reserve, report at least 20% of the taxable capital gain in each of the 5 years.

There are special rules when you sell property and replace it with a similar one or when someone expropriates your property. If you need more details, read IT-259 and Special Release, *Exchanges of Property*. You may also want to read IT-271, *Expropriations — Time and Proceeds of Disposition* and IT-491, *Former Business Property*.

Chapter 7
Form T2038 (IND.), *Investment Tax Credit (Individuals)*

The investment tax credit lets you subtract from the taxes you owe, part of the cost of some types of property. You may be able to claim this tax credit if the property you buy in 1992 qualifies. You may also be able to claim the credit if you have unused investment tax credits from years before 1992.

Are you eligible for the credit?

Property bought in 1992

To be eligible for the credit, the property must be qualified property and available for use. A property is available for use when the seller delivers it to you and it is in working order. Also, it must be for use in a farm business in Newfoundland, Prince Edward Island, Nova Scotia, New Brunswick, or the Gaspé Peninsula.

Qualified property includes certain new buildings, machinery and equipment. Due to the number of properties that qualify, we cannot list them all in this guide. To find out if the property qualifies, contact your district tax office or check section 4600 of the *Income Tax Regulations*.

Approved project property is another type of property that is eligible for the credit. Approved project property is property you buy for use in an approved project in Cape Breton. The appropriate federal minister has to certify that it is new property for use in an approved project. Projects will be eligible for approval if the total cost of the depreciable property is at least $25,000. If you need more details on approved project property, read IC 78-4 and Special Release, *Investment Tax Credit Rates*.

Property bought before 1992

You may have bought property before 1992 that is eligible for the credit but did not use all the credit. In this case, you may be able to apply any unused credit in 1992. To do this, fill in Form T2038 (IND.), *Investment Tax Credit (Individuals)*.

How to calculate your 1992 credit

You base the investment tax credit on part of the investment cost (the cost of the property). The amount you use to calculate the credit is on Form T2038.

In some cases, you may have to either increase or decrease your investment cost. For example, you decrease your investment cost by the amount of any government or non-government assistance you get for the property. If you repay any of this assistance, add the repayment to the investment cost. Calculate the credit for any repayment using the same percentage you used for the original investment cost.

Figure out your credit at the end of the calendar year. However, the fiscal year-end of your farm business may differ from the end of the calendar year. In this case, you include any credit you earn on the property you buy in the part of the calendar year that is after your fiscal year-end. For example, suppose your fiscal period ends on June 30, 1992. In November 1992, you buy property that is eligible for a credit. When you file your 1992 return, you can claim a credit for the property bought in November.

How to claim your 1992 credit

You can use the credit that you earn in 1992 to reduce your tax for the year, for a prior year or for a future year.

Current-year claim

To figure out your claim for 1992, fill in Section 1 of Form T2038. Write the amount of your credit on line 412 on page 4 of your return. If a partnership or trust made the investments, write in only your amount.

You can also use your credit to reduce your federal individual surtax for 1992. To figure out your claim, fill in Section II of the form. Write the amount of your credit on line 518 of Schedule 1 of your return.

Prior-year claim

You can carry back the credit you earn in 1992 for three years and use it to reduce your federal taxes in those years. To do this, fill in Part B Form T2038.

Future-year claim

You can carry forward, for up to 10 years, a credit you earn in 1992 that you did not use to reduce taxes in 1992 or in a prior year. However, you lose any credits you do not use 10 years after you earn them.

Refundable investment tax credit

If you do not need to use all of your credit to reduce your taxes in the year, we may refund a part of the credit to you in cash. You can only claim this refund in the year you buy property or make an expenditure that qualifies for the credit.

To figure out your refund, fill in Part B of the form. Write this amount on line 454 on page 4 of your return. If a partnership or trust made the investments, write in only your amount.

Adjustments

The amount of the credit you claim or that we refund to you in 1992 will reduce the cost of the property. Any 1992 credit you carry back to a prior year will also reduce the cost of the property. Make this adjustment in 1993. This adjustment will reduce the amount of capital cost allowance you can claim for the property. It will also affect your capital gain when you sell the property.

Perhaps the credit that you claim or that we refund to you in 1992 is for depreciable property that you already sold. However, you may still have other property in the same class. When this happens, in 1993 you must reduce the undepreciated capital cost of the class by the amount of the credit claimed or refunded. When you do not have any property left in the same class, include in your 1993 income, the amount that was claimed or refunded.

Chapter 8
What Happens After You File Your Return?

Notice of assessment

When we first process your 1992 return, we limit our review. Most of the time, we base your notice of assessment on the income you report and the deductions you claim. However, this does not mean that we accept the income and deductions you report. We may select your return for further review or audit some time after the initial processing and assessment period.

Period of reassessment

We can reassess a return, or assess tax, interest or penalties within these lengths of time:

- Three years from the day we mail your original notice of assessment or notice that no tax is payable for the year.
- Six years from the day we mail your original notice of assessment to allow or change a carry-back of a loss or unused investment tax credit.

You can now ask us for an adjustment to 1985 and later tax years in some cases. You can ask us for a refund beyond three years. You can ask us to waive or cancel interest and penalties in some cases. You can also make a late or amended election, or revoke an original election for tax years back to 1985. To do this, you must give us the details in writing. If you need more details, you can contact your district tax office or you can read these Information Circulars:

- IC 92-1, *Guidelines for Accepting Late, Amended or Revoked Elections,*
- IC 92-2, *Guidelines for the Cancellation and Waiver of Interest and Penalties,* and
- IC 92-3, *Guidelines for Refunds Beyond the Normal Three Year Period.*

In some cases, we will not reassess a return when you make an informal request unless you make the request before the time that you must file an objection. We explain these cases in IC 75-7, *Reassessment of a Return of Income*, and IC 84-1, *Revision of Capital Cost Allowance Claims and other Permissive Deductions*.

Review or audit — Inspection of records

A self-assessment tax system only works when we regularly check returns. We will correct obvious errors at the time we first process your return and before we issue the notice of assessment. We carry out in-depth reviews, such as audits, after we issue the notice of assessment.

Our audit may show that you do not keep adequate books and records. When this happens, we will ask you for a written agreement which states you will properly keep all books and records. We may follow up by letter or by visiting you.

If you do not keep adequate books and records within the time we give, we may give you a formal requirement letter. This letter will describe the information you must keep and tell you of the penalties for failing to comply. If you still fail to comply, we may prosecute.

Appeal process

If you do not agree with your notice of assessment, you can appeal. You must file the appeal by the later of;

- 90 days from the date we mail the notice of assessment for the year, or
- one year from the date you have to file a return for the year.

You can appeal by filing Form T400A, *Objection*. You can also appeal just by writing to the chief of Appeals at your district tax office or tax centre.

When we get your T400A or letter, we will review the assessment. We may then confirm, change or cancel your assessment. If we do not allow the appeal, we will notify you by registered mail. You can then appeal to the Tax Court of Canada within 90 days.

While you wait for us or a court to settle your appeal, you do not have to pay the disputed taxes. However, these taxes are still subject to the usual interest charges.

Farm support payments

Below, we list examples of farm support payments you may receive that you must include in income:

- *Agricultural Products Board Act.*
- *Agricultural Products Cooperative Marketing Act.*
- *Agriculture Stabilization Act.*
- Atlantic Livestock Feed Development.
- Canadian Rural Transition Plan.
- Crop Insurance Program.
- Direct payments to milk producers and support prices for butter and skim milk powder by the Canadian Diary Commission.
- Economic and Regional Development Agreements.
- Farm Support and Adjustments Measures. This includes, fur, maple syrup, honey, Ontario and British Columbia oil seeds component, Prairie grains and oil seeds component, Atlantic grains and oil seeds component and Horticulture component.
- Feed Freight Assistance.
- National Tripartite Stabilization Programs.
- Ontario Grape Surplus Purchase Program.
- Ontario Wine Grape Price Support Program.
- Permanent Cover Program.
- Plant Quarantine.
- Specialized Counselling Assistance Grant Program.
- Waterfowl Crop Damage Compensation Program.

Rates of capital cost allowance (CCA)

This list has the more common depreciable properties a farming business may use. We show the CCA rates at the end of the list.

Depreciable property	Part XI 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 waterwells	8
Chain saws	10
Cleaners — Grain or seed	8
Combines	
Drawn	8
Self-propelled	10
Computer hardware and systems software	10
Coolers — Milk	8
Cream separators	8
Cultivators	8
Chain saws	10
Dams	
Cement, stone or earth	1
Wood	1
Discs	8
Diggers — All types	8
Docks	3
Drills — All types	8
Dugouts, dikes and lagoons	6
Electric generating equipment (not more than 15 kW)	
Acquired after May 25, 1976	8
Acquired before May 26, 1976	9
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	3
Greenhouses (all except as noted below)	6
Greenhouses of rigid frames covered with replaceable flexible plastic. This applies to tax years after 1988 for greenhouses acquired after 1987	8

Depreciable property	Part XI Class no.
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	8
Outboard motors	10
Passenger vehicles (see Chapter 3)	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	8
Silo fillers	8
Sleighs	10
Sprayers	8
Stable cleaners	8
Stalk cutters	8
Swathers	
Drawn	8
Self-propelled	10
Tile drainage — Acquired before 1965	8
Tillers — All types	8
Threshers	8
Tools	
Under $200	12
$200 and over	8
Tractors	10
Trailers	10
Trucks	10
Wagons	10
Water towers	6
Welding equipment	8
Well equipment	8
Wharves	
Cement, steel or stone	3
Wood	6
Windchargers	8
Wind-energy conversion equipment	34

* The cost of additions or alterations made to a Class 3 building after 1987 is limited to the lower of $500,000 or 25% of the building's capital cost on December 31, 1987. Include in Class 1, the cost of any additions or alterations over this limit.

Rates - Part XI

Class	Rate	Class	Rate
Class 1	4%	Class 9	25%
Class 2	6%	Class 10	30%
Class 3	5%	Class 10.1	30%
Class 6	10%	Class 12	100%
Class 7	15%	Class 16	40%
Class 8	20%	Class 17	8%

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Charts for calculating the mandatory inventory adjustment (MIA)

See pages 16 to 19 in Chapter 2 for instructions on how to fill in these charts.

Chart 1
Cash cost of purchased inventory

Write down the amount you paid by the end of your 1992 fiscal period for the specified animals you bought:

- in your 1992 fiscal period $______ 1
- in your 1991 fiscal period $______ 2
- in your 1990 fiscal period $______ 3
- in your 1989 fiscal period $______ 4
- before your 1989 fiscal period $______ 5*

* To figure out the amount for line 5, multiply the amount you paid by the percentage shown below and write down the result in the "Cash cost" column. Then total all the years and write this total on line 5.

Fiscal period of purchase	Amount paid	Percentage	Cash cost
1988	$	100%	$
1987 & 1986		50%	
1985 & prior		25%	______
Total			$______

Write down the amount you paid by the end of your 1992 fiscal period for all the other inventory you bought.

- in your 1992 fiscal period $______ 6
- in your 1991 fiscal period $______ 7
- in your 1990 fiscal period $______ 8
- in your 1989 fiscal period $______ 9
- before your 1989 fiscal period $______ 10

Chart 2
Value of purchased inventory for specified animals

Inventory bought in your 1992 fiscal period
Write down an amount that is not more than the amount on line 1 but not less than 70% of this amount. $______ 11

Inventory bought in your 1991 fiscal period
Write down an amount that is not more than the amount on line 2 but not less than 70% of the total of the value at the end of your 1991 fiscal period plus any amounts paid in your 1992 fiscal period toward the purchase price. $______ 12

Inventory bought in your 1990 fiscal period
Write down an amount that is not more than the amount on line 3 but not less than 70% of the total of the value at the end of your 1991 fiscal period plus any amounts paid in your 1992 fiscal period toward the purchase price. $______ 13

Inventory bought in your 1989 fiscal period
Write down an amount that is not more than the amount on line 4 but not less than 70% of the total of the value at the end of your 1991 fiscal period plus any amounts paid in your 1992 fiscal period toward the purchase price. $______ 14

Inventory bought before your 1989 fiscal period
Write down an amount that is not more than the amount on line 5 but not less than 70% of the total of the value at the end of your 1991 fiscal period plus any amounts paid in your 1992 fiscal period toward the purchase price. $______ 15

Chart 3
Value of purchased inventory for all other inventory

Inventory bought in your 1992 fiscal period Write down the lower of the amount on line 6 or the fair market value.	$ ____	16
Inventory bought in your 1991 fiscal period Write down the lower of the amount on line 7 or the fair market value.	$ ____	17
Inventory bought in your 1990 fiscal period Write down the lower of the amount on line 8 or the fair market value.	$ ____	18
Inventory bought in your 1989 fiscal period Write down the lower of the amount on line 9 or the fair market value.	$ ____	19
Inventory bought before your 1989 fiscal period Write down the lower of the amount on line 10 or the fair market value.	$ ____	20

Chart 4
Fixed dollar method

Write down the amount of your net loss. $ ____ 21

Write down the value of your inventory from Charts 2 and 3:

- the amount on line 11 $
- the amount on line 12
- the amount on line 13
- the amount on line 14
- the amount on line 15
- the amount on line 16
- the amount on line 17
- the amount on line 18
- the amount on line 19
- the amount on line 20 ____

Total value of inventory ____ $ ____ 22

Write down the lower of the amount on line 21 or line 22. $ 23

Deduct: 7,500*

MIA (if negative, write 0). $ ____ 24

* If your 1992 fiscal period starts in 1992, use $7,500.
If your 1992 fiscal period starts in 1991, use $10,000.

If your fiscal period is less than 51 weeks, you prorate as follows:

(amount you deduct) × (number of days in your fiscal period / 365)

Chart 5
Elective method

If you are a member of a partnership, all the partners would have to agree to use this method.

Write down the amount of your net loss. $ ____ 25

Write down the value of your inventory from Charts 2 and 3:

- the amount on line 11 $
- the amount on line 12
- the amount on line 13
- the amount on line 14
- the amount on line 16
- the amount on line 17
- the amount on line 18
- the amount on line 19 ____

Total $ ____ $ ____ 26

Write down the value of your inventory from Charts 2 and 3:

- the amount on line 15 $
- the amount on line 20 ____

Total $ ____ 27

Line 27 × 4/7* ____ 28

Line 26 + line 28 $ ____ 29

The MIA is the lower of the amount on line 25 or line 29. $ ____

* If your 1992 fiscal period starts in 1992, use 4/7.
If your 1992 fiscal period starts in 1991, use 3/7.

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CAPITAL COST ALLOWANCE SCHEDULE FOR FARMERS AND FISHERMEN USING THE PART XI METHOD

- Use a separate capital cost allowance (CCA) schedule for each business.
- Attach one completed copy of this schedule to your income tax return and keep a copy for your records.
- Both the ***Farming Income Tax Guide*** and the ***Fishing Income Tax Guide*** tell you how to complete this schedule.
- Use the other side to calculate CCA using the Part XVII method.

(1) Class number	(2) Undepreciated capital cost at the start of the year **Note 1**	(3) Cost of additions in the year (Area A column (5))	(4) Proceeds from disposals in the year (Area B (column (6))	(5) UCC after additions and disposals (col. 2 + 3 - 4) **Note 2**	(6) Adjustment for current year additions (1/2 x (col. 3 - 4)) If negative, write NIL	(7) Base amount for capital cost allowance (col. 5 - 6) **Note 3**	(8) Rate %	(9) CCA for the year (col. 7 x 8 or a lower amount)	(10) UCC at the end of the year (col. 5 - 9)
							Total CCA on Part XI property ▶		
							Total CCA on Part XVII property (from other side) ▶		
							Total CCA for the year ▶		

Note 1 - You have to reduce the starting UCC by certain amounts. See the instructions under column 2 in the chapter, "Form T2041, Capital cost allowance schedule."

Note 2 - If you have a negative amount in this column, add it to income as "Recapture." If there is no property left in the class and there is a positive amount in the column, deduct the amount from income as a "Terminal Loss." Recapture and terminal loss do not apply to Class 10.1 property.

Note 3 - If you disposed of a Class 10.1 passenger vehicle, see column 7 in the chapter, "Form T2041, Capital cost allowance schedule."

AREA A – Details of additions in the year

(1) Class number	(2) Kind of property	(3) Total cost*	(4) Personal portion	(5) Business portion (col. 3 - 4)

* See the chapter, "Form T2041, Capital cost allowance schedule," to figure out the capital cost of property.

AREA B – Details of disposals in the year

(1) Class number	(2) Kind of property	Buildings (3) Proceeds of disposal	Other property (4) Proceeds of disposal (amount not to exceed capital cost)	(5) Personal portion (if applicable)	(6) Business portion (col. 3 - 5 or col. 4 - 5)

Additions and disposals of land in the year

Additions – total cost .... $ ______

Disposals – total proceeds .... $ ______

(Note: You cannot claim capital cost allowance on land.)

(Cette formule est disponible en français)

(see reverse)

CAPITAL COST ALLOWANCE SCHEDULE FOR FARMERS AND FISHERMEN USING THE PART XVII METHOD

(For assets acquired before January 1, 1972)

- Attach one completed copy of this schedule to your income tax return and keep a copy for your records.
- Use the front of this schedule to calculate capital cost allowance using the Part XI method.
- Information Circular 86-5 has details to help you complete this schedule.

DIVIDING ASSETS BETWEEN BUSINESS AND PERSONAL USE

Property		Total cost	Personal portion	Business portion (carry to schedule below)
	House ▶			
	Automobile ▶			

(1) Year acquired	(2) Kind of property	(3) Month of disposal	(4) Cost (business portion)	(5) Rate %	(6) Allowance for this year	(7) Total allowance for this and prior years
				Total CCA on Part XVII property ▶		