Revenue Canada Customs, Excise and Taxation
Revenu Canada Accise, Douanes et Impôt

Supplementary Income Tax Guide

Farming Income

1993

Your Guide

- Income and expenses
- Applying losses
- Eligible capital expenditures
- Investment tax credits
- Capital cost allowance (CCA)

Forms

Cette publication existe aussi en français.

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Canada

Before You Start

Is this guide for you?

This guide is for you if you earn income as a self-employed farmer or as a member of a farm partnership. You can find information about some of the rules in the *Income Tax Act* that may apply to you. This guide has information that is not in the *General Income Tax Guide and Returns* package, but that you may need to complete your 1993 income tax return.

What is farm income?

Farm income includes income you earn from the following activities:

- tilling the soil;
- raising or showing livestock;
- maintaining race horses;
- raising poultry;
- dairy farming;
- fur farming;
- tree farming;
- fruit growing;
- beekeeping;
- growing Christmas trees;
- running a wild-game reserve;
- chicken hatchery;
- running a feedlot;
- cultivating crops in water; or
- hydroponics.

In certain factual circumstances farm income may also include:

- raising fish;
- market gardening; or
- operating a nursery, or greenhouse.

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

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

Forms and publications

In the middle of this guide, you will find two copies of some of the forms you may have to complete. Throughout the guide, we also refer to other forms and publications. If you need any forms or publications, see the section called "How to order forms and publications" on the last page of this guide.

What's New?

Below, we have outlined the major changes we have made to this guide. For more details on these changes, see the areas highlighted in yellow throughout the guide.

Changes

New meaning of the term spouse — The term spouse used throughout this guide applies to a legally married spouse and beginning in 1993, it also applies to a common-law spouse. A common-law spouse is a person of the opposite sex who, at that particular time:

- was living with you in a common-law relationship and is the natural or adoptive parent (legal or otherwise) of your child; or
- was living with you in a common-law relationship and had been living with you for at least 12 continuous months (when you calculate the 12 continuous months, include any period of separation of less than 90 days).

Once either of these two situations applies, we consider you to have a common-law spouse, except for any period that you were separated for 90 days or more because of a breakdown in the relationship.

Farm support-payments — Beginning in 1994, if you received farm support-payments in 1993, you will be issued AGR-1 information slips summarizing payment information from most agricultural programs.

New Form T1105, *Supplementary Schedule for Dispositions of Capital Property Acquired Before 1972* — This form will help you calculate your gain or loss from the sale of property you owned before 1972. This guide does not contain copies of this form. You can get Form T1105 from your income tax office.

Proposed changes

This guide includes tax changes that had not yet become law at the time of printing. However, we are getting ready to apply these proposed changes.

Capital cost allowance — Proposed changes to the *Income Tax Regulations* will allow you to include in a separate prescribed class one or more types of properties included in class 8 or class 10. See page 26 in Chapter 3 for details.

Investment tax credit — Beginning in 1994, the existing annual limit on investment tax credit claims will be eliminated. See page 36 in Chapter 7 for details.

Temporary small business investment tax credit — Under proposed legislation, a temporary small business investment tax credit was introduced. This credit allows an additional 10% non-refundable credit on certain property acquired after December 2, 1992, and before 1994. See page 36 in Chapter 7 for details.

Income tax instalment — Legislation proposes that, beginning in 1994, the criteria for determining if you have to pay an income tax instalment will change. See page 7 in Chapter 1 for details.

The following proposed programs are not discussed further in this guide. If you require more information, contact your district taxation office.

Small business financing program — The February 1992 budget introduced a program allowing incorporated and unincorporated small businesses in financial difficulty to refinance up to $500,000 of their debts at interest rates below normal commercial rates. This small business financing program has been extended until the end of 1994. The Department of Industry, Science and Technology has issued a pamphlet describing this program. Contact your district taxation office or a chartered bank for more information.

Unemployment Insurance premium relief — This one year program will reduce the cost of hiring new employees. The measures provide relief by a way of a refundable Unemployment Insurance (UI) premium tax credit for employers. Contact the Revenue Collections Division of your district taxation office for details.

This guide uses plain language to explain the most common income tax situations. If you need help after reading this guide, please contact the General Enquiries Section of your income tax office. For more complex business enquiries, please contact the Business Enquiries Section of your district taxation office. You can find the address and telephone numbers in your income tax package.

You can get this publication in braille, large print, audio cassette, and computer diskette. For details, please call 1-800-267-1267 weekdays between 8:15 a.m. and 5:00 p.m. (Eastern Time).

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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, if you are a partner, read the following section called "What is a partnership?" before you read the items common to both.

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, see the law of partnership for your province.

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

- There are special rules about capital gains or capital losses and recapture of capital cost allowance when partners give property to the partnership.
- There are special rules that apply when you dissolve a partnership.
- 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, contact the Business Enquiries Section of your district taxation office. Your income tax package has a list of telephone numbers if you want to call the Business Enquiries Section.

The method you use to report your share of the partnership income depends on the type of partnership you're in.

You may be in a partnership that has five members or less throughout the year. If none of these members is another partnership, and you use the cash method, complete the partnership schedule on the back of 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 you provide the same information in the statement as you would on Form T2042. See Chapter 2 for details.

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, obtain the guide to the *Partnership Information Return* from your income tax office.

Each partner gets from the partnership two copies of the T5013 Supplementary, *Statement of Partnership Income*. On line 168 of your return, report the gross partnership income, and your share of the net partnership income or loss on line 141 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. For example, you may have business expenses that the partnership has not paid back to you. In this case, read the part "Area II" on page 20.

For more details, see Interpretation Bulletin IT-138, *Computation and Flow-through of Partnership Income*.

How do you report your farming 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. If you wish to change the method you previously used, we explain how in "Changing your method of reporting income," on page 6.

Before we tell you about the two methods, we will need to define the terms "fiscal period" and "taxation year."

Taxation year and fiscal period

Most individuals report their income based on a taxation year, while self-employed persons such as farmers, report their income based on a fiscal period. A taxation year corresponds to the calendar year, from January 1 to December 31.

The period your business year covers is your fiscal period. It does not have to be the same as the calendar year. Your fiscal period starts on the day you begin your farming business. A fiscal period cannot be longer than 12 months, but it can be less than 12 months in some cases (e.g., you start or end a business, or you change your fiscal period). You can choose the dates of your fiscal period when you file your first income tax return for your business.

You have to report farm income in the calendar year your fiscal period ends. For example, you report income for the fiscal period July 1, 1992, to June 30, 1993, on your 1993 return, since the fiscal period ends in 1993.

To change your fiscal period, you have to get permission from the Director of your district taxation 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.

The following postdated-cheque rules apply to income-producing transactions, such as the sale of grain. They do not apply to transactions involving capital property, such as the sale of a tractor.

If you receive a postdated-cheque as security for a debt, include the amount in income when the cheque is payable.

However, if you receive a postdated-cheque as security for a debt and the cheque is payable before the debt is due, include the amount in income on the earlier of the following dates:

- the date the debt is payable; or
- the date you cash or deposit the cheque.

If you receive a postdated-cheque as an absolute payment for a debt, 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. For more details, contact your income tax office.

When you use the cash method, you do not include inventory when you calculate your income. However, there are two exceptions to this rule. See the section called "Line 635 — Mandatory inventory adjustment (MIA)" on page 15, and "Line 651 — Optional inventory adjustment (OIA)" on page 19, for details.

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

For more details on the cash method for farm income, see Interpretation Bulletin IT-433, *Farming or Fishing — 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 or not you pay them in that period.

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 highest dollar value that you can get for your property in an open and unrestricted market where the parties of the transaction deal at arm's length with each other, and are not forced to buy or sell.
- 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, complete Form T2034, *Election to Establish Inventory Unit Prices for Animals.*

In your first year of business, 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 1993 fiscal period is the same as the value at the end of your 1992 fiscal period.

For more details on inventories, see Interpretation Bulletin IT-473 *Inventory Valuation* and its Special Release.

Changing your method of reporting income

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

If you decide to change from the cash method to the accrual method, you first have to get permission from the Director of your district taxation 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.

Because there is a difference between the cash and accrual methods, 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 determine 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. Please see the examples on page 7.

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 or traded it and the amount you received 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 records. 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 we 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.

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 1988 tax year until December 31, 1994. If you file your return late, keep your records and supporting documents for six years from the date you file that return.

Also, if you file an objection or 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 the section called "Appeal process" on page 38.

You may want to destroy your records before the six-year period is up. Before you can, you first have to get written permission from the Director of your district taxation office. To do this, either use Form T137, *Request for Destruction of Books and Records,* or make your own written request. For more details, see Information Circular 78-10, *Books and Records Retention/Destruction.*

Block-averaging

In most cases, 1991 was the last year you could block-average your income, since block-averaging does not apply to 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 have to file Form T2011, *Election to Average Income by Farmers and Fishermen*, by April 30, 1994. For more details, contact your income tax office.

Income tax instalment

Under proposed legislation, for 1994 and later years, you will have to pay an annual instalment if the difference between your tax payable and the amount of tax withheld at source from your income is more than $2,000 in the current year and in the two previous years. The amount is $1,200 for residents of Quebec. We will send you a personalized *Instalment Reminder* at the end of November if you have to pay the 1994 instalment or if you will no longer have to make this instalment.

Dates to remember

February 28, 1994 — File your 1993 T4 and T4A Summary. Also, give your employees their copies of the T4 and T4A Supplementary slips.

March 31, 1994 — Most farm partnerships will file a *Partnership Information Return* by March 31, 1994. However, there are exceptions. For details, see the guide called *Partnership Information Return,* and Information Circular 89-5, *Partnership Information Return.*

April 30, 1994 — File your 1993 income tax return and pay any balance of taxes due.

April 30, 1994 — 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, 1994 — Pay your instalment for income tax.

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	

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 expenses statement. You can use either Form T2042, *Statement of Farming Income and Expenses*, or your own statement of income and expenses. The statement must accurately show your farm income and expenses. You may also use the Net Income Stabilization Account (NISA), *1993 — Statement A, Farming Income and Expenses Statement*.

This chapter has seven parts, which match 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 15);
- Optional inventory adjustment (OIA) (see page 19);
- Business use of home expenses (see page 19); and
- Partnership schedule (see page 19).

In this chapter, we explain how to complete the more common lines on the form. Do not confuse the line numbers we use below with the ones on your 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 these methods in the section called "What is a partnership?" on page 5. You may want to read this part before you complete your partnership's income and expenses statement.

Income

Lines 400 to 407 — Grain

If you sell grain directly or through an agency, include in income all the amounts you receive from these sales. For example, include any Wheat Board payments 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 receive 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 receive a payment at the time you get the ticket, you have to include the amount in income.

If you receive a deferred cash purchase ticket, you may be able to defer the income until your next fiscal period if the ticket calls for payment after the end of the fiscal period in which you deliver the grain. For more details, see Interpretation Bulletin 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 receive 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 415 (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 receive from these sales.

Lines 440 to 444 (inclusive) — Sale of livestock

In general, include in income the amounts you receive from the sale of livestock. However, there are cases when you can defer including some amounts in income, as explained below. These deferrals do not apply if you were a non-resident and weren't carrying on a farming business in Canada at the end of the taxation year. They do not apply in the year of the farmer's death either.

Destroying livestock

You have to include in income any payments you receive under the *Animal Contagious Diseases Act* for destroying animals. You can choose to deduct all or part of the payment as an expense in the year. However, if you choose to do this, you must include in income in 1994 the amount you deduct in 1993. 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 receive when you sell breeding animals in your 1993 fiscal period. To be able to do this, you have to meet these **two** conditions:

- Your farm business has to be located in a prescribed drought region (PDR) at any time during your 1993 fiscal period.
- You have to have reduced, by sale or other means, the number of breeding animals in your breeding herd 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 income tax office.

Breeding animals include cattle, bison, goats, and sheep you keep for breeding. For fiscal periods that end after 1990, you may also include deer, elk, and similar animals. Breeding animals also include horses you breed to produce

pregnant mare's urine that you sell. All your breeding animals must be over 12 months old.

To determine the size of your breeding herd for your 1993 fiscal period, complete the chart below.

Breeding herd chart

Part I			
How many breeding animals do you have?		_____	A
How many breeding animals gave birth?		_____	B
How many breeding animals have never given birth?		_____	C
Enter one-half of the amount from line B.		_____	D
Enter the lesser of the amounts from lines C and D.		_____	E
Part II			
Enter the amount from line A		_____	F
Enter the amount from line C	_____ G		
Enter the amount from line E	_____ H		
G minus H		_____	I
F minus I		_____	J

Line J is the number of breeding animals in your breeding herd for your 1993 fiscal period.

Before you determine how much you can defer, you need to calculate a few amounts. First, determine your sales of breeding animals for your 1993 fiscal period less any reserves claimed with respect to these sales. Then subtract from this amount the cost of breeding animals you bought in your 1993 fiscal period. The result is your net amount.

You then determine how much you can defer as follows:

- If you have reduced your breeding herd by at least 15%, but less than 30%, you can defer up to 30% of the net amount.
- If you have reduced your breeding herd 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 1993 income.

If your farm business was not in a PDR at any time during your 1993 fiscal period, you cannot defer the amount you receive when you sell breeding animals. You must also include in your 1993 income any unreported amounts you deferred in earlier years.

However, as long as your farm business is in a PDR at any time in your 1993 fiscal period, you do not have to include income you deferred in earlier years.

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.

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

If you receive income from letting other people remove standing timber from your woodlot, 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, see the income tax guide called *Capital Gains*.

For more details on the sale of wood, see Interpretation Bulletin 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 receive them. A patronage dividend that is a share or a certificate of indebtedness is considered income at the time you receive it.

Lines 485, 486, and 487 — Rebates

You may receive 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. At Revenue Canada we pay this rebate on the GST expenses you incur to earn partnership income for which the partnership did not repay you. We base 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 receive a GST rebate for capital cost allowance (CCA) you claimed on a vehicle you buy for your 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 for details.

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

Line 490 — Gross insurance proceeds

In your income, you have to include any gross insurance proceeds you receive. For example, you may receive payments from the Gross Revenue Insurance Program (GRIP). When you get such payments, include them in your income for the fiscal period during which you receive them. Beginning in 1994, you should receive an AGR-1 Supplementary slip for the gross insurance proceeds you received in 1993. For an explanation of the boxes on an AGR-1 slip, see page 39.

Line 495 — Grants and subsidies

You may receive a grant or subsidy from a government or non-government agency. Beginning in 1994, you should receive an AGR-1 Supplementary slip identifying most grants and subsidies you received in 1993. You have to include in your income the amount of the grant or subsidy shown on the AGR-1 slip, such as dairy or milk subsidies. For an explanation of the boxes on an AGR-1 slip, see page 39.

You may also receive other assistance, such as the GST input tax credit from Revenue Canada, for your farm expenses. You can either include the amount in income, or reduce the amount of the expenses by the amount of the credit.

However, there are some cases where you do not have a choice. For example, you may receive government assistance in the form of a GST input tax credit to buy depreciable property, such as a tractor. Since this credit is government assistance, you have to deduct the amount you receive from the cost of the tractor. This will affect your capital cost allowance and investment tax credit. See Chapter 3 and Chapter 7 for details.

When you receive non-government assistance to buy depreciable property, 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 listed on Form T2042, write them down on this line. If you do not have enough space, use a separate sheet of paper and attach it to your return.

Gifts

In your income, include the fair market value of livestock or other items you gave away that you would normally sell. Fair market value is the highest dollar value that you can get for your property in an open and unrestricted market where the parties of the transaction deal at arm's length with each other and are not forced to buy or sell.

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 occurs when you receive or give something instead of money. For instance, to pay someone, you may give them a side of beef instead of money.

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

If you're a landlord renting out land involved in sharecropping, any payment in kind you receive is considered rental 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 receive payments for leasing your farmland for petroleum or natural gas exploration. These payments will be either income or a capital receipt.

In your income, include the payment you receive 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 receive 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 capital gains.

Rental income

Except for the surface rental explained above, you do not usually include rental income in your farm income. To determine your rental income, use Form T776, *Statement of Real Estate Rentals*. You will find this form in the income tax guide called *Rental Income*. You can get the guide and form from your income tax office. Write the amount of your net rental income on line 126 of your return.

If you're a landlord renting out land involved in sharecropping, the payments you receive, whether in kind or cash, are considered rental income.

Recapture of capital cost allowance (CCA)

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

You may want to complete Form T2041, *Capital Cost Allowance (CCA) Schedule for Self-Employed Persons*, to find out if you have any recapture. See Chapter 3.

Miscellaneous

In your income, include 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 income tax office.

You may deduct, as an expense, the cost of property such as small tools that cost less than $200. If you do this and you later sell the property, include the amount you receive from the sale in income.

In your income, include prizes from fairs or exhibitions. When your children win these prizes they can report the income. For more details, see Interpretation Bulletin 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 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 in one year, but you don't receive 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 determine your farm income; and
- you must have a binding contract with a supplier.

If you use the accrual method to determine your farm income, you can deduct the part of the prepaid expenses that applies to the year you receive 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 from your employees because they are already deducted in the amount you claimed as wages.

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.
- 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, have your child 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, and your spouse is not a partner. You may be a member of a partnership that employs your spouse. In this case, the partnership can deduct your spouse's wages if it pays them to earn income for the business. Also, the wages must be reasonable.

Remember that, beginning in 1993, the meaning of the term spouse has changed. We define "spouse" on page 3.

You have to complete a T4 or T4A Summary as well as the related T4 or T4A Supplementary forms. On the T4 slips, report the wages you paid to your employees, children, or spouse. Also show the amounts you withheld.

For more details on wages and how to complete the T4 or T4A Summary, see the *Employers' Guide to Payroll Deductions*. You can get the guide from your income tax office.

Line 205 — Rent

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

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

- To your income, add the fair market value of the crops you give your landlord. Deduct the same amount as an expense.
- Neither include the amount in income, nor deduct the amount as an expense.

The fair market value is the highest dollar value that you can get for your property in an open and unrestricted market, where the parties of the transaction deal at arm's length with each other and are not forced to buy or sell.

Lines 210 and 211 — Interest expenses

Deduct the interest you pay on money you borrow to earn farm income (e.g., 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 below at "Line 225 — Motor vehicle expenses."

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

Line 225 — Motor vehicle expenses

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; and
- passenger vehicles.

If you own or lease a passenger vehicle, there may 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 where, for more than 50% of the distance travelled, it is used as a taxi, a bus to transport passengers, or a 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 which in the tax year you acquire it, more than 50% of the distance travelled is for the transportation of goods or equipment to earn income;
- a van, pick-up truck, or similar vehicle that, in the tax year you acquire it, 90% or more of the distance travelled is for the transportation of 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

If you use your motor vehicle for personal and business reasons, 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

Bruno 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. Bruno wrote down the following for 1993:

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 Bruno determines the motor vehicle expenses he can deduct in 1993:

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

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.

Whether you use the cash or accrual method to determine your income, complete the chart below to calculate the interest you can deduct. If you use your passenger vehicle for both personal and business use, complete the chart before you determine 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 either A or B whichever is less.

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

Example

Kathie's farm business has a December 31 year-end. In March 1988 she bought a new passenger vehicle that she uses for both personal and business use. Kathie borrowed money to buy the vehicle and the interest she paid in 1993 was $5,000. Kathie wrote down the following for 1993:

Business kilometres	20,000 km
Total kilometres	25,000 km
Gasoline and oil	$ 2,000
Repairs and maintenance	1,000
Insurance	1,900
Interest (on loan to buy vehicle)	3,040 *
License and registration	60
Total vehicle expenses	$ 8,000

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

- $5,000 (the total interest she paid in 1993); and
- $3,040 ($8.33 × 365 days).

Since Kathie bought the passenger vehicle before September 1, 1989, she uses the $8.33 rate.

Here is how Kathie determines the motor vehicle expenses she can deduct in 1993:

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

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 to use in a business.

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

Joint ownership of a passenger vehicle

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. Each of you claim expenses in proportion to your share of the passenger vehicle.

More than one vehicle

If you use more than one motor vehicle for your business, 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.

For more details on motor vehicle expenses, see Interpretation Bulletin 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. Do not include the value of your own labour. 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 income tax office.

For more details on capital expenditures, see Interpretation Bulletin 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, add the cost to your capital cost allowance (CCA) schedule. See Chapter 3 for details.

Line 275 — Insurance expenses

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 in your farming business, 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 expenses" on page 11.

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 you pay 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 the fees you paid on line 232 of your income tax return. If you received a reimbursement for these fees, subtract the amount you received from the fees you paid and write the result on line 232.

If you received a reimbursement in 1993 for these types of fees, which you deducted in a previous year, report the amount of the reimbursement at line 130 of your income tax return.

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

For more details, see Interpretation Bulletin 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 expenses

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.

If you have a separate telephone installed to use in your business and you use it for business calls only, 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 determine 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 electricity you use for the barns and shops. Since the electricity for the farmhouse is a personal expense, you cannot deduct it unless you meet the conditions we explain at "Line 660 — Business use of home expenses" on page 19.

If you are repaying a loan for land drainage through your property tax payments to your township, you cannot include the amount you are repaying as part of your 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 can get this form from the income tax guide called *Rental Income* that you can obtain from your income 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 any part of the cost you did not deduct to another year.

If you rent land to someone else, you cannot deduct the above costs. Instead, you can either:

- 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 in this case you add costs for land drainage to Class 8 on your capital cost allowance (CCA) schedule. See Chapter 3 for details.

For more details, see Interpretation Bulletin 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 on your capital cost allowance (CCA) schedule. See Chapter 3 for details.

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 on your capital cost allowance (CCA) schedule. The costs you add to Class 8 are:

- the casing and cribwork for the well; and
- the cost of the system that distributes water, including 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 are not specifically covered on Form T2042. Deduct these other expenses on 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, or fertilizers. You can deduct these expenses if you include in your income the gross amount of the grain sale or stabilization payment.

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

- a premium for the Gross Revenue Insurance Program (GRIP) established under the *Farm Income Protection Act*; or
- an administration fee for a Net Income Stabilization Account (NISA).

Payment in kind

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.

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 expenses" on page 11.

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

- We consider that you have bought the property rather than leased it.
- We consider that you have borrowed 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 the total fair market value (FMV) of all the property which is subject to the lease is more than $25,000. A combine that you lease with 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*; or
- Form T2146, *Election in Respect of Assigned Leases or Subleased Property*.

If you and the person you are leasing from have agreed to this kind of lease arrangement, and you require the above forms, or if you want more details, contact your income tax office.

Line 321 — Insurance programs overpayment recapture

Beginning in 1994, you should receive an AGR-1 Supplementary slip identifying most insurance program overpayment recaptures you paid in 1993. For an explanation of the boxes on an AGR-1 slip, see page 39.

If your 1993 overpayment recapture was for Gross Revenue Insurance Program (GRIP) payments you received and reported in 1992, a recent federal remission order gives you a choice on how to deduct this amount.

You can deduct the overpayment recapture in 1993, or you can, by reason of the remission order, request a reassessment of your 1992 income tax return to reduce your income in that year. See page 38 for details on how to request a reassessment.

Note

This remission order applies to reduce federal taxes and the relevant interest and penalties.

Line 326 — Mandatory inventory adjustment included in prior year

You may have included an amount for the mandatory inventory adjustment (MIA) in your 1992 income. In this case, deduct the amount as an expense for 1993. See Line 635 on this page for further explanations on MIA.

Line 327 — Optional inventory adjustment included in prior year

You may have included an amount for the optional inventory adjustment (OIA) in your 1992 income. In this case, deduct the amount as an expense for 1993. See Line 651 on page 19 for further explanations on OIA.

Line 330 — Capital cost allowance (CCA)

Write the amount of capital cost allowance you calculate on Form T2041, *Capital Cost Allowance (CCA) Schedule for Self-Employed Persons*, or from your own schedule. See Chapter 3 for details.

Line 331 — Allowance on eligible capital property

We explain how to determine 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

If you have to make adjustments, complete this part of the T2042. We cover the common adjustments in the next pages.

Add lines 605 to 625. Then add the result to the amount on line 520. Then write the total on line 630. Note that, if your amount on line 520 is a loss, adding the total of lines 605 to 625 will reduce your loss.

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

Include at line 605 any amount you paid yourself, if you deducted the amount as an expense. Do not include these amounts on T4 slips or elsewhere on your income tax return because the adjustment at line 605 will ensure the amounts are included in your farming income.

Your partnership may pay a partner a wage and deduct the wage as an expense. However, the partners' salaries or wages are a distribution of the partnership's income. In this case, include at line 605 the amount of the wage. Do not include these amounts on T4 slips. The adjustment on line 605 will ensure the correct farming income (or loss) is reported in each partner's share.

Line 615 — Cost of saleable goods used

Include at line 615 the cost of producing goods you would normally sell that you, your family, or your partners and their families used, as long as you deducted the cost of producing these items as an expense. Saleable goods include items such as dairy products, eggs, fruit, vegetables, poultry, and meat.

Line 620 — Personal expenses

If you deduct personal expenses from your farm income, include these expenses at line 620. 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 your income tax;
- life-insurance premiums; and
- fines and penalties.

Line 625 — Other

Use this line for other items that we do not cover on Form T2042. For example, you may use partnership property on which the partnership claims expenses or CCA. When you use the property for personal use, include at line 625 the portion of the expenses claimed which can be attributed to your personal use.

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 determine the value of the farm inventory you bought and still have at the end

of your 1993 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 of Form T2042.
- You bought inventory and still have it at the end of your 1993 fiscal period.

If you started your farm business after 1988, your MIA is one of these two amounts, whichever is less:

- the net loss on line 630; or
- the value of the purchased inventory you still have at the end of your 1993 fiscal period. We tell you how to determine this value further on this page.

If you started your farm business before 1989, you can use one of two methods to determine your MIA. You can use either the fixed-dollar method or the elective method. We explain 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 calculate your MIA, you must first complete Charts 1, 2, and 3 on pages 43 and 44. The next step is to use both methods to calculate your MIA before you decide which one to use. To do this, complete Chart 4 on page 44 for the fixed-dollar method, and Chart 5 on page 45 for the elective method. For more details, see Interpretation Bulletin IT-526, *Farming — Cash Method Inventory Adjustments*.

Add the amount of your MIA on line 635 to the amount on line 630, and enter the result on line 640.

In 1994, you will deduct from your farm income the MIA you add to your net loss in 1993.

Note

If you started your farming business before 1989 and you bought a specified animal in a non-arm's-length transaction, we consider that you buy the animal in the same year, and at the same price that the seller bought it. A non-arm's-length transaction is, for example, a transaction between members of a family, such as a husband and wife, or a parent and child.

Definitions

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

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

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

Purchased inventory is inventory you have bought and paid for.

Specified animals are horses. You may also choose to treat cattle you registered under the *Animal Pedigree Act* as specified animals. To make this choice, put a note on your 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 to purchase your inventory.

Fair market value (FMV) is the highest dollar value that you can get for your property in an open and unrestricted market where the parties of the transaction deal at arm's length with each other and are not forced to buy or sell.

Valuing your purchased inventory

To value your purchased inventory, read the text that follows. We give you an example of how to complete the MIA charts. On pages 43 to 45 of this guide, there are blank charts for you to use. Keep these charts as part of your records.

Except for specified animals, you have to value any purchased inventory you bought in or before your 1993 fiscal period at one of the two following amounts, whichever is less:

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

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

Value the specified animals you bought in your 1993 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; or

C. any amount between A and B above.

Value specified animals you bought before your 1993 fiscal period that you still have at the end of your 1993 fiscal period at any one of these amounts:

D. the cash cost;

E. 70% of:

- the total value of the specified animals as determined at the end of your 1992 fiscal period; plus
- any amounts paid in your 1993 fiscal period toward the purchase price; or

F. any amount between D and E.

Example

Howard's farming business has a December 31 year-end. He started farming in 1988 and uses the cash method to report his income. Howard shows a net loss of $55,000 on line 630. Howard has purchased inventory at the end of his 1993 fiscal period. This means he must decrease his net loss by the MIA. Howard set up a chart for the cash cost of his purchased inventory at the end of his 1993 fiscal period.

Livestock

Year of purchase	Cost of purchase	Amount Howard paid by the end of his 1993 fiscal period
1993	$30,000	$25,000
1992	$26,000	$26,000*
1991	$22,000	$22,000
1990	$20,000	$20,000

* For livestock bought in his 1992 fiscal period, Howard paid $19,000 in 1992 and $7,000 in 1993.

Howard'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 1993 fiscal period $15,000

Bought in his 1992 fiscal period .... $ 6,000

Bought in his 1991 fiscal period .... $ 5,000

At the end of his 1993 fiscal period, Howard did not have any other inventory that he bought before his 1991 fiscal period.

Howard has registered his livestock under the *Animal Pedigree Act*. He wants to treat these animals as specified animals. Howard completes Chart 1 as follows:

Chart 1
Cash cost of purchased inventory

Howard enters the amount he paid by the end of his 1993 fiscal period for the specified animals he bought.

Fiscal period	Cash cost	
• in his 1993 fiscal period	$25,000	A
• in his 1992 fiscal period	$26,000	B
• in his 1991 fiscal period	$22,000	C
• in his 1990 fiscal period	$20,000	D
• in his 1989 fiscal period	$ 0	E
• before his 1989 fiscal period	$ 0	F

Howard enters the amount he paid by the end of his 1993 fiscal period for all other inventory he bought:

• in his 1993 fiscal period	$15,000	G
• in his 1992 fiscal period	$ 6,000	H
• in his 1991 fiscal period	$ 5,000	I
• in his 1990 fiscal period	$ 0	J
• in his 1989 fiscal period	$ 0	K
• before his 1989 fiscal period	$ 0	L

Howard now knows the cash cost of his purchased inventory, including his specified animals. He uses these amounts to calculate the value of his purchased inventory at the end of his 1993 fiscal period. To do this, he completes Charts 2 and 3 as follows:

Chart 2
Value of purchased inventory for specified animals

The small letter in front of each line matches the paragraphs at the end of this chart. These paragraphs explain how Howard calculates the number on each line.

Inventory bought in his 1993 fiscal period
Howard enters an amount that is not more than the amount on line A but not less than 70% of this amount. .... (a) $20,000 M

Inventory bought in his 1992 fiscal period
Howard enters an amount that is not more than the amount on line B but not less than 70% of the total of the value at the end of his 1992 fiscal period plus any amounts he paid in his 1993 fiscal period toward the purchase price. ..... (b) $14,210 N

Inventory bought in his 1991 fiscal period
Howard enters an amount that is not more than the amount on line C but not less than 70% of the total of the value at the end of his 1992 fiscal period plus any amounts he paid in his 1993 fiscal period toward the purchase price. ..... (c) $ 7,546 O

Inventory bought in his 1990 fiscal period
Howard enters an amount that is not more than the amount on line D but not less than 70% of the total of the value at the end of his 1992 fiscal period plus any amounts he paid in his 1993 fiscal period toward the purchase price. ..... (d) $ 4,802 P

Inventory bought in his 1989 fiscal period .... (e) $ 0 Q

Inventory bought before his 1989 fiscal period .... (e) $ 0 R

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

(b) Howard chose to value the inventory he bought in his 1992 fiscal period at 70% of the cash cost. Therefore, the value of this inventory at the end of his 1992 fiscal period was $13,300 ($19,000 × 70%). Remember, Howard paid $19,000 for these specified animals in 1992. He paid $7,000 in 1993.

For his 1993 fiscal period, Howard chose to value the inventory he bought in his 1992 fiscal period at 70% of the total of the value at the end of the 1992 fiscal period plus any amounts he paid in the 1993 fiscal period toward the purchase price. Therefore, the amount he enters on line N is $14,210 (70% × ($13,300 + $7,000)). He could choose any amount between the cash cost of $26,000 and the lowest acceptable inventory value of $14,210.

(c) Howard 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 $15,400 ($22,000 × 70%).

For his 1992 fiscal period, Howard chose to value the inventory he bought in his 1991 fiscal period at 70% of the total of the value at the end of his 1991 fiscal period. Therefore, the value of this inventory at the end of his 1992 fiscal period was $10,780 ($15,400 × 70%).

For his 1993 fiscal period, Howard chose to value the inventory he bought in his 1991 fiscal period at 70% of the total of the value at the end of his 1992 fiscal period. Therefore, the amount he enters on line O 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) Howard 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 $14,000 ($20,000 × 70%).

For his 1991 fiscal period, Howard 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 $9,800 ($14,000 × 70%).

For his 1992 fiscal period, Howard 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 value of this inventory at the end of his 1992 fiscal period was $6,860 ($9,800 × 70%).

For his 1993 fiscal period, Howard 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 1992 fiscal period. Therefore, the amount he enters on line P 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) Howard had no specified animals purchased before his 1990 fiscal period.

Chart 3
Value of purchased inventory for all other inventory

Inventory bought in his 1993 fiscal period Howard enters the lower of the amount on line G or the fair market value.	$15,000	S
Inventory bought in his 1992 fiscal period Howard enters the lower of the amount on line H or the fair market value.	$ 6,000	T
Inventory bought in his 1991 fiscal period Howard enters the lower of the amount on line I or the fair market value.	$ 5,000	U
Inventory bought in his 1990 fiscal period Howard enters the lower of the amount on line J or the fair market value.	$ 0	V
Inventory bought in his 1989 fiscal period Howard enters the lower of the amount on line K or the fair market value.	$ 0	W
Inventory bought before his 1989 fiscal period Howard enters the lower of the amount on line L or the fair market value.	$ 0	X

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

Chart 4
Fixed-dollar method

Howard enters the amount of his net loss after adjusting the income and expenses statement (line 630 of Form T2042)		$55,000	Y
Howard enters the value of his inventory from Charts 2 and 3:			
• the amount on line M	$20,000		
• the amount on line N	14,210		
• the amount on line O	7,546		
• the amount on line P	4,802		
• the amount on line Q	0		
• the amount on line R	0		
• the amount on line S	15,000		
• the amount on line T	6,000		
• the amount on line U	5,000		
• the amount on line V	0		
• the amount on line W	0		
• the amount on line X	0		
Total value of inventory	$72,558	$72,558	Z
Howard enters the lower of the amount on line Y or line Z		$55,000	AA
Howard deducts:		5,000	*
MIA (if negative, enter "0").		$50,000	BB

* Since Howard's 1993 fiscal period starts in 1993, he uses $5,000. If his 1993 fiscal period began in 1992, he would use $7,500.

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

$$\$5{,}000 \text{ (amount he deducts)} \times \frac{\text{number of days in his fiscal period}}{365}$$

Chart 5
Elective method

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

Howard enters the amount of his net loss after adjusting the income and expenses statement (line 630 of Form T2042)		$55,000 CC
Howard enters the value of his inventory from Charts 2 and 3:		
• the amount on line M	$20,000	
• the amount on line N	14,210	
• the amount on line O	7,546	
• the amount on line P	4,802	
• the amount on line Q	0	
• the amount on line S	15,000	
• the amount on line T	6,000	
• the amount on line U	5,000	
• the amount on line V	0	
• the amount on line W	0	
Total	$72,558	$72,558 DD

Since Howard had no inventory from before 1990, the MIA in this example would be the lower of the amount on line CC or line DD.

With the fixed-dollar method, Howard's MIA is $50,000. With the elective method, Howard's MIA is $55,000.

Howard has to reduce his net loss by at least $50,000. However, he can reduce his net loss by $55,000 if he chooses.

Whatever MIA Howard chooses for 1993, he will have to deduct the same amount from his farm income in 1994.

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 your 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. See the section called "Line 635 — Mandatory inventory adjustment (MIA)" on page 15 for definitions of inventory and fair market value.

The inventory does not have to be purchased inventory, as with the MIA. It is all the inventory you still have at the end of your 1993 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.

From your farm income in 1994, deduct the amount of your optional inventory adjustment for 1993.

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" on the back of Form T2042 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; or
- 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 determine 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.

If you deduct CCA on the business use part of your home and later sell your home, the rules for a recapture of CCA and taxable capital gains apply. Please note that the principal residence protection from capital gains does not apply to a work space for which capital cost allowance has been claimed. See Chapters 3 and 6 for details.

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

Partnership schedule

Complete this part of Form T2042 if you are a member of a partnership. If you are in a partnership that has five members or less throughout the entire fiscal period, and none of these members is another partnership, complete Areas I and II.

You have to complete Area II only, if you were:

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

In this case, you will also have to file a *Partnership Information Return*, as explained on page 5 in Chapter 1.

Area I

In this area, show the names of all the partners. 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. Other agreements 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 calculated 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 determine 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 of your return.

Chapter 3
Form T2041, *Capital Cost Allowance (CCA) Schedule for Self-Employed Persons*

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 part of their cost each year. The part of the cost you can deduct, is your capital cost allowance (CCA).

Your CCA claim is calculated based on your fiscal period ending in 1993, and not the calendar year.

Note
You cannot claim capital cost allowance on land.

You do not have to claim the maximum amount of CCA in the year. You can claim any amount you like, from zero to the maximum amount for the year. The maximum amount you can deduct for CCA is the same, regardless of whether you use the cash method or the accrual method.

Use Form T2041, *Capital Cost Allowance (CCA) Schedule for Self-Employed Persons*, to determine the CCA on your depreciable property. If you do not want to use Form T2041, you can use your own statement.

Note
If you used depreciable property in your 1993 fiscal period that you used in your farm business before January 1, 1972, you may want to read Information Circular 86-5, *Part XVII — Capital Cost Allowance, Farming and Fishing*, for information on how to claim CCA on that property. For more details, contact your income tax office.

Definitions

To complete 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, if you buy a tractor and the seller delivers it to you in your 1993 fiscal period, but it was not in working order until your 1994 fiscal period, you cannot claim CCA on it until 1994.

However, if you buy a tractor and the seller delivers it to you in working order in your 1993 fiscal period, but you did not use it until your 1994 fiscal period, you can still claim CCA in 1993 because it was available for use.

A building that you bought or are constructing, renovating, or altering may be subject to different rules. For more details, contact your income 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, if you buy a building for $50,000 plus expenses of $3,500, your capital cost is $53,500.

Depreciable property

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

See "Rates of capital cost allowance (CCA)" on page 40 for a list of classes and rates of the more common depreciable properties you would use in a farm business. To find out the rate for depreciable property not listed, contact your income tax office.

Fair market value (FMV)

Fair market value is the highest dollar value that you can get for your property in an open and unrestricted market where the parties of the transaction deal at arm's length with each other and are not forced to buy or sell.

Non-arm's-length transaction

A non-arm's-length transaction is a transaction between people who are related, such as partners, or members of a family. An example of a non-arm's-length transaction would be the sale of property between a husband and wife, or a parent and child.

Proceeds of the sale

The proceeds of the sale are generally the sale price of a property after you subtract any expenses related to selling it. When you trade in a property to buy a new one, the value of the trade-in is your proceeds of the sale. Under proposed legislation, the value of the trade-in for depreciable property cannot exceed its fair market value (FMV). This proposed change applies to depreciable property acquired after November 1992.

Undepreciated capital cost (UCC)

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

How to complete Form T2041

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

Column 1 — Class number

If you started farming in 1993, read column 3 first and then complete column 1.

If you had a CCA claim in past years, enter 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 1993 fiscal period are the same amounts as those at the end of your 1992 fiscal period. If you used Form T2041 last year, these amounts appear in column 10.

You have to reduce your UCC at the start of your 1993 fiscal period by any investment tax credit deducted, refunded, or both in 1992. You also have to reduce your UCC by any 1992 investment tax credit you carried back to a year before 1992. See Chapter 7 for details.

You may have received a GST-related input tax credit in 1992 for a passenger vehicle where less than 90% of the distance travelled is for your farm business. In this case, subtract the amount of the credit from your UCC at the start of the year.

If your first fiscal period ends in 1993, 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 have to calculate the cost of the property. To do this, complete Area A of the form. Remember that your property has to be available for use before you can claim CCA.

You also have to enter the class the property belongs to. For a list of the more common depreciable properties, see "Rates of capital cost allowance (CCA)" on page 40. To find out the rate for depreciable property not listed, contact your income tax office.

In some cases, you may need to adjust the cost of your property. The following information explains how to do this.

Change in use of property

If you buy a property for personal purposes and then start to use it in your business, you need to determine the amount to enter in column 3. In most cases, the amount you enter is the fair market value (FMV) of the property at the time you change its use.

However, the cost of the property may be less than the FMV. In this case, complete the following chart to determine the amount to enter in column 3.

Cost of the property		$______	A
FMV of the property	$______ B		
Amount from line A	______ C		
Line B minus line C (if negative, enter "0")	$______ D		
Enter any capital gains deduction* you claimed for the amount on line D $______ × 4/3 =	$______ E		
Line D minus line E (if negative, enter "0") $______	× 3/4 =	______	F
The amount you enter in column 3 is line A plus line F		$______	

* We explain the capital gains deduction in the income tax guide called *Capital Gains*.

Passenger vehicles

We define passenger vehicle in the section called "Line 225 — Motor vehicle expenses" on page 11 of Chapter 2.

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 purchased it before September 1, 1989, and it cost more than $20,000; or
- you purchased it after August 31, 1989, and it cost more than $24,000.

Note

Where the cost of a passenger vehicle purchased before September 1, 1989, exceeds $20,000, the capital cost of that vehicle shall be deemed to be $20,000. Where the cost of a passenger vehicle purchased after August 31, 1989, exceeds $24,000, the capital cost of that vehicle shall be deemed to be $24,000.

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

Example

Valerie runs a farm business. On June 21, 1993, she bought two new passenger vehicles that she uses for her business. Valerie has these details for 1993:

	Cost	GST 7%	PST 8%	Total
Vehicle 1	$25,000	$1,750	$2,000	$28,750
Vehicle 2	$23,000	$1,610	$1,840	$26,450

Valerie puts vehicle 1 in Class 10.1 since she bought it after August 31, 1989, and it cost more than $24,000 before the GST and PST. Before Valerie enters an amount in column 3, she needs to determine the GST and PST on the deemed capital cost of $24,000, as follows:

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

Therefore, Valerie enters $27,600 in column 3 [$24,000 + $1,680 (GST) + $1,920 (PST)].

Valerie puts vehicle 2 into Class 10 since she bought it after August 31, 1989, and it did not cost more than $24,000 before the GST and PST. Valerie enters the total cost of $26,450 in column 3 [$23,000 + $1,610 (GST) + $1,840 (PST)].

Note

The Quebec provincial sales tax (PST) is not calculated as in the above example. For more information, contact your income tax office.

Cost of building or improving a property

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

To its cost, you have to add the cost to improve, add to, or renovate the property. For more details on building costs, see "Line 260 — Building repairs" on page 13 of Chapter 2.

Survey or valuation costs

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

Property you buy for both personal and business use

If you buy property for both personal and business use, 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 your income the part you use for personal purposes.

The cost limits for Class 10.1 vehicles still apply when you divide the cost between business and personal use. See "Passenger vehicles" on page 22.

Grant, subsidy, or other incentive or inducement

If you receive a subsidy or grant from a government or government agency to buy depreciable property, 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 enter the cost in column 3, deduct the amount of the grant, subsidy, or input tax credit from the total cost of the property.

If you receive an input tax credit for a passenger vehicle for which 90% or more of the distance travelled is for your farm business, you reduce the cost of the property by the amount of the credit. However, if you receive an input tax credit for a passenger vehicle for which less than 90% of the distance travelled is for your farm business, you have to reduce your UCC in 1994.

If you receive an incentive or inducement from a non-government agency to buy depreciable property, you have a choice. You can either include the amount in your income, or deduct it from the cost of the property. See "Line 495 — Grants and subsidies" on page 10 of Chapter 2 for details.

Non-arm's-length transactions

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

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

- a resident of Canada;
- a partnership who is resident of Canada;
- a partnership with at least one member who is a resident of Canada; or
- a partnership with at least one member who is another partnership.

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

The seller's capital cost		$ ______ A
The FMV of the property	$ ______ B	
Amount from line A	______ C	
Line B minus line C (if negative, enter "0")	$ ______ D	
Enter any capital gains deduction* claimed for the amount on line D $ ______ × 4/3 =	$ ______ E	
Line D minus line E (if negative, enter "0") $ ______ × 3/4 =		$ ______ F
Your capital cost is line A plus line F		$ ______

* We explain the capital gains deduction in the income tax guide called *Capital Gains*.

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 where none of the members are residents of Canada, or none of the members is another partnership. If you pay more for the property than the seller paid for the same property, calculate the capital cost as follows:

The seller's capital cost		$ ______ A
The FMV of the property	$ ______ B	
Amount from line A	______ C	
Line B minus line C (if negative, enter "0")	$ ______ × 3/4 =	______ D
Your cost is line A plus line D		$ ______

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

Example

Teresa bought a tractor from her father Roman in 1993 for $4,000. Roman paid $10,000 for the tractor in 1985. Since the amount Teresa paid is less than the amount Roman paid, we consider Teresa's cost to be $10,000. We also consider that Teresa has deducted CCA of $6,000 in the past ($10,000 - $4,000).

Teresa completes Form T2041 as follows:

- In the "Area A — Details of additions in the year," she enters $10,000 in column 3, "Total cost."
- In the "Part XI properties" chart, she enters $4,000 in column 3, "Cost of additions in the year," as the addition for 1993.

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

- 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; or
- 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 bought 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, see Interpretation Bulletin IT-405, *Inadequate Considerations — Acquisitions and Dispositions*, and IT-419, *Meaning of Arm's Length* and its Special Release.

Column 4 — Proceeds from disposals in the year

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

- the proceeds of the sale; or
- the capital cost of the property.

Use "Area B — Details of disposals in the year" to determine 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, see Interpretation Bulletin 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 1993, read the income tax guide called *Capital Gains* to help you determine your gain and deduction.

In some cases, you may be able to postpone including a capital gain in income. For example, you may sell a property and replace it with a similar one, someone may expropriate your property, or you may transfer property to either a corporation, a partnership, or your child. See page 34 in Chapter 6 for transfers of farm property to a child. For more details, contact your income 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. Enter the result in column 5.

Recapture of capital cost allowance (CCA)

You will have a recapture of CCA when the amount in column 5 is negative. Include this amount as farm income on Form T2042 or your statement of income and expenses. A recapture can occur when you sell a property, receive a government grant or assistance, or claim the investment tax credit.

In some cases, you may be able to postpone a recapture of CCA. For example, you may sell a property and replace it with a similar one, someone may expropriate your property, or you may transfer property to a corporation, a partnership, or your child. See page 34 in Chapter 6 for transfers of farm property to a child. For more details, contact your income tax office.

Terminal loss

You will have a terminal loss 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 on either Form T2042 or your own statement of income and expenses.

Note

The rules for recapture and terminal loss do not apply to passenger vehicles in Class 10.1. However, see the comments under the heading, "Column 7 — Base amount for CCA claim," to calculate your CCA claim.

Column 6 — Adjustment for current-year additions

You can claim CCA on only 50% of the cost of the property you buy in 1993. For example, suppose that in 1993 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.

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ELECTION TO AVERAGE INCOME BY FARMERS AND FISHERMEN

Calculation of net income – averaged basis

Averaging period	Preceding years				Year of averaging	Total
	1987	19 ___	19 ___	19 ___	1993	
1. Taxable income						
2. **Add:** personal exemptions		XXXXXXXX	XXXXXXXX	XXXXXXXX	XXXXXXXX	
3. TOTAL						
4. **Less:** all fishing, farming or non-capital losses available for application to 1993 that were not deducted in computing Taxable income at line 1.						
5. Gross income for period						
6. "Average gross income" (1/5 of Total of line 5)						
7. **Less:** personal exemptions		XXXXXXXX	XXXXXXXX	XXXXXXXX	XXXXXXXX	
8. "Average net income"						

Calculation of federal tax – averaged basis

						Total
9. "Average tax" on "Average net income" for each year (without any investment tax credit)						
10. **Deduct:** any investment tax credit claimed in each year					XXXXXXXX	
11.					Subtotal (line 9 minus line 10)	
12. **Add:** refundable Quebec abatement allowed in each of the "Preceding years"					XXXXXXXX	
13.					Subtotal (line 11 plus line 12)	
14. **Deduct:** refundable Quebec abatement allowable with respect to "Average net income" in each of the "Preceding years"					XXXXXXXX	
15.					Subtotal (line 13 minus line 14)	
16. **Deduct:** federal tax assessed * for each of the "Preceding years"					XXXXXXXX	
17.					Subtotal (line 15 minus line 16)	
18. **Deduct:** investment tax credit claimed for 1993 (not to exceed amount at line 17)						
19.					Subtotal (line 17 minus line 18)	
20. **Add:** federal individual surtax						
21. **Totals** of lines 19 and 20 is the "FEDERAL TAX OR REFUND" for the year of averaging. (Enter this amount at line 406 of your return.)						

Calculation of provincial income tax – averaged basis

						Total
22. Provincial income tax (after any provincial foreign tax credit) on averaged basis for each year (without any credits under the Saskatchewan tax incentives program)						
23. **Deduct:** any credits claimed under the Saskatchewan tax incentives program in each year					XXXXXXXX	
24.					Subtotal (line 22 minus line 23)	
25. **Deduct:** provincial income tax assessed * for each of the "Preceding years"					XXXXXXXX	
26.					Subtotal (line 24 minus line 25)	
27. **Deduct:** credits claimed for 1993 under the Saskatchewan Tax Incentive Act (not to exceed amount at line 26)						
28. The difference between the **Totals** of lines 26 and 27 is the "PROVINCIAL INCOME TAX OR REFUND" for the year of averaging. (Enter this amount at line 428 of your return.)						

* As shown on the latest *Notice of Assessment* or *Notice of Reassessment.*

Election

I elect to average my income for the taxation years indicated above for the purpose of determining the income tax payable for 1993.

Date ______________________ Signature ______________________

Printed in Canada

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

Column 3 minus column 4	________	A
50% × A	________	B

Enter the amount on line B in column 6.

If the amount in column 4 is more than the amount in column 3, enter "0" in column 6.

In some cases, you do not make an adjustment in column 6. For example, you may buy property 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 1993 fiscal period.

Also, some properties are not subject to the 50% rule. Some examples are those in Classes 13, 14, 23, 24, 27, 29, or 34, as well as some of those in Class 12, such as small tools that cost less than $200.

Column 7 — Base amount for CCA claim

Subtract the amount in column 6 from the amount in column 5. Enter the result in column 7. Base your CCA claim on the amount in this column.

For a class 10.1 vehicle you disposed of in your 1993 fiscal period, you may be able to claim 50% of the capital cost allowance that would be allowed if you still owned the vehicle at the end of the year. This is known as the "half-year rule on sale."

You can use the half-year rule on sale if you owned, at the end of your 1992 fiscal period, the Class 10.1 vehicle you disposed of in 1993. If this applies to you, enter in column 7, half of the amount in column 2. This applies to CCA claims for a fiscal period that started after June 17, 1987, and ended after 1987.

Note

The condition for claiming the half-year rule is different from the way we explained it in earlier guides. This is because of a recent change to the conditions for claiming the half-year rule. Before the 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 before the disposal; and
- in the year you disposed 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 the change to the half-year rule, your CCA claim in 1988, 1989, 1990, 1991, or 1992 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; or
- you replaced the Class 10.1 vehicle with a Class 10 vehicle.

Example

In 1990, Elizabeth sold her class 10.1 vehicle. She owned it at the end of 1989. She bought another passenger vehicle in May 1990 for $15,000. Since the new vehicle did not cost more than $24,000, Elizabeth included it in class 10.

Because Elizabeth didn't buy another class 10.1 vehicle in 1990, she couldn't claim the half-year rule at that time. However, because of the change to the half-year rule, she can contact her district taxation office and ask them to adjust her 1990 return to allow the half-year rule.

For more details, or if you want us to adjust your return, contact your income tax office.

Column 8 — Rate (%)

In this column, enter the rate or percentage for each class. For a list of rates, see "Rates of capital cost allowance (CCA)" on page 40.

Column 9 — CCA for the year

Multiply the amount in column 7 by the rate in column 8 and enter 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)

In Class 3 or Class 6, you enter most buildings bought before 1988. Since 1988, however, you have to 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. If you alter or add to a Class 3 building after 1987, include the cost of the addition or change in Class 3. However, the amount you can include as an addition or alteration in Class 3 is one of the following amounts, whichever is less:

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

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

If you bought a Class 3 building before 1990, 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 into before June 18, 1987; or
- the building was being built for you on June 18, 1987.

For more details about CCA for buildings, see Interpretation Bulletin 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 any buildings you use to store silage.

Electronic office equipment (Classes 8 and 10)

Proposed changes to the *Income Tax Regulations* will allow you to elect to include one or more properties, now included in Class 8 or Class 10, in a separate prescribed class. The election to include the property or properties in a separate prescribed class will enable you to realize a terminal loss on the disposition of all the properties in the class when such properties have declined in value.

This election will apply to the following property acquired after April 26, 1993:

- general-purpose electronic data-processing equipment and systems software, including related data-processing equipment;
- computer software;
- a photocopier; and
- electronic communications equipment, such as a facsimile transmission device or telephone equipment, including related equipment.

Furthermore, this election will only apply to properties that cost $1,000.00 or more each.

To make a separate prescribed class election, let us know by attaching a letter to your return for the taxation year in which the property or properties were acquired.

Note

If you still own the property at the beginning of the fifth taxation year following the taxation year in which the property became available for use, the undepreciated capital cost of each separate class will be transferred from the separate prescribed class to the general class in which it would otherwise belong. For more details, contact your income tax office.

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

If you buy certain manure-handling equipment that stops, reduces, or gets rid of air or water pollution, it may qualify for an accelerated rate of CCA. 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 has to accept it as equipment you use solely to stop, reduce, or get rid of pollution. For more details, contact:

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

For more details on the special CCA rates, see Interpretation Bulletin IT-336, *Capital Cost Allowance — Pollution Control Property.*

Column 10 — UCC at the end of the year

Subtract the amount in column 9 from the amount in column 5. Enter the result in column 10. This is the UCC at the end of your 1993 fiscal period. This will be your UCC for each class at the start of your 1994 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 intangible property that has no physical existence, but gives you a lasting economic benefit (e.g., milk and egg quotas). We call this kind of property **eligible capital property**. The price you pay to buy this kind of property is an **eligible capital expenditure**.

What is an annual allowance?

You cannot deduct the full cost of an eligible capital expenditure, since the cost is capital and gives you 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 bookkeeping record you set up to determine 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 calculate the balance in your CEC account at the end of your 1993 fiscal period as follows:

Balance in the account at the start of your 1993 fiscal period (this balance is the same amount as the amount at the end of your 1992 fiscal period)		______ A
Eligible capital expenditures you made, or incurred in your 1993 fiscal period	______ B	
75% × B		______ C
A plus C		______ D
All the amounts you received or are entitled to receive from the sale of eligible capital property in your 1993 fiscal period	______ E	
All the amounts that became receivable in your 1993 fiscal period from the sale of eligible capital properties before June 18, 1987	______ F	
E plus F	______ G	
75% × G		______ H
D minus 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 1993 fiscal period. You can deduct up to 7% of the balance, but you do not have to deduct the maximum annual allowance (0 to 7%). If there is a negative balance in your CEC account, see the section called "Sale of eligible capital property," below.

Example

Lisa started her farming business in 1993. The business has a December 31 year-end. That year, she bought a milk quota for $16,000. Lisa's maximum annual allowance for 1993 is $840. She calculates it as follows:

Lisa's CEC account

Balance at the start of Lisa's 1993 fiscal period		$ 0 A
Lisa's eligible capital expenditure : milk quota	$16,000 B	
75% × B		12,000 C
A plus C		$12,000 D
Lisa has not sold any eligible capital property. Therefore, she will not have any amounts on lines E to H.		
Lisa's annual allowance is 7% × D		$ 840

Sale of eligible capital property

You must subtract an amount from your CEC 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 1993 fiscal period; or
- before June 18, 1987, and the proceeds from the sale become due to you in your 1993 fiscal period.

For 1993, the eligible capital amount is 75% of **both** of these amounts:

- the total amount you sell eligible capital property for in your 1993 fiscal period (include the total amount from a sale even if you do not get any or all the proceeds until after 1993); and
- the amount of any proceeds that become due to you in your 1993 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 one of these two amounts **whichever is less**:

- the negative balance in your CEC account; or
- 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 the amount included in your income from the negative amount in your CEC account. Then, subtract one-half of the annual allowances you deducted for fiscal periods that started before 1988. The result is your taxable capital gain, which you enter on line 543 of Schedule 3. You will find this schedule in your income tax package.

Example

Marc 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
1992	354
Total	$2,556

At the start of his 1993 fiscal period, the balance in Marc's CEC account was $4,694. In 1993, Marc sold his milk quota for $14,000. Marc's CEC account for 1993 is as follows:

Marc's CEC account

Balance in the account at the start of Marc's 1993 fiscal period	$ 4,694
Subtract: eligible capital amount; Sale of milk quota ($14,000 × 75%)	10,500
Balance	$ (5,806)

Marc deducted $2,556 in annual allowances from income in past years. Since this amount is less than the negative amount in his account, he includes $2,556 in his farm income.

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

Negative balance in CEC account	$ 5,806
Subtract: Amount he includes in farm income	2,556
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

If you sell eligible capital property and replace it with another one, you can postpone all or part of any gain on the sale. To do this, you have to replace the property no later than one year after the end of the tax year in which you sell the original property. The replacement property must be for the same or similar use and for the same or similar business. For more details, see Interpretation Bulletin IT-259, *Exchanges of Property*, and its Special Release.

Chapter 5
Farm Losses

When the expenses for your farm business are more than the income for the year, you have a net operating loss. However, before you can calculate your net farm loss for the year, you may have to increase or decrease the loss by certain adjustments. We explain these adjustments on page 15 in Chapter 2.

If you show a net farm loss for the year, read this chapter for information on how to treat your loss. For more details on farm losses, see Interpretation Bulletin IT-322, *Farm Losses.*

The amount of the net farm loss you can deduct depends on the nature and extent of your business. Your farm loss may be:

- fully deductible;
- partly deductible (restricted farm loss); or
- non-deductible.

If, after you read the parts that follow, you are not sure how to treat your farm loss, or if you're not sure whether farming is your chief source of income, contact the Business Enquiries Section of your district taxation office. Your income tax package lists the telephone numbers of the Business Enquiries Section.

Fully deductible

If you make your living from farming, we consider farming as 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 if your farm doesn't show a profit. Other income could come from investments, part-time employment, and so on.

To determine 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;
- your farm's ability to make a profit (both actual and potential); and
- plans to maintain or develop your farm and how you carry out these plans.

Please note that, although you may be a partner in a farm business, you still have to determine if farming is your own chief source of income.

When farming is your chief source of income and you show a net farm loss in 1993, you may have to reduce the loss when you have other income (including any forward-averaging income) in 1993. Any loss that is left is your farm loss for 1993.

Example

Rick 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. Rick wrote down the following for 1993:

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

Rick determines his farm loss for 1993 as follows:

Farm loss before adjustments	($50,000)
Add: optional inventory adjustment	15,000
Farm loss after adjustments	($35,000)
Add: other income	2,000
Farm loss for 1993	($33,000)

Carry-back — 1993 farm loss

You can carry your 1993 farm loss back for up to three years. You can also carry it forward up to ten years. In both cases, you can deduct it from your income from all sources in those years.

If you choose to carry back your 1993 farm loss to your 1990, 1991, or 1992 returns, complete Form T1A, *Request for Loss Carry-Back*. File one copy of the form with your 1993 return. Do not file an amended return for the year in which you apply the loss.

Applying your farm losses from years before 1993

You may be able to apply to your 1993 return, farm losses you had in 1983, 1984, 1985, 1986, 1987, 1988, 1989, 1990, 1991, or 1992. You can apply these losses as long as you did not already deduct them, and if you have net income in 1993. To apply these losses to 1993, you have to apply the loss from the earliest year first.

Non-capital loss

You may have a loss in 1993 from a business that is not farming or fishing. If this loss is more than your other income for the year, you may have a non-capital loss. Use Form T1A, *Request for Loss Carry-Back*, to calculate your 1993 non-capital loss.

You can carry back your 1993 non-capital loss up to three years and forward up to seven years.

If you choose to carry back your 1993 non-capital loss to your 1990, 1991, or 1992 returns, complete Form T1A, *Request for Loss Carry-Back*. File one copy of the form with your 1993 return. Do not file an amended return for the year in which you apply the loss.

For more details about non-capital losses, see Interpretation Bulletin 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 carry it back and 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 either make a profit, or you must expect it to make a profit in the near future.

However, if farming is not your chief source of income (i.e., you do not rely only on farming to make your living), you may be able to deduct 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 farming loss may be restricted in one year, while a farming loss in another year may not be restricted.

How to calculate your restricted farm loss

Farming may not be 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 lesser of these two amounts:

A. your net farm loss for the year; or

B. $2,500 plus one of the following amounts whichever is less:
   - 1/2 × (your net farm loss minus $2,500); or
   - $6,250.

The amount remaining is your restricted farm loss.

Example

Sharon runs a cattle farm which is capable of making a profit. However, farming is not her chief source of income in 1993. In 1993, she has a net farm loss of $9,200. The part of Sharon's net farm loss she can deduct in 1993 is the lesser of amounts A or B:

A. $9,200; or

B. $2,500 plus the lesser of the following amounts:
   - $3,350, which is 1/2 × ($9,200 minus $2,500); or
   - $6,250.

Therefore B is $2,500 plus $3,350, which is $5,850.

Since Sharon can only deduct the lesser of A or B, she deducts $5,850 from her other income in 1993. Her restricted farm loss is the amount that remains, which is $3,350 ($9,200 minus $5,850).

Applying your 1993 restricted farm loss

You can carry your 1993 restricted farm loss back up to 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 1993 restricted farm loss to your 1990, 1991, or 1992 returns, use Form T1A, *Request for Loss Carry-Back*. File one copy of the form with your 1993 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 1993

You may have net farm income in 1993. If so, you may be able to apply to your 1993 return, restricted farm losses you had in 1983, 1984, 1985, 1986, 1987, 1988, 1989, 1990, 1991, or 1992. You can apply these losses as long as you did not already deduct them from your farming income. Also, you can only apply them up to the amount of your net farm income in 1993. You have to apply the loss from the earliest year first, before you apply the losses from other years.

You may sell farmland at a time when you have restricted farm losses that you did not claim. When this happens, you may be able to reduce the amount of your capital gain from the sale. For more details, see "Restricted farm losses" on page 33 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 can reasonably be expected to 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

General information

This chapter explains the capital gains rules for people who farm. We cover the general capital gains rules in the income tax guide called *Capital Gains*.

Throughout this chapter, we use the terms "sell," "sold," "buy," or "bought." These words describe most capital transactions. However, the information in this chapter also applies to deemed dispositions or acquisitions. When reading this chapter, you may want to substitute the terms "disposed of" or "acquired" for "sold" or "bought," if they more clearly describe your situation.

Use Schedule 3, *Summary of Dispositions of Capital Property in 1993*, to report all of your taxable capital gains or allowable capital losses. Your income tax guide and returns package contains two copies of Schedule 3.

Remember that, beginning in 1993, the meaning of the word spouse has changed. You will find the definition of spouse in the "What's New?" area at the beginning of this guide.

What is a capital gain?

You have a capital gain when you sell, or are considered to have sold, a capital property for **more** than its adjusted cost base plus the expenses or outlays incurred to sell the property. A capital gain is the difference between your proceeds of disposition and the property's adjusted cost base, minus the expenses or outlays incurred to dispose of the property.

In most cases, capital property includes land, buildings, and equipment that you use in your farming business. Therefore, capital property includes depreciable and non-depreciable property.

Not all of your capital gain is taxable. For 1993, your taxable capital gain is 75% of your capital gain. You have to include your taxable capital gain in income.

A disposition of depreciable property may result in a capital cost allowance recapture. We explain recapture on page 24 in Chapter 3.

What is a capital loss?

You have a capital loss when you sell, or are considered to have sold, non-depreciable capital property, such as land, for **less** than its adjusted cost base and the expenses or outlays of selling the property. The capital loss is the difference between the adjusted cost base of the property before you sold it and your proceeds of disposition, minus any expenses or outlays incurred in selling the property.

A loss on a disposition of depreciable property may only result in a terminal loss. We explain terminal loss 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.

Definitions

Before you can determine your capital gain or capital loss, you will need to know the following terms.

Proceeds of disposition

In most cases, the proceeds of disposition 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 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)

This is the highest dollar value that you can get for your property in an open and unrestricted market where the parties of the transaction deal at arm's length with each other and are not forced to buy or sell.

How to calculate your capital gain or loss

To calculate your capital gain or capital loss, use the following formula:

Proceeds of disposition	______	A
Selling expenses	______	B
A minus B	______	C
Adjusted cost base	______	D
C minus D = Capital gain (loss)	______	E

Note

Calculate the capital gain or loss on each property separately.

Did you sell capital property in 1993 that you owned before 1972?

If you did, you have to apply a special set of rules when calculating your capital gain or capital loss, since you did not have to pay tax on capital gains before 1972. To help you calculate your gain or loss from the sale of property you owned before 1972, use Form T1105, *Supplementary Schedule for Dispositions of Capital Property Acquired Before 1972.*

Disposition of farmland that includes your principal residence

Your home is often your principal residence. If your home was your principal residence for every year you owned it, you do not pay tax on any capital gains from its disposition. Therefore, if in 1993 you sold farmland that includes your home, only part of the gain is taxable. You can choose one of two methods to determine your taxable capital gain. Try both methods so you can decide which one is best for you.

Method 1

Separately calculate the capital gain on your principal residence and each of your farm properties. To do this, apportion the proceeds of disposition, the ACB, and any selling expenses between:

- your principal residence; and
- each of your farm properties.

Then, calculate the **taxable** capital gain on your principal residence, if any, and each of the farm properties.

We usually consider one-half hectare of land on which your residence is situated to be part of your principal residence. We will allow you more if you can prove that you need more land to use and enjoy your principal residence. One-half hectare is about one acre.

Value the land that is part of your principal residence at one of these two amounts, whichever is more:

- the FMV of the land; or
- the FMV of a comparable residential building site in the area.

Example

Helena sold her 16-hectare farm, which included her principal residence. One-half hectare of land is part of her principal residence. Helena has these details:

Value of land when she purchased her 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 she sold her 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 (ACB)	
Land	$120,000
House	60,000
Barn	16,000
Silo	4,000
Total	$200,000
Proceeds of disposition	
Land	$200,000
House	75,000
Barn	20,000
Silo	5,000
Total	$300,000

Proceeds of disposition	**Principal residence**	**Farm properties**	**Total**
Land	$ 25,000*	$175,000	$200,000
House	75,000		75,000
Barn	20,000		20,000
Silo		5,000	5,000
	$100,000	$200,000	$300,000
Minus: **ACB**			
Land	$ 15,000*	$105,000	$120,000
House	60,000		60,000
Barn		16,000	16,000
Silo		4,000	4,000
	$ 75,000	$125,000	$200,000
Gain on sale	$ 25,000	$ 75,000	$100,000
Minus: Gain on principal residence**	25,000		25,000
Capital gain	NIL	$ 75,000	$ 75,000
Taxable capital gain (75% × $75,000)			$ 56,250

* Helena uses the value of a typical residential building site for the land that is part of her principal residence, since the FMV of a typical site in the area is more than the FMV of one-half (1/2) hectare of farmland.

** Because Helena's home was her principal residence during all the years she owned it, the capital gain is not taxable.

Note

If your home **was not** your principal residence for every year you owned it, there could be a capital gain on it that you have to include in your income. Form T2091(IND.), *Designation of a Property as a Principal Residence by an Individual*, will help you calculate the number of years that you were entitled to designate your home as your principal residence **and** calculate the part of your gain, if any, that is taxable.

Method 2

Determine the capital gain on your land and your principal residence. To the gain, you then apply a reduction of $1,000 plus $1,000 for each year after 1971 the property was your principal residence and you were a resident of Canada. Using Method 2, you can reduce a gain to nil, but you cannot create a loss.

To calculate your capital gain, use the following formula:

Proceeds of disposition	______	A
Selling expenses	______	B
A minus B	______	C
Adjusted cost base	______	D
Capital gain before reduction — C minus D	______	E
Method 2 reduction	______	F
Capital gain after reduction — E minus F	______	G

Note

Transfer the entries at lines A, B, D, and G to the relevant columns on Schedule 3, under "Qualified farm property," or "Other securities and properties — Real estate and depreciable property," whichever applies.

If you choose this method, attach a letter to your return that includes the following information:

- that the sale of your farm is under subparagraph 40(2)(c)(ii) of the *Income Tax Act*;
- a description of the property you sold; and
- the number of years after 1971 the farmhouse was your principal residence during which you were a resident of Canada (if you purchased your farm after 1971, give the date you purchased it).

To show the value of your property, in whichever of the two methods you choose, keep documents that have the following:

- a description of the farm, including 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); and
- your type of farm operation.

If you need more details, read Interpretation Bulletin IT-120, *Principal Residence*.

Restricted farm losses

You may have a capital gain from farmland you sell in 1993. 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. The part you can deduct is the property taxes and the interest on money you borrowed to buy the land which was included in the calculation of the restricted farm loss in question.

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

Qualified farm property and cumulative capital gains deduction

If you have a taxable capital gain from the sale of qualified farm property, you may be able to claim a capital gains deduction. We explain qualified farm property below. For details on how to calculate your capital gains deduction, see the income tax guide called *Capital Gains*.

The maximum capital gains deduction you can claim for dispositions of qualified farm property is $375,000 ($500,000 × 75%) less any capital gains deduction claimed for other properties, since only three-quarters of your gain is taxable.

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

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; and
- 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);
- the beneficiary of a personal trust;
- a family-farm corporation where any of the above persons own a share of the corporation; or
- a family-farm partnership where any of the above persons own an interest in the partnership.

Your **children** include:

- your natural child, your adopted child, or your spouse's child;
- your grandchild or great-grandchild;
- your child's spouse; 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 is met:

- In the year the property is sold, it or the property it replaced 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 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 which are explained as follows.

Throughout the 24 months before the sale, you, your spouse, any of your children, parents, a personal trust, 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 the property it replaced was used mainly in a farm business in Canada in which any of the above persons were actively engaged on a regular and ongoing basis. Also, in at least two 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 mainly to carry on a farm business in Canada throughout a period of at least 24 months. Also, during this time, you, your spouse, any of your children, or your parents must have been actively engaged in the farm business.

Special registered retirement savings plan (RRSP) rule for farmers

The cumulative 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, based on the number of years before 1984 in which you were a full-time farmer. For more details, contact your income tax office.

Transfer of farm property to a child

You may transfer Canadian farm property to your child. When you do this, you can postpone tax on any capital gain as long as **both** of these conditions are met:

- your child is a resident of Canada just before the transfer; and
- the farm property is used mainly in a farm business in which you, your spouse, or any of your children were actively engaged on a regular and ongoing basis before the transfer.

We define child on page 33.

You can postpone the 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; and
- 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:

- its fair market value; and
- 4/3 × Your cumulative eligible capital from the farm business × $\frac{\text{FMV of the property}}{\text{FMV of all your eligible capital property from the farm business}}$

Example

Sean wants to transfer these farm properties to Vicky, his 19-year-old daughter.

Land	ACB	$ 85,000
	FMV at the time of transfer	$100,000
Combine	FMV	$ 9,000
	UCC at the time of transfer	$ 7,840

Therefore, Sean can transfer:

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

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

For more details, see Interpretation Bulletin IT-268, *Inter Vivos Transfer of Farm Property to Child*, and its Special Release.

Transfer of farm property to a child if a parent dies in 1993

We allow a tax-free transfer of a deceased taxpayer's Canadian farm property to a child if **all** of these conditions are met:

- the child was resident in Canada just before the parent's death;
- the property was used mainly in a farm business on a regular and ongoing basis by the deceased, the deceased's spouse, or any of the children, before the parent's death; and
- the property transfers to the child no later than 36 months after the parent's death (in some cases, we may allow the transfer, even if it took place later than 36 months after the parent's death. For more details, contact your income tax office).

We define child on page 33.

These types of properties qualify for this transfer:

- land and buildings, or other depreciable property used in a farm business;
- a share of a family-farm corporation; and
- 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 an amount between the property's fair market value and a special amount. For more information, see the chapter called "Deemed Disposal of Property" in the income tax guide called *Preparing Returns for Deceased Persons*.

The deceased's legal representative will choose the amount in the year of death. We consider that the child acquires these properties at the amount chosen.

Similar rules also apply for property that a deceased person leased 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, based on the same rules.

Shares or other property of a family-farm holding corporation can also be transferred based on the same rules from a spouse trust to a child of the settlor.

For more details on these transfers, see Interpretation Bulletin IT-349, *Intergenerational Transfers of Farm Property on Death*, and its Special Release, and IT-449, *Meaning of "Vested Indefeasibly."*

Transfer of farm property to a spouse

A farmer can make a transfer of farm property to a spouse or a spouse trust 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 made after 1971 where the farmer is living at the time the spouse sells the property. However, there are exceptions to this rule. For more details, see Interpretation Bulletin IT-511, *Interspousal Transfers and Loans of Property made after May 22, 1985*.

Other special rules

Other rules allow you to postpone paying tax on capital gains.

Reserves

When you sell a capital property, you usually receive full payment at that time. However, this is not always the case. Sometimes the amount is spread over a number of years. For instance, you may sell a capital property for $50,000 and receive $10,000 at the time of the sale. You receive the remaining $40,000 over a period of four years. In this situation, you can claim a reserve. Generally, a reserve allows you to defer reporting part of the capital gain to the year in which you receive the proceeds. For more information, see the income tax guide called *Capital Gains*.

Exchanges or expropriations of property

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

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 1993 qualifies. You may also be able to claim the credit if you have unused investment tax credits from years before 1993.

Note

Under proposed legislation, beginning in 1994, the existing annual limit on investment tax credit claims will be eliminated. This will allow you to fully claim your investment tax credits against your federal Part I and Part I.1 tax payable. This change will apply to investment tax credits you earned after April 26, 1993 but that you have not yet claimed.

Refundable investment tax credit

Property purchased, or expenditures made, in 1993

You may be able to claim a refundable investment tax credit if you purchased one of the following types of property, or made the following expenditure, in 1993:

- qualified property;
- certified property; or
- qualified expenditure.

In all cases, the property you bought has to be new and available for use. A property is available for use when the seller delivers it and it is in working order.

Qualified property

This includes some types of new buildings, machinery, and equipment which are prescribed in section 4600 of the *Income Tax Regulations*. You must acquire the property and use it for designated purposes in specific areas.

Because of the number of properties that qualify, we cannot list them all in this guide. To find out if you property qualifies, contact your income tax office or check section 4600 of the *Income Tax Regulations*.

Designated purposes include activities such as logging, storing grain, farming, and fishing. For a list of other designated purposes, see Interpretation Bulletin IT-331, *Investment Tax Credit*, or contact your income tax office.

The specific areas are Newfoundland, Prince Edward Island, Nova Scotia, New Brunswick, the Gaspé Peninsula, or a prescribed offshore region. A prescribed offshore region is the area off the east coast of Canada that is considered to be part of Canada.

Certified property

This is the same as qualified property. To find out if your property qualifies, check section 4602 of the *Income Tax Regulations* or contact your income tax office.

To qualify, you have to acquire the property for use in a prescribed area. You will find a list of these areas in Information Circular 78-4, *Investment Tax Credit Rates*, and its Special Release.

The property must be part of a facility approved under the *Regional Development Incentives Act*. A facility means the structures, machinery, and equipment that make up the necessary parts of a manufacturing or processing operation. There are some limits for resource-based industries.

Qualified expenditure

To be a qualified expenditure, the amount has to be for scientific research and experimental development. For more details, see Information Circular 86-4, *Scientific Research and Experimental Development*.

Property purchased , or expenditures made, before 1993

You may have purchased property, or made expenditures, before 1993 that are eligible for the credit. However, you may not have used all the credit in the year it was earned. In this case, you may be able to apply any unused credit in 1993. To do this, complete Part A of Form T2038(IND.), *Investment Tax Credit (Individuals)*.

Non-refundable investment tax credit

Property purchased , or expenditures made, in 1993

Under proposed legislation, you may be able to claim an additional 10% non-refundable temporary small-business investment tax credit if you acquired qualified small-business property in 1993.

The property you acquired has to be new and unused. When the property became available for use is of no consequence for the property to qualify for this non-refundable investment tax credit. However, no amount can be included in the calculation of your investment tax credit claim until the property becomes available for use. Furthermore, property leased to a non-arm's-length person will qualify for this non-refundable credit.

Qualified small-business property

This is property you acquired, for use **anywhere in Canada**, after December 2, 1992, and before 1994 that otherwise qualifies as certified property, qualified construction equipment, qualified property (other than prescribed buildings), or qualified transportation equipment as defined in subsection 127(9) of the *Income Tax Act*. For more details on qualified small-business property, contact your income tax office.

How to calculate your 1993 investment tax credit

Base the investment tax credit on a percentage of the investment cost (the cost of the property). The specified percentage you use to calculate the credit is on Form T2038(IND.). If you are a member of a partnership, you should only include your portion of the partnership's investment or expenditure.

In some cases, you may have to either increase or decrease your investment cost. For example, you have to decrease your investment cost by the amount of any government or non-government assistance you receive 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.

Determine 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, 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, 1993. In November 1993, you buy property that is eligible for a credit. When you file your 1993 return, you can claim a credit for the property bought in November.

How to claim your 1993 credit

You can use the credit that you earn in 1993 to reduce your tax for the year, for a prior year or for a future year.

Current-year claim

To calculate your claim for 1993, complete Section I of Form T2038(IND.). Enter the amount of your credit on line 412 of your return. If a partnership or trust made the investments, enter only your share.

You can also use your credit to reduce your federal individual surtax for 1993. To determine your claim, complete Section II of the form. Enter the amount of your credit on line 518 of Schedule 1 with your return.

Carry back to prior years

You can carry back the credit you earn in 1993 for up to three years and use it to reduce your federal taxes in those years. To do this, complete Part B of Form T2038(IND.).

Carry forward to subsequent years

You can carry forward, for up to 10 years, a credit you earn in 1993 that you did not use to reduce taxes in 1993 or in a prior year. However, you lose any credits you do not use within 10 years of earning them.

Refund of investment tax credit

If you do not need to use all of your refundable investment tax credit to reduce your taxes in the year, we may refund up to 40% 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 calculate your refund, complete Part B of the form. Enter this amount on line 454 of your return. If a partnership or trust made the investments, enter only your share of the amount.

Adjustments

The amount of the credit you claim or that we refund to you in 1993 will reduce the capital cost of the property. Any 1993 credit you carry back to a prior year will also reduce the capital cost of the property. Make this adjustment in 1994. 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 1993 is for depreciable property that you already sold. However, you may still have other property in the same class. When this happens, in 1994 you have to reduce the undepreciated capital cost of the class by the amount of the credit you claimed or received as a refund. If, after the disposition, you do not have any property left in the same class, include in your 1994 income the amount of the credit you claimed or received as a refund.

Your scientific research and development (SR & ED) pool must be reduced by the amount you claim, in 1993, as an investment tax credit in respect of SR & ED. Make this adjustment in 1994.

Chapter 8
What Happens After You File Your Return?

Notice of Assessment

When we first process your 1993 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. Although, we may 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 the following time limits:

- three years from the day we mail your original *Notice of Assessment* or notice that no tax is payable for the year; and
- 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. Such a request should be for either a refund beyond three years, or to reduce your taxes owing. You can ask us to waive or cancel interest and penalties in some cases. You can also ask to make a late or amended election, or to revoke an original election for tax years back to 1985. To do this, you have to give us the details in writing. If you need help, contact your income tax office or see the following Information Circulars:

- Information Circular 92-1, *Guidelines for Accepting Late, Amended or Revoked Elections*;
- Information Circular 92-2, *Guidelines for the Cancellation and Waiver of Interest and Penalties*; and
- Information Circular 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 within the time that you have to file an objection. We explain these cases in Information Circular 75-7, *Reassessment of a Return of Income*, and 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 sending you a 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 have to keep and explain the penalties for failing to comply. If you still do not comply, we may prosecute.

Appeal process

If you do not agree with your *Notice of Assessment*, you can object, or appeal. You must file the objection 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 object by filing Form T400A, *Objection*. You can also appeal by writing to the chief of Appeals at your income tax office.

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 objection, we will notify you by mail. You can then appeal to the Tax Court of Canada within 90 days.

While you wait for us or a court to decide your appeal, you do not have to pay the disputed amount. However, the amount is still subject to the usual interest charges.

Farm-support payments

Beginning in 1994, if you received farm-support payments in 1993, you should receive AGR-1 Supplementary information slips summarizing payment information from most federal, provincial, and regional agricultural programs.

Report the amounts shown in the boxes on the AGR-1 Supplementary slips as follows:

Box 14 — Income, grants, and subsidies

Report the amount in this box as income on line 495 of Form T2042. See page 10 in Chapter 2.

Box 15 — Gain on settlement of debt

The amount in this box is not reported on your income and expenses statement. It may however have implications in determining your taxable income. For more details, see Interpretation Bulletin IT-293, *Debtor's Gain on Settlement of Debt*, and its Special Release.

Insurance programs

Box 16 — Gross insurance proceeds

Report the amount in this box as income on line 490 of Form T2042. See page 9 in Chapter 2.

Box 17 — Overpayment recapture

Report the amount in this box as an expense on line 321 of Form T2042. See page 15 in Chapter 2.

Box 18 — Investment income

Report the amount in this box on your personal income tax return on line 130, "Other income."

If you received a farm-support payment for which no AGR-1 Supplementary slip was issued and you are unsure where to report it, or if you need clarification on whether a particular income amount you received is a farm-support payment, contact your income tax office.

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STATEMENT OF FARM-SUPPORT PAYMENTS
RELEVÉ DES PAIEMENTS DE SOUTIEN AGRICOLE

AGR-1
Supplementary – Supplémentaire

		Insurance programs – Régime d'assurance		Sequence number – Numéro séquentiel
14 Income, grants, and subsidies / Revenus, subventions et subsides	15 Gain on settlement of debt / Gain provenant du règlement d'une dette	16 Gross insurance proceeds / Indemnité d'assurance brute	17 Overpayment recapture / Remboursement d'un paiement en trop	18 Investment income / Revenu de placements

Year / Année	12 Social insurance number * / Numéro d'assurance sociale *	* If a social insurance number does not appear in this box, see the back of this slip. * Si un numéro d'assurance sociale ne figure pas dans cette case, reportez-vous au verso de ce feuillet.	19 Federal corporation or trust number / Numéro de compte de corporation ou de fiducie fédéral	20 Partnership number / Numéro de société de personnes	21 Single business registration number (SBRN) / Numéro d'enregistrement unique pour les entreprises (NEUE)

Recipient's name and address – Nom et adresse du bénéficiaire

Surname (in capital letters) / Nom de famille (en majuscules) — First name / Prénom — Initials / Initiales

22 Footnotes – Notes

Issued by
Délivré par

For recipient – Attach to your income tax return
Pour le bénéficiaire – Annexer à votre déclaration de revenus

1

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
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	1
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
Grinder	8

Depreciable property	Part XI Class no.
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
Weeder	8
Welding equipment	8
Well equipment	8
Wharves	
Cement, steel, or stone	3
Wood	6
Windchargers	8
Wind-energy conversion equipment	34

* You may add to or alter a Class 3 building after 1987. In this case, there is a limit on the amount you can include in Class 3. The most you can include in Class 3 is the lower of $500,000 or 25% of the building's cost on December 31, 1987. In Class 1, include any costs you incur that are over this limit.

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%

For details on the CCA rates for Classes 13 and 34, contact your income tax office.

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How to calculate the mandatory inventory adjustment (MIA)

See page 15 in Chapter 2 for instructions on how to complete these charts.

Chart 1
Cash cost of purchased inventory

Enter the amount you paid by the end of your 1993 fiscal period for the specified animals you bought:

- in your 1993 fiscal period ________ A
- in your 1992 fiscal period ________ B
- in your 1991 fiscal period ________ C
- in your 1990 fiscal period ________ D
- in your 1989 fiscal period ________ E
- before your 1989 fiscal period ________ F*

* To determine the amount for line F, multiply the amount you paid by the percentage shown below, and enter the result in the "Cash cost" column. Then, total all the years and enter this total on line F.

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

Enter the amount you paid by the end of your 1993 fiscal period for all the other inventory you bought:

- in your 1993 fiscal period ________ G
- in your 1992 fiscal period ________ H
- in your 1991 fiscal period ________ I
- in your 1990 fiscal period ________ J
- in your 1989 fiscal period ________ K
- before your 1989 fiscal period ________ L

Chart 2
Value of purchased inventory for specified animals

Inventory bought in your 1993 fiscal period
Enter an amount that is not more than the amount on line A, but not less than 70% of this amount. ______ M

Inventory bought in your 1992 fiscal period
Enter an amount that is not more than the amount on line B, but not less than 70% of the total of the value at the end of your 1992 fiscal period, plus any amounts paid in your 1993 fiscal period toward the purchase price. ______ N

Inventory bought in your 1991 fiscal period
Enter an amount that is not more than the amount on line C, but not less than 70% of the total of the value at the end of your 1992 fiscal period, plus any amounts paid in your 1993 fiscal period toward the purchase price. ______ O

Inventory bought in your 1990 fiscal period
Enter an amount that is not more than the amount on line D, but not less than 70% of the total of the value at the end of your 1992 fiscal period, plus any amounts paid in your 1993 fiscal period toward the purchase price. ______ P

Inventory bought in your 1989 fiscal period
Enter an amount that is not more than the amount on line E, but not less than 70% of the total of the value at the end of your 1992 fiscal period, plus any amounts paid in your 1993 fiscal period toward the purchase price. ______ Q

Inventory bought before your 1989 fiscal period
Enter an amount that is not more than the amount on line F, but not less than 70% of the total of the value at the end of your 1992 fiscal period, plus any amounts paid in your 1993 fiscal period toward the purchase price. ______ R

Chart 3
Value of purchased inventory for all other inventory

Inventory bought in your 1993 fiscal period
Enter the lower of the amount on line G or the fair market value. _______ S

Inventory bought in your 1992 fiscal period
Enter the lower of the amount on line H or the fair market value. _______ T

Inventory bought in your 1991 fiscal period
Enter the lower of the amount on line I or the fair market value. _______ U

Inventory bought in your 1990 fiscal period
Enter the lower of the amount on line J or the fair market value. _______ V

Inventory bought in your 1989 fiscal period
Enter the lower of the amount on line K or the fair market value. _______ W

Inventory bought before your 1989 fiscal period
Enter the lower of the amount on line L or the fair market value. _______ X

Chart 4
Fixed-dollar method

Enter the amount of your net loss after adjusting the income and expenses statement (line 630 of Form T2042). $_______ Y

Enter the value of your inventory from Charts 2 and 3:

- the amount on line M $_______
- the amount on line N _______
- the amount on line O _______
- the amount on line P _______
- the amount on line Q _______
- the amount on line R _______
- the amount on line S _______
- the amount on line T _______
- the amount on line U _______
- the amount on line V _______
- the amount on line W _______
- the amount on line X _______

Total value of inventory $_______ $_______ Z

Enter the lower of the amount on line Y or line Z. $_______ AA

Deduct: 5,000*

MIA based on **fixed-dollar method** (if negative enter "0"). $_______ BB

* If your 1993 fiscal period starts in 1993, use $5,000.
If your 1993 fiscal period starts in 1992, use $7,500.
If your fiscal period is less than 51 weeks, prorate as follows:

$$\text{(amount you deduct)} \times \frac{\text{number of days in your fiscal period}}{365}$$

Chart 5
Elective method

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

Enter the amount of your net loss after adjusting the income and expenses statement (line 630 of Form T2042).		$____	CC
Enter the value of your inventory from Charts 2 and 3:			
• the amount on line M	$____		
• the amount on line N	____		
• the amount on line O	____		
• the amount on line P	____		
• the amount on line Q	____		
• the amount on line S	____		
• the amount on line T	____		
• the amount on line U	____		
• the amount on line V	____		
• the amount on line W	____		
Total	$____	$____	DD
Enter the value of your inventory from Charts 2 and 3:			
• the amount on line R	$____		
• the amount on line X	____		
Total	$____	$____	EE
Line EE × 5/7*		____	FF
Line DD + line FF		$____	GG
The MIA is the lower of the amount on line CC or line GG.		$____	

* If your 1993 fiscal period starts in 1993, use 5/7.
If your 1993 fiscal period starts in 1992, use 4/7.