

Farming Income and NISA

Joint Forms and Guide

What's New for 2000?

The ceiling on the capital cost of a passenger vehicle for capital cost allowance (CCA) purposes has increased from \$26,000 to \$27,000.

The limit on deductible leasing costs for a motor vehicle has increased from \$650 per month to \$700 per month.

Under proposed legislation for dispositions of capital property made after February 27, 2000, the capital gains (losses) inclusion rate may be reduced. For details, get the *Capital Gains Guide*.

Under proposed legislation, the rules for eligible capital property have changed. See Chapter 5 for details.

We have removed the information in this guide about the investment tax credit. This information is now included with the form T2038 (IND) *Investment Tax Credit (Individuals)*. You can get this form from your tax services office or from our Web site at www.ccra-adrc.gc.ca.

A *NISA Adjustment Request* Form is now available to change the information you included on your Form T1163, T1164, or T1165. To obtain this form, contact the NISA Administration or visit the NISA Web site at: www.agr.ca/nisa (English), or www.agr.ca/csrm (French).

Do you need more information?

This guide uses plain language to explain the most common tax situations. If, after reading this guide, you need more information about farming activities, call our Business Enquiries line at ~~1-800-959-5525~~.

Visually impaired persons can get information on services available to them, and can order publications in braille or large print, or on audio cassette or computer diskette, by calling ~~1-800-267-1267~~ weekdays from 8:15 a.m. to 5:00 p.m. (Eastern Time).

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Canada

BRITISH COLUMBIA

Alberta

Saskatchewan

Manitoba

Ontario

Québec

New Brunswick

NOVASCOTIA

Prince Edward Island

GOVERNMENT OF NEWFOUNDLAND AND LABRADOR

Before You Start

What is the Net Income Stabilization Account (NISA) Program?

The NISA program is a voluntary program designed to help you achieve improved long-term income stability on your farm. You can deposit money annually into a NISA account and receive matching government contributions. You can withdraw funds when you need them in lower income years.

This guide will help you complete Form T1163, *Statement A – NISA Account Information and Statement of Farming Activities for Individuals*. (Throughout the rest of this guide, we will most often refer to this form simply as “Form T1163.”)

What is the Canadian Farm Income Program (CFIP)?

CFIP is a program that provides support to producers who are actively farming in Canada when, for reasons beyond their control, there is an extreme reduction in their farm income. This whole-farm program is designed to be compatible with and complement existing federal-provincial safety net programs such as NISA.

If you apply for a CFIP payment, the CFIP Administration will use the information you report on Form T1163 to process your CFIP claim. For more information, see the section called “Form T1163 and CFIP” on page 10.

Is this guide for you?

This guide is for you if:

- you earned income as a self-employed farmer or member of a farm partnership, or by renting land under a crop share arrangement;
- you want to participate in the Net Income Stabilization Account (NISA) program for 2000; and

- you are neither a trust, a non-resident, nor a status Indian farming on a reserve. If you are one of the above, contact the NISA Administration for the applicable forms and guide.

If you do not want to participate this year in the NISA program, **do not use Form T1163**. Instead, get a copy of the *Farming Income* guide from us and use Form T2042, *Statement of Farming Activities*. **If you report your income on Form T1163, the NISA Administration will consider that you wish to participate in the NISA program.**

Forms and publications

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

- T1163, *Statement A – NISA Account Information and Statement of Farming Activities for Individuals*;
- T1164, *Statement B – NISA Account Information and Statement of Farming Activities for Additional Farming Operations*; and
- T1175, *NISA/Farming – Calculation of Capital Cost Allowance (CCA) and Business-Use-of-Home Expenses*.

Discard the envelope that came with your tax return. **Use the envelope in the middle of this guide to send your tax return and NISA forms to the Winnipeg Tax Centre. This is the only place where NISA applications are processed.**

Do not attach correspondence intended for NISA to your tax return. Mail it separately to the NISA Administration.

Throughout the guide, we also refer to other forms and publications. If you need any of these, visit the Canada Customs and Revenue Agency Web site. The address is www.cra-adrc.gc.ca. You may want to bookmark this address for easier access to our site in the future.

You can also order forms and publications by calling us toll-free at ~~1-800-959-2221~~.

Table of Contents

	Page		Page
Chapter 1 – General Information	5	Chapter 4 – Capital Cost Allowance (CCA)	34
What is farming income?	5	What is capital cost allowance?	34
How do you report your farming income?.....	5	How much CCA can you claim?	35
Business records	6	Form T1175, <i>NISA/Farming – Calculation of Capital Cost Allowance (CCA) and Business-Use-of-Home Expenses</i>	36
Penalties	7	Classes of depreciable property.....	39
Income tax instalment	7	Special situations	41
Dates to remember	7	Chapter 5 – Eligible Capital Expenditures	46
NISA specifics.....	7	What is an eligible capital expenditure?.....	46
GST/HST (goods and services tax/harmonized sales tax) registration.....	7	What is an annual allowance?.....	46
Reporting partnership income	7	What is a cumulative eligible capital (CEC) account?	46
Chapter 2 – Your Net Income Stabilization Account (NISA)	8	How to calculate your annual allowance	46
Who is eligible?	9	Sale of eligible capital property – Fiscal period ending in 2000.....	47
Applying for an account	9	Farming income from the sale of eligible capital property eligible for the capital gains deduction	48
Maintaining your account.....	9	Replacement property.....	51
Form T1163, <i>Statement A – NISA Account Information and Statement of Farming Activities for Individuals</i>	9	Chapter 6 – Farm Losses	51
Form T1164, <i>Statement B – NISA Account Information and Statement of Farming Activities for Additional Farming Operations</i>	10	Fully deductible	51
Form T1165, <i>Statement C – Statement of Farming Activities for Ontario Self Directed Risk Management (SDRM)</i>	11	Partly deductible (restricted farm losses)	52
Completing the forms.....	11	Non-deductible	52
Chapter 3 – Calculating Your Farming Income or Loss	13	Chapter 7 – Capital Gains	53
Payment in kind	13	General information	53
Commodity income	13	What is a capital gain?	53
Income from program payments	16	What is a capital loss?	53
Other farming income	16	Definitions	53
Summary of income.....	18	How to calculate your capital gain or loss	53
Expenses.....	18	Restricted farm losses.....	55
Commodity purchases	19	Qualified farm property and cumulative capital gains deduction	55
Repayment of program benefits.....	20	Transfer of farm property to a child.....	56
NISA eligible expenses.....	20	Transfer of farm property to a spouse	57
NISA non-eligible expenses.....	27	Other special rules.....	57
Summary of income and expenses	30	Commodity List	58
Other information chart	34	Program Payment List	65
Partnership information chart.....	34	Capital Cost Allowance (CCA) Rates	66
		How to Calculate the Mandatory Inventory Adjustment (MIA)	67
		GST/HST Rates	68
		Index	70

Chapter 1 – General Information

What is farming income?

Farming income includes income you earned from the following activities:

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

In certain circumstances, farming income may also be earned from:

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

Note

Fish is not an eligible commodity for NISA purposes.

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

If you are not sure whether or not you earned income from a farming business, contact us.

You were asking...?

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

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

For example, suppose you decide to buy enough poultry for resale to start your farming business. At this point, we would consider that your business has started. You can usually deduct all of the expenses you have incurred up to that point to earn farming income. You could still deduct the expenses even if, despite all your efforts, your business wound up. On the other hand, if you review several different types of farming activities in the hope of going into a farming business of

some kind, we would not consider that your business has begun, and you cannot deduct any of the costs you incur.

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

How do you report your farming income?

You can earn farming 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, you should read the section called “Reporting partnership income” on page 7.

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

Self-employed individuals generally have to use a December 31 year end. If you are an eligible individual, you may be able to use an alternative method of reporting your business income that allows you to keep a fiscal period that does not end on December 31. To determine if you are eligible to have a fiscal year end that is not December 31, you will need the publication called *Reconciliation of Business Income for Tax Purposes*, which includes Form T1139, *Reconciliation of 2000 Business Income for Tax Purposes*. It explains how to calculate the amount of farming income to report on your 2000 income tax return, and it also tells you if you have to file Form T1139 for 2000. In most cases, if you filed one for 1999, you will have to do so again for 2000.

Reporting methods

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

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

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

For special rules regarding prepaid expenses, see the section called “Prepaid expenses” on page 19.

If you use the cash method and 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 that 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 when you get the cheque. If the bank does not honour the cheque, you can adjust your income then.

Note

The above 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.

When you use the cash method, do not include inventory when you calculate your income. However, there are two exceptions to this rule. For details, see the sections called “Line 9941 – Optional inventory adjustment – current year” and “Line 9942 – Mandatory inventory adjustment – current year” on page 30.

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

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

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

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

There are three methods you can use to value your inventory:

- value all inventory at its fair market value (see page 35 for the definition of fair market value);
- 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); and
- value livestock according to the unit price base. For this method, complete Form T2034, *Election to Establish Inventory Unit Prices for Animals*.

Use the same method you used in past years to value your inventory. The value of your inventory at the start of your 2000 fiscal period is the same as the value at the end of your 1999 fiscal period. If this is your first year of business, you will not have an opening inventory at the start of your fiscal period.

Note

If you use the accrual method to calculate your farming income, calculate your cost of goods sold on a separate piece of paper. Form T1163 and Form T1164 do not have a line to calculate this amount.

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

Changing your method of reporting income

You need permission to change from the cash to accrual method, but not to change from the accrual to cash method. To change from the cash to the accrual method, make a written request to the director of your tax services office. Do this before the date you have to file your return. In your letter, explain why you want to change methods.

If you change from one method of reporting to another this year, submit a statement with your return showing each adjustment you had to make to your income and expenses because of the change.

For information about how to report income and expenses for both NISA and tax purposes, see the section called “Method of accounting” on page 12.

Business records

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

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

Income records

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

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

Expense records

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

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

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

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

Note

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

Time limits

Depending on the situation, you have to keep your records for the following lengths of time:

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

If you want to destroy your records before the minimum six-year period is over, get written permission from the director of your tax services office. To do this, either use Form T137, *Request for Destruction of Books and Records*, or prepare your own written request. Information Circular 78-10, *Books and Records Retention/Destruction*, and its Special Release have more details.

Penalties

Be sure to report all of your income. If you repeatedly fail to report income, you will be subject to a penalty of 10% of the amount you failed to report.

Income tax instalment

As a self-employed farmer, you **may** have to pay an annual instalment by December 31, 2001. If our records indicate that you **may** have to pay tax by instalments, we will send you an *Instalment Reminder* in late November.

If you make a late or insufficient instalment payment, you may also have to pay a penalty and interest.

For more information, get the pamphlet called *Paying Your Income Tax by Instalments*. If you would like to calculate your instalments, get Form T1033-WS, *Worksheet for Calculating 2001 Instalment Payments*.

Dates to remember

March 31, 2001 – Most farm partnerships will file a partnership information return by March 31, 2001. However, there are exceptions. For details, get the *Guide for the Partnership Information Return* and Information Circular 89-5, *Partnership Information Return*, and its Special Release.

April 30, 2001 – Payment of any balance owing is due.

You will have to file your 2000 income tax return by April 30, 2001, if the expenditures of your farming business are primarily connected with tax shelters.

June 15, 2001 – If you have self-employment income or if you are the spouse of someone who does, you have until June 15, 2001, to file your 2000 return, unless the expenditures of the business are primarily connected with tax shelters. However, you have to pay any balance owing by April 30, 2001, to avoid interest charges.

December 31, 2001 – Pay your 2001 instalment for income tax and Canada Pension Plan (CPP) contributions.

NISA specifics

- To keep your full NISA deposit entitlement, you must file Form T1163 by **June 15, 2001**. The NISA Administration will accept the form until **December 31, 2001**, but will reduce your maximum deposit entitlement by 5% per month after **June 15, 2001**. NISA will not accept applications after December 31, 2001.
- To keep your NISA account active, submit an application each year by December 31. You can miss filing a NISA application for one year. However, you must submit an application for the following year by the full entitlement deadline (June 15), or your account will be closed automatically.
- If you received an interim withdrawal for the 2000 stabilization year, you must submit your NISA application by June 15, 2001, or your account will be closed.
- The deadline for NISA deposits and withdrawals is **December 31, 2001**, or sixty (60) days following the *Deposit/Withdrawal Options Notice* issue date, whichever is later. You are responsible for submitting your applications and making deposits and withdrawals by the appropriate deadlines. Using registered mail will provide proof of mailing or delivery.
- Do not send deposits or payments for the NISA administrative cost share (ACS) with your tax return. Any cheques that you include with your return will be credited to us. See page 9 for more information about paying your ACS.

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

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

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

For information about GST/HST taxable farm goods and services, zero-rated farm products, and zero-rated farm purchases, see page 68.

Note

On April 1, 1997, the goods and services tax (GST) and the provincial sales tax (PST) were harmonized in Nova Scotia, New Brunswick, and Newfoundland (including Labrador) to create harmonized sales tax (HST). The HST rate in these provinces is 15% and the GST rate in the rest of Canada is 7%.

Reporting partnership income

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

Interpretation Bulletin IT-90, *What is a Partnership?*, and Interpretation Bulletin IT-138, *Computation and Flow-Through of Partnership Income*, have more details about partnerships.

Partnership information return

Partnerships of six or more members have to file a partnership information return. Partnerships of five or fewer members throughout the year also have to file a partnership information return if one or more of the members is another partnership.

If you are a member of a partnership that has to file a partnership information return, you should get two copies of a T5013 slip, *Statement of Partnership Income*, from the partnership. If you do not receive this form, contact the person who prepares the forms for the partnership.

On your income tax return, report the gross partnership income and your share of the net partnership income or loss. You will get these amounts from your T5013 slip. Attach copy 2 of your T5013 slip to your return. Do not attach the partnership's income and expense statement.

You may also need to adjust your share of the net partnership income or loss shown on your T5013 slip. Use Form T1164, *Statement B – NISA Account Information and Statement of Farming Activities for Additional Farming Operations*, to deduct any business expenses you incurred for which the partnership did not repay you. See the section called “Additional expenses (partnerships)” on page 10 for more information.

The guide called *Guide for the Partnership Information Return* has more details about the return. Information Circular 89-5, *Partnership Information Return*, and its Special Release also have more information.

Capital cost allowance (CCA)

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

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

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

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

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

Eligible capital expenditures

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

Investment tax credit (ITC)

The investment tax credit lets you subtract, from the taxes you owe, part of the cost of some types of property you acquired or expenditures you incurred. You may be able to claim this credit if you bought qualifying property or incurred qualifying expenditures in 2000. You may also be able to claim the credit if you have unused investment tax credits from years before 2000

Under proposed legislation, individuals other than trusts can claim a 15% non-refundable ITC for certain Canadian exploration expenses renounced to them.

For more information about the new ITC on renounced exploration expenses, and for other information about ITCs, get Form T2038 (IND), *Investment Tax Credit (Individuals)*.

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

If you are a member of a partnership and you claim expenses on your return, you may be able to get a partial refund of any GST/HST you paid on the expenses. We call this partial refund a rebate. The GST/HST rebate is available to you as long as you meet **both** of these conditions:

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

We base the rebate on the amount of the expenses subject to GST/HST that you deduct on your return. For more details about the GST/HST rebate, get the guide called *GST/HST Rebates for Partners*. This guide includes Form GST 370, *Employee and Partner GST/HST Rebate Application*.

Chapter 2 – Your Net Income Stabilization Account (NISA)

The NISA program is a voluntary program designed to help you achieve improved long-term income stability on your farm. You can deposit money annually into a NISA account and receive matching government contributions. Your deposits and matching government contributions earn interest at competitive rates. You can withdraw funds when you need them in lower income years.

Each account has two funds. Fund 1 is the money that you deposit. You cannot deduct your deposit from your income on your tax return. When you withdraw money from the Fund 1 portion of your NISA account, you do not pay any tax on it.

Fund 2 is the money the government contributes for you and the interest earned on both funds. Fund 2 is held in Canada's Consolidated Revenue Fund. Money in Fund 2 is treated as investment income. **Include withdrawals from Fund 2 as investment income on line 130 of your return.** Do not include it as farming income on Form T1163.

As a NISA participant, you are responsible for knowing and understanding program deadlines and policies. A *NISA Handbook* containing the deadlines and policies will be mailed to anyone who participated in NISA for 1999. It is also available from the NISA Administration on request.

Who is eligible?

Generally you are eligible for a NISA account if you meet any one of the following criteria:

- you file a 2000 Canadian income tax return reporting farming business income (or loss);
- as a land owner, you receive rental income from a crop share arrangement; or
- you are a status Indian farming on a reserve. If this is the case, contact the NISA Administration to get the *Special – Individual Forms and Guide*. The guide contains the form that you need called *Statement A-2000*.

To participate in the program and be entitled to benefits, new participants must open an account at a participating financial institution by their deposit/withdrawal deadline of December 31. If you have questions about your eligibility, contact the NISA Administration.

Applying for an account

To apply for an account, complete and send us Form T1163 with your return. The required information will be forwarded to the NISA Administration for processing. Once the Administration has processed your application they will send you a *Deposit/Withdrawal Options Notice*.

You will find the form in the middle of this guide. We explain how to complete the form starting on this page.

Maintaining your account

To keep your account active, you have to send us a completed Form T1163 with your return each year, even if you are not making a deposit or requesting a withdrawal. If you do not submit the form, the NISA Administration treats your net sales for that year as zero. This will affect future withdrawals. It will also affect the average eligible net sales, which is used in calculating your account balance limit and mandatory withdrawals. For more information on the impacts of not submitting an annual application, refer to the *NISA Handbook*.

You can miss sending us the form for one year. However, if you do not send us the form by June 15 of the following year, your NISA account will be closed and you will not be able to participate in the NISA program until the following year.

If you are incorporating your individual farming operation, you can close your individual account and open a corporate account. You can also transfer your individual account to

the corporation as long as a legal agreement between you and the corporation permits the transfer. A separate form and guide for corporations is available from the NISA Administration. For the NISA Administration address and telephone number, see the section called "NISA information and correspondence" on this page.

Administrative cost share

There is an annual charge of \$55 for individual participants. The NISA Administration automatically deducts the charge from Fund 2 of your account. This happens for as long as you hold the account, even if you do not submit an application. In most cases, you include the annual charge as investment income on line 130 on your return. However, you then deduct it from your income as a carrying charge on line 221 of your return.

Opting out (closing your NISA account)

If you wish to close your NISA account, you have to notify the NISA Administration in writing. Please indicate in your letter whether you want your account balance paid out in a lump sum or in instalments. If you choose instalments, you must receive at least 20% of your account balance each year. For more information on opting out of the NISA program, please contact the NISA Administration.

NISA information and correspondence

For more information on the NISA form or program, please write to:

NISA Administration
~~P.O. Box 6100~~
~~Winnipeg MB R3C 4N3~~

Telephone toll free ~~1-800-665-6472~~ for service in English, 8:00 a.m. to 5:00 p.m. (Central Time).

Telephone toll free ~~1-800-665-2776~~ for service in French, 8:00 a.m. to 4:00 p.m. (Central Time).

Fax: ~~(204) 984-3717~~

You can access the NISA Web site at www.agr.ca/nisa (English) or www.agr.ca/csrn (French).

Form T1163, Statement A – NISA Account Information and Statement of Farming Activities for Individuals

As a self-employed farmer, you have to give us a statement that accurately shows your farming activities for the year. To participate in the NISA program, you have to complete Form T1163. We use Form T1163 for tax purposes as well as NISA purposes and have designed the form to allow for the differences between our reporting requirements and those of the NISA Administration. You will find Form T1163 in the middle of this guide.

Note

The retroactive gross margin does not appear on this form. If you want to establish a NISA gross margin average for previous years, contact the NISA Administration.

Form T1163 and CFIP

NISA producers who wish to apply for assistance under the Canadian Farm Income Program (CFIP) must submit a separate application to the CFIP Administration. In provinces where the federal government is delivering the CFIP program, some information provided on Forms T1163 and T1164 will be used to process the 2000 CFIP applications.

Note

Income and expenses that are eligible for the NISA program may differ from income and expenses that are eligible for the CFIP program. Please refer to the CFIP forms to determine which income and expenses are eligible for the CFIP program.

CFIP Information and correspondence

For more information about the CFIP forms or program, please write to the following address:

CFIP Administration
P.O. Box 1816, Station Main
Winnipeg MB R3C 3R1

Telephone toll free ~~1-888-343-1064~~ for service in English or ~~1-888-592-4314~~ for service in French.

You can access the CFIP Web site at www.agr.ca/cfip (English) or www.agr.ca/pcra (French).

Deceased participant

If a deceased individual had farming income or losses, complete Form T1163 in the name of the deceased individual. Print "Estate" in the name and address area. Use the income and expenses that you are reporting on the individual's final return for 2000.

Include a copy of the individual's death certificate and the probated will (or letters of administration) with the final income tax return. Send a separate notification to the NISA Administration. See "Closing your NISA account" below.

If, in addition to the final return, you file an optional return for the year of death for a deceased NISA participant, such as a return of rights and things under subsection 70(2) of the *Income Tax Act*, we will not forward the farming income and expense information from that optional return to NISA. Contact the NISA Administration to get the correct form to submit to them, a *Special-Individual Forms and Guide Statement A*. They will combine the information from it with the information from the return that reported income to the date of death.

If a surviving spouse continues the farming business, prepare an additional Form T1163 in the name of the surviving spouse. If a spousal trust has been established for the surviving spouse, contact the NISA Administration to get the correct form, a *Special-Individual Forms and Guide Statement A*. Use the income and expenses from the spouse's 2000 tax return. Contact the NISA Administration for information about applying as a trust.

Closing your NISA account

To close a deceased participant's NISA account or transfer it to a surviving spouse, the executor or administrator of the estate must notify the NISA Administration in writing.

Include copies of the death certificate and the probated will (or letters of administration) with the letter.

Form T1164, Statement B – NISA Account Information and Statement of Farming Activities for Additional Farming Operations

You may have more than one farming operation. You could have a sole proprietorship and be a member of a partnership, or you could be a member of more than one partnership. If you have more than one farming operation, complete Form T1163 for one operation and a separate Form T1164, *Statement B – NISA Account Information and Statement of Farming Activities for Additional Farming Operations*, for each additional operation. (Throughout the rest of this guide, we will most often refer to this form as "Form T1164"). Do not use Form T2042, *Statement of Farming Activities*, if you have a NISA account.

Additional expenses (partnerships)

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

If you are using Form T1164 to deduct business-use-of-home expenses for which the partnership did not reimburse you, follow these steps:

- leave the income areas on page 2 blank;
- record your expenses on the appropriate lines on page 3;
- enter the total expense from page 3 on line 9968 on page 4;
- do not complete the "Partnership information" area on page 4;
- do not make an entry on line 9934, "Adjustment to business-use-of-home expenses"; and
- complete Form T1175, *NISA/Farming – Calculation of Capital Cost Allowance (CCA) and Business-Use-of-Home Expenses*.

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

Note

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

You can also claim a business income reduction if you are a member of a partnership that sold eligible capital property and you filed a capital gains election in 1994 for your partnership interest. For more information, see Chapter 5.

Form T1165, *Statement C – Statement of Farming Activities for Ontario Self Directed Risk Management (SDRM)*

If you are an Ontario producer of edible horticulture commodities, you may be eligible to participate in the SDRM program. To do so, you have to complete Form T1165. Record the totals from Form T1165 on Form T1163. For more information, see page 13. You can get Form T1165 from your tax office or the NISA Administration.

Completing the forms

By completing these forms, you consent to allowing CCRA to share information from your return with the Minister of Agriculture and Agri-Food, and with the provincial ministers of agriculture. They will use it for the purposes of audit, analysis, evaluation, and making special assistance payments. The information is protected under the *Privacy Act* and is stored in the personal information bank numbers AGR/P-PU-183 and CCRA/P-PU-005.

You will find an envelope in the middle of this guide. **Use the envelope to send your income tax return, Form T1163, Form T1164, Form T1165, and Form T1175 to the Winnipeg Tax Centre** at the following address:

Winnipeg Tax Centre
66 Stapon Road
Winnipeg MB R3C 3M3

Do not use the envelope that came with your tax return. The Winnipeg Tax Centre processes all tax returns that include NISA information.

Requesting an adjustment

If you change your address, or if you would like to change the information you included on Form T1163, T1164, or T1165, you have to send the amended information to both the NISA Administration and us. This will ensure that the change applies for your NISA account purposes and for tax purposes.

You can use the **NISA Adjustment Request** form to record and submit your financial information changes to the NISA Administration. To get this form, contact the NISA Administration or visit the NISA Web site at the address shown on page 2 of this guide.

We explain in the following text how to complete Form T1163. Some parts of the form are self-explanatory.

NISA participant

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

Name and address of NISA contact person

Complete this area if someone else (such as your spouse or accountant) has your consent to provide or request additional information on your behalf. Cheques and account information such as the *Deposit/Withdrawal Options Notice (DWON)* will be mailed directly to you, based on the address information contained on page 1 of your return.

NISA participant profile

Enter your **Participant Identification Number** in the space provided.

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

Livestock farm

- 0112 Cattle
- 0111 Dairy
- 0116 Feedlot operation
- 0113 Hog farm
- 0114 Poultry and eggs
- 0115 Sheep and goats

Other animal specialties farm

- 0123 Fur and skin ranch
- 0121 Honey and other apiary products
- 0122 Horses and other equine animals
- 0129 Other animal specialties

Field-crop farm

- 0136 Dry field peas or beans
- 0135 Forage crops, seed, or hay
- 0134 Grain corn
- 0133 Oilseeds (except corn)
- 0138 Potatoes
- 0132 Small grains (except wheat)
- 0137 Tobacco
- 0131 Wheat
- 0139 Other field crops

Fruit and other vegetable farm

- 0151 Fruit
- 0152 Other vegetables

Other specialty farm

- 0162 Greenhouse products
- 0161 Mushrooms
- 0163 Nursery products
- 0169 Other horticultural specialties

Combination farm

- 0141 Field-crop combinations
- 0159 Fruit and vegetable combinations

- 0119 Livestock combinations
- 0171 Livestock, field-crop, and horticultural combinations

Answer the remaining questions at the bottom of page 1 of Form T1163. In response to the question “Did you carry on a farming business as,” tick the boxes that apply for all of the farm properties that you operated. You can check more than one box.

Example

Ron carried on one farm business as an individual, one as a member of a partnership, and one other as a trust. To summarize all his farming activities, on page 1 of Form T1163, Ron would put a check mark in the following boxes:

- an individual;
- a member of a partnership; and
- a trust.

The information in this section summarizes **all** of Ron’s farming activities. He would report information about his main farming business on the subsequent pages of Form T1163. He would also submit Form T1164 for the farm he operated as a member of a partnership. Ron would then ensure that a *Special Individual* form is completed for the trust and submitted along with the T3 trust return.

Did you carry on a farming business as a:

Check **an individual** if you farmed as a sole proprietor.

Check **a member of a partnership** if you farmed with other partners and both of the following apply:

- the income and expenses were recorded under the partnership’s name; and
- each member reported his or her allocation of the partnership’s net income or loss on his or her individual income tax return.

To participate in the NISA program, each participating member of the partnership has to submit a Form T1163 (or T1164, if it applies):

- reporting 100% of the partnership’s income and expenses; and
- identifying the partners and their shares of the partnership on the “Partnership information” section of the form.

If it applies to you, complete the chart called “Business-use-of-home expenses” on Form T1175, *NISA/Farming – Calculation of Capital Cost Allowance (CCA) and Business-Use-of-Home Expenses*. For more information, see page 19.

If you received a T5013 slip, *Statement of Partnership Income*, enter the amount from box 18 on line (b) on page 4 of Form T1163 or T1164.

If you did not receive a T5013 slip, report the partnership’s income and the partnership’s business expenses on

Form T1163 or T1164. Complete the chart called “Partnership information” on page 4 of the form.

To see if your partnership has to file a partnership information return, read the section called “Partnership information return” on page 8.

Check **a trust** if a trust that held property and reported farming income on a T3 trust return carried on the farming business. In this case the trust, rather than the individual beneficiaries, has to apply for the NISA account. Contact the NISA Administration for a copy of the *Special Individual Forms and Guide*.

Check **a member of a co-operative** if you are a member of a co-operative that is participating in NISA.

Check **a shareholder of a corporation** if you are a shareholder of a corporation that is participating in NISA. Contact the NISA Administration for a copy of the *Corporations/Co-operative Forms & Guide*.

Check **a landlord (crop-share)** if you are in a rental agreement in which you, as landlord, share in the risk of a crop’s yield and price. Cash rent payments do not qualify for NISA.

Province of main farmstead

Enter the province where most or all of the farming took place.

Identification

In this area, provide information regarding only the farming operation for which you are reporting on this particular Form T1163. If you have more than one farming operation, complete Form T1164 for each additional one.

Fiscal period

Enter the operation’s fiscal period. Record the day, month, and year of the beginning and end of the farming operation’s business year. The end of the operation’s 2000 fiscal period must be in your 2000 tax year.

Method of accounting

For NISA purposes, you must use the same method of accounting (cash or accrual) as you use for income tax purposes, with the following exception. If you maintain your financial records and prepare your financial statements on the accrual basis (using Generally Accepted Accounting Principles) but file on the cash basis for tax purposes, you can file to NISA on an accrual basis. To do so, you must notify the NISA Administration in writing that you are filing on the cash basis for tax and the accrual basis for NISA. (See “code 3” below). Once you file to NISA on the accrual basis or change your method of reporting from cash to accrual, you must continue filing for NISA on the accrual basis for as long as you hold an account.

Enter:

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

- code 3 if you are using the cash method for tax purposes and the accrual method for NISA.

Total area

In the boxes to the left of “Cultivated,” check one box to indicate if you are entering information in hectares or acres.

In the box called “Cultivated,” enter the total farm acres or hectares you cultivated.

In the box called “Owned,” enter the total farm acres or hectares you owned.

In the box called “Rented,” enter the total farm acres or hectares you rented **from** a landlord. Do not enter the amount of land you rented **to** a tenant.

Chapter 3 – Calculating Your Farming Income or Loss

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

Payment in kind

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

Example

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

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

Commodity income

For NISA account purposes, a commodity is an agricultural product, either plant or animal, produced in a farming business. NISA recognizes the same commodity income and expenses that we use to calculate your farming income or loss if the commodity meets all of the following conditions:

- it is separate and identifiable from other producers’ commodities;
- you produce it on your farm;
- you bear full direct risk for it; and

- you have a separate billing or accounting transaction that clearly shows the commodity sales value and any deductions from that value.

If your commodity sales meet these point-of-sale criteria, record the code, name, and gross sale amount of each commodity on the form.

Example

You have seed potato sales of \$50,000.

You record:

147 potatoes	\$50,000
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If you received a cheque for a **qualifying** commodity sale that is **net** of expenses that are recognized in the calculation of farming income (loss), report the sale to include the full value of the commodity.

Example

Your receipt from the processor shows gross apple sales of \$10,000, packing costs of \$1,000, and marketing board fees of \$500, leaving you a **net** cheque of \$8,500. You would report \$10,000 as your gross apple sales and \$1,500 as an eligible expense.

If the **qualifying** commodity sales include amounts recognized in calculating farming income (or loss) that have been incurred after the point of sale, you must adjust your sales to reflect the value of the commodity at the point of sale. This will ensure that your eligible net sales are calculated correctly.

Example

Your cash ticket from the elevator shows gross wheat sales of \$7,000, freight charges of \$1,500, and elevation charges of \$300. Report the gross wheat sales of \$7,000 as income. **Treat the freight charges of \$1,500 and elevation charges of \$300 as qualifying commodity purchases (not as eligible expenses) because this expense was incurred after you delivered your grain to the elevator.** This will ensure your eligible net sales are calculated correctly for NISA purposes. At this point, your commodity was no longer identifiable. In addition, you were no longer at risk for the value of the commodity.

Do not include **current-year inventory adjustments** (mandatory or optional) as income. Record them on lines 9941 and 9942. For more instructions, see page 30.

Include **income generated from the use of commodities** with commodity sales. For example, record income from pollination services with bee sales and stud fees with horse sales.

Are you an Ontario producer of edible horticulture commodities?

The Self Directed Risk Management (SDRM) program is available in 2000 to **Ontario producers** of most edible horticulture commodities (excluding nuts and mushrooms).

Use the commodity list on page 58 of this guide. Check the Ontario SDRM column on the list to see if your

commodities qualify. If they do, enter the NISA codes, the names of the commodities, and the sales amount on Form T1165, *Statement C – Statement of Farming Activities for Ontario Self Directed Risk Management (SDRM)*.

Add up all the sales and enter the total at line 9952. The NISA Administration compares this information to crop insurance records. This ensures that farmers will either be covered by crop insurance or will be eligible to receive benefits under the SDRM program.

Copy the total from line 9952 of Form T1165 onto the line called “SDRM total from Statement C (line 9952), if applicable” on page 2 of Form T1163. If you do not have a copy of Form T1165, you can get one from your tax services office or the NISA Administration. If the commodity does not qualify for SDRM, follow the instructions on this page under the heading “Using the commodity list.”

Gifts

In your income, include the fair market value of livestock or other items you gave away that you would normally have sold. See page 35 for the definition of fair market value.

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

Using the commodity list

Find the commodity that you produce on the list that starts on page 58. Then find your province in the heading at the top of the chart. If the box that goes with the commodity and your province is shaded, the commodity is a qualifying commodity in your province.

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

Landlords and tenants

If you are a landlord, record your net share of the total sales using the code for the commodity if:

- you recorded income from crop share as rental income on your return; and
- your earnings depended on crop yield and prices.

Do not make any deductions for rental expenses on Form T1163. See line 9940 on page 30 for more instructions. If your net rental income from crop sharing was a loss, do not make an entry for rental income on Form T1163.

If you are a tenant and your gross sales include your landlord’s share of the crop, record your landlord’s share as a corresponding commodity purchase. This will ensure your eligible net sales are calculated correctly for NISA purposes.

Commodity futures

You can record an income transaction involving commodity futures as a commodity sale for NISA purposes if the transaction involves a primary agricultural product that you produced on your farm.

Record commodity futures as follows:

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

Record income from futures transactions involving commodities that you did not produce on line 9600 as other farming income. Record losses from futures transactions involving commodities that you did not produce on line 9896 as a non-eligible expense.

Grains, oilseeds, and special crops

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

Storage and cash purchase tickets

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

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

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

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

Cash advances

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

Livestock

Include any insurance payments you receive for losses of livestock in the sales column of Form T1163 or T1164.

If your farming business was located in a prescribed drought region in 2000, you may be able to defer including income from the sale of breeding animals in your taxable income. See the section called “Prescribed drought region (PDR)” on page 15. These deferrals do not apply if you

were a non-resident and were not carrying on a farming business through a fixed place of business in Canada at the end of the tax year. They also do not apply in the year of the farmer's death.

Destroying livestock

You have to include in income any payments you received under the *Health of Animals Act* for destroying animals. Include these amounts under the commodity code for the animals that were destroyed. You can choose to deduct all or part of the payment as an expense in the year. However, if you choose to do this, you have to include in your income for your next fiscal period the amount you deduct in your 2000 fiscal period. If you deferred payments in your 1999 fiscal period, you have to include the deferred amounts as income in this fiscal period.

Custom feedlot operator income

Custom feedlot operators feeding cattle, calves, swine, sheep, and lambs are eligible for NISA entitlements based on the value of qualifying grain they produce and feed to custom-fed livestock.

If your custom feeding invoices are **itemized**:

- record qualifying feed and protein supplements as a prepared feed sale using code 243;
- record non-qualifying feed as a commodity sale using the code for the commodity; and
- record other charges itemized separately as contract work on line 9601.

If your custom feeding invoices are **not itemized**:

- record 50% of the total amount invoiced as a prepared feed sale using code 246; and
- record the remaining 50% as contract work on line 9601.

Prescribed drought region (PDR)

In some cases, you may be able to defer the applicable income received from the sale of breeding animals in your 2000 fiscal period to a later fiscal period. To be able to do this, you have to meet these two conditions:

- your farming business was located in a PDR at some time during your 2000 fiscal period; and
- you reduced, by sale or other means, the number of breeding animals in your breeding herd by at least 15%.

For a list of PDRs, contact your tax services office, or your Agriculture and Agri-Food Canada office.

The following are considered to be breeding animals:

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

All your breeding animals must be older than 12 months.

To determine the size of your breeding herd at the end of your 2000 fiscal period, complete Part I and Part II in the following chart.

Breeding herd chart	
Part I	
How many of your female bovine cattle over 12 months of age held at the end of your 2000 fiscal year have given birth?	_____ A
How many of your female bovine cattle over 12 months of age held at the end of your 2000 fiscal year have never given birth?	_____ B
Enter one-half of the amount from line A	_____ C
Enter either the amount from line B or line C, whichever is less	_____ D
Part II	
How many breeding animals did you have at the end of your 2000 fiscal period?	_____ E
Enter the amount from line B	_____ F
Enter the amount from line D	_____ G
F minus G	_____ H
Number of breeding animals in your breeding herd at the end of your 2000 fiscal period: E minus H	_____ I
If the figure from line I is not more than 85% of the number of animals in your breeding herd at the end of your 1999 fiscal year, you can defer part of the income received in 2000 from the sale of breeding animals.	

Before you determine how much you can defer, you need to calculate a few amounts. First, determine your sales of breeding animals for your 2000 fiscal period minus any reserves you claimed for these sales.

A **reserve** is created when you sell property and do not receive the full proceeds at the time of the sale. Instead, the amount of proceeds is spread over a number of years, which allows you to defer reporting these proceeds to the year in which you receive them. For more details on reserves, get Interpretation Bulletin IT-154, *Special Reserves*, and Interpretation Bulletin IT-236, *Reserves – Disposition of Capital Property*.

After you have determined your sales of breeding animals, subtract from this amount the cost of breeding animals you bought in your 2000 fiscal period. The result is your net amount.

You then determine how much you can defer as follows:

- if the amount at line I is more than 70% and not more than 85% of your breeding herd at the end of your 1999 fiscal period, you can defer up to 30% of the net sales; or
- if the amount at line I is between 0% and 70% of your breeding herd at the end of your 1999 fiscal period, you can defer up to 90% of the net sales.

You do not have to defer all of this income. You can include any part of it in your 2000 income. The deferred income must, however, be reported in the fiscal period which ends in:

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

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

If your farming business was not in a PDR at any time during your 2000 fiscal period, you cannot defer the amount you received when you sold breeding animals. In addition you also have to include in your 2000 income any unreported amounts you deferred in earlier years.

However, as long as your farming business was in a PDR at any time in your 2000 fiscal period, you do not have to include income you deferred in earlier years.

Woodlots

If you operated or regularly harvested a woodlot, use commodity code 259 to include the sale of trees, lumber, logs, poles, or firewood in your income.

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

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

For more details on the sale of wood, get Interpretation Bulletin IT-373, *Farm Woodlots and Tree Farms*, and its Special Release.

Income from program payments

You should receive an AGR-1 slip, *Statement of Farm-Support Payments*, to identify your 2000 taxable farm-support payments. According to the *Income Tax Regulations*, you have to provide your social insurance number, when requested, to organizations that issue farm-support payments.

If you received a program payment in 2000, check the commodity list on page 58 to see if it was for a qualifying or non-qualifying commodity. Then find the program on the program payment list on page 65. Use the code in the "Qualifying" column if the payment was for a qualifying commodity. Use the code in the "Non-qualifying" column if the payment was for a non-qualifying commodity. Record the program payment code, name, and amount in the same section of the form as the commodity for which it was paid. Report program payments not specifically listed on the program payment list on line 9600 as other income.

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

Example

Paul was entitled to a payment of \$6,000 as proceeds from an insurance program. The program deducted \$2,000 in premiums, so the net cheque was for \$4,000. Paul would report \$6,000 as a program payment and \$2,000 as an eligible expense.

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

You have to include in income all taxable farm-support payments you received in your 2000 fiscal period, including amounts of less than \$100.

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

If the annual period of the slip is not the same as the fiscal period of your farming operation, report only the portion of the farm-support payments that you earned during your normal fiscal period. For example, if your farming business has a fiscal period ending June 30, 2000, and your AGR-1 slip shows income of \$10,000 in box 14, but you earned only \$6,000 of that income by June 30, 2000, you will include only \$6,000 in your income for your 2000 fiscal period. You will include the remaining \$4,000 in your following fiscal period. You should, however, include the AGR-1 slip issued for the 2000 calendar year with your 2000 return.

Payments from or to your NISA account

If you received an AGR-1 slip with a positive amount in box 18, report it as income on line 130 of your return. The figure in box 18 represents taxable amounts paid out of your NISA account.

If you received an AGR-1 slip with a negative amount showing in box 18, do not enter this amount on line 130 of your return. (You could have a negative amount in box 18 if you repaid an amount to Fund 2 in a year after you got an AGR-1 Slip reporting the amount you received). Since a negative figure is not considered income, enter the amount on line 232, "Other deductions." Ensure that you attach the AGR-1 slip to support this deduction.

The back of the AGR-1 slip contains information about which line of your return you use to report amounts that appear in the various boxes.

Other farming income

The instructions for completing "Other farming income" apply to both Form T1163 and Form T1164.

Rental income

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

If you were a landlord renting out land involved in sharecropping, we consider the payments you received, whether in kind or cash, as rental income for tax purposes. See the section called “Landlords and tenants” on page 14 to find out how to report the payments on Form T1163 or T1164 for NISA account purposes.

Line 9544 – Disaster assistance program payments

Enter any payments you received from the following federal or provincial disaster assistance programs:

- the Agricultural Income Disaster Assistance (AIDA) Program in Saskatchewan, Manitoba, Nova Scotia, and Newfoundland and Labrador;
- the Agricultural Income Disaster Assistance (AIDA) Program in New Brunswick;
- the Whole Farm Insurance Pilot (WFIP) Program in British Columbia;
- the Farm Income Disaster Program (FIDP) in Alberta;
- the Ontario Whole Farm Relief Program (OWFRP) in Ontario;
- Aide de cas de catastrophe liée au revenu agricole (ACRA) in Quebec; and
- the Agricultural Disaster Insurance Program (ADIP) in Prince Edward Island.

If you received an overpayment from any of the programs listed above, claim any amounts you repaid on line 9896. See page 30 for details.

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

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

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

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

Recapture of capital cost allowance (CCA)

On line 9575, report the amount of any recapture of CCA you have from selling depreciable property such as tools and equipment.

Complete the chart called “Calculation of capital cost allowance (CCA)” on Form T1175, *NISA/Farming – Calculation of Capital Cost Allowance (CCA) and Business-Use-of-Home Expenses*, to find out if you have any recapture. See Chapter 4 for details.

Line 9601 – Agricultural contract work

Enter the total of your incidental farming income from such things as custom or contract work, harvesting, combining, crop dusting or spraying, seeding, drying, packing, cleaning, and treating seeds.

Line 9605 – Patronage dividends

Enter on this line the total patronage dividends (other than those for consumer goods or services) you received during your 2000 fiscal period. We consider a patronage dividend that is a share or a certificate of indebtedness to be income at the time you received it.

Line 9607 – Interest

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

Line 9610 – Gravel

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

Line 9611 – Trucking (farm related only)

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

Line 9612 – Resales of commodities purchased

Enter your total sales of commodities that you did not produce, that is, commodities that you bought for resale. Enter the corresponding purchases made in this fiscal period on line 9827, Purchases of Commodities Resold. See page 28 for details.

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

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

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

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

Line 9614 – Machine rentals

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

Line 9600 – Other (specify)

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

In this section, record:

- all other farming income that is not commodity-related; and
- program payments not listed on the program list.

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

Insurance proceeds

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

Enter the total of insurance proceeds on this line if they are reimbursing you for:

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

Print “insurance proceeds” on one of the lines below line 9600. If the insurance proceeds compensated you for **damages** to depreciable property, and you used all of them to **repair** the property within a reasonable period of time, include the proceeds as income on this line and claim a deduction for the same amount in the “Expenses” area on page 3 of the form. Claim repairs to depreciable property that is machinery on line 9760 and repairs to motor vehicles on line 9819. If you did not spend all of the insurance proceeds on repairs within a reasonable length of time, include the unexpended excess as proceeds of disposition. See the section called “Column 4 – Proceeds of disposition in the year” on page 37 for more details.

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

Do not include insurance proceeds from federal, provincial, or municipal government programs. See the program list on page 65 for the codes to use for government insurance programs.

Miscellaneous

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

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

Report resales and rebates of NISA eligible expenses on line 9574.

Summary of income

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

Expenses

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

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

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

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

- the cost of saleable goods or services you, your family, or your partners and their families used, such as dairy products, eggs, fruit, vegetables, poultry, and meat;
- donations to charities and political contributions;
- interest and penalties you paid on your income tax;
- most life insurance premiums (see line 9804 on page 22 for details on a limited exception).

For NISA account purposes, there are three types of expenses:

- commodity purchases and repayment of program benefits;
- eligible expenses; and
- non-eligible expenses.

Eligible expenses are the operating or input expenses you paid to produce your commodities. Non-eligible expenses include interest and capital-related expenses.

The NISA program uses eligible expenses to determine how much you can withdraw from your account. Excluding non-eligible expenses means that withdrawals cannot be triggered by increases in interest and capital cost allowance resulting from capital purchases.

Rebates

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

If the rebate, grant, or assistance is for a depreciable asset, subtract the amount of the rebate from the property's capital cost before calculating CCA. See Chapter 4 for details. If the asset qualifies for the investment tax credit, this reduction to the capital cost will also affect your claim.

For more details, get Form T2038 (IND) – *Investment Tax Credit (Individuals)*.

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

GST/HST Input tax credits

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

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

For details about how input tax credits affect your claim for CCA, see "Column 2 – Undepreciated capital cost (UCC) at the start of the year" on page 36.

Prepaid expenses

A prepaid expense is the cost of a service you paid for ahead of time. This could include insurance, property taxes, and rent you paid in one year, if you did not receive the benefits until the next year.

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

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

For example, if you paid \$600 for a three-year lease in 2000, you can deduct \$400 in 2000. This represents the part of the expense that applies to 2000 and 2001. On your 2002 tax return, you could then deduct the balance of \$200 for the portion of the prepaid lease that applies to 2002.

Business-use-of-home expenses

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

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

You can deduct a portion of the following expenses:

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

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

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

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

Include your expenses for business use of home under the applicable expense area on page 3 of the form. For more details, see "Additional expenses (partnerships)" on page 10 and "Line 9934 – Adjustment to business-use-of-home expenses" on page 33.

Example

Marjorie calculates that \$85 of her home electrical expense is for her farming business use. The total electrical expenses for her farm outbuildings are \$1,200. She enters \$1,285 on line 9799.

Business-use-of-home expenses are eligible expenses for NISA purposes; however, for income tax purposes, you cannot use business-use-of-home expenses to create or increase a loss. Therefore, if you claimed business-use-of-home expenses and you report a farming loss on line 9944, you will have to adjust your loss for income tax purposes at line 9934. For details on how to make this adjustment, see the instructions for line 9934 on page 33.

Commodity purchases

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

If you are using the accrual method of reporting, record bad debts from sales of commodities (qualifying or non-qualifying) as a commodity purchase.

If you made a **payment in kind** for a farming-business commodity purchase, deduct the value of the payment as a

purchase. For more details, see the definition of payment in kind on page 13.

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

Find the commodity that you purchased on the commodity list that starts on page 58. Then find your province in the heading at the top of the chart. If the box that goes with the commodity and your province is shaded, the commodity is a qualifying commodity.

If you are an Ontario producer of edible horticulture commodities, check the "ON. SDRM" column on the commodity list to see if your commodity purchases qualify. If they do, enter the NISA codes, the name of the commodity, and the purchase amount on Form T1165, *Statement C – Statement of Farming Activities for Ontario Self Directed Risk Management (SDRM)*. The NISA Administration compares this information to crop insurance records. This ensures that those farmers with commodities not covered by crop insurance will be eligible to receive benefits under the SDRM program.

Copy the total from line 9962 on Form T1165 onto the line called "SDRM total from Statement C (line 9962)" on page 3 of Form T1163 or Form T1164. If you do not have a copy of Form T1165, you can get one from your tax services office or the NISA Administration.

Livestock owners and custom feedlot operators with prepared feed purchases

If your purchase invoices of prepared feed and protein supplements are **itemized**:

- record qualifying feed and protein supplements as a prepared feed purchase using code 046;
- record non-qualifying feed as a commodity purchase using the code for the commodity; and
- record other charges itemized separately as an eligible expense at line 9714.

If your purchase invoices of prepared feed and protein supplements are **not itemized**:

- record 65% of the total purchases as a prepared feed purchase using code 046; and
- record the remaining 35% as an eligible expense at line 9830.

Livestock owners with custom feeding expenses

If your purchase invoices are **itemized**:

- record qualifying feed and protein supplements as a prepared feed purchase using code 046;
- record non-qualifying feed as a commodity purchase using the code for the commodity; and
- record other charges itemized separately as an eligible expense at line 9714.

If your purchase invoices are **not itemized**:

- record 50% of the total purchases as a prepared feed purchase using code 046; and
- record the remaining 50% as an eligible expense at line 9831.

Ranch fur operators with prepared feed purchases

Record your prepared feed purchases using code 046. Enter one of the following amounts, whichever is less:

- the total purchases of prepared feed and protein supplements if ingredients are itemized separately on your invoice; or
- 20% of your total prepared feeds and protein supplements purchases.

Record the balance as a non-qualifying commodity purchase using code 310.

Repayment of program benefits

Record the repayment of a program benefit as a purchase using the code for the program. You should receive an AGR-1 slip, *Statement of Farm-Support Payments*, identifying the amount of the repayment in box 17. If you repaid an amount to NISA Fund 2, see "Payments from or to your NISA account" on page 16.

Check the commodity list on page 58 to see if the repayment was for a qualifying or non-qualifying commodity. Find the name of the program using the program payment list on page 65. Use the code in the "Qualifying" column if the payment was for a qualifying commodity. Use the code in the "Non-Qualifying" column if the payment was for a non-qualifying commodity. Record the program payment code, name, and amount in the appropriate column on page 3 of Form T1163 or Form T1164.

NISA eligible expenses

If you made a payment in kind for a farming business expense, deduct the fair market value of the payment as an expense. For more details, see the definition of payment in kind on page 13.

Line 9661 – Containers and twine

Enter the total amount you incurred for material to package, contain, or ship your farm produce or products.

If you operated a nursery or greenhouse, enter the cost of your containers and pots for the plants you sold.

Line 9662 – Fertilizers and lime

Enter the total expenses you incurred for fertilizers and lime you used in your farming business.

Line 9663 – Pesticides

Enter the total expenses you incurred for herbicides, insecticides, and fungicides.

Record seed treatment as an eligible expense if the treatment was itemized separately from the seed purchase

on your original invoice. Otherwise, include the treatment as part of the commodity purchase.

Line 9665 – Insurance premiums (crop)

Enter the total amount of deductible premiums for any crop-related programs. Do not include any premiums for private, business-related, or motor-vehicle insurance. See line 9804 on page 22 for details on other types of insurance premiums.

Line 9713 – Veterinary fees, medicine, A.I. fees

Enter the total of the expenses you incurred for medicine for your animals, and for veterinary and breeding fees. Examples of such fees include the cost of artificial insemination, semen, embryo transplants, disease testing, and neutering or spaying.

Line 9714 – Minerals and salts

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

Line 9760 – Machinery (repairs, licences, insurance)

Enter the total amount of repair, licence fee, and insurance premium expenses you incurred for your machinery. If you received insurance proceeds to help pay for repairs, see the section called “Insurance proceeds” on page 18 for more information.

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

Enter the total amount of fuel and lubricant expenses you incurred for your machinery.

Line 9792 – Advertising and marketing costs

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

Line 9795 – Building and fence repairs

Enter the amounts for repairs to fences, and to all buildings you used for farming, except your farmhouse. Do not include the value of your own labour. If the repairs improved a fence or building beyond its original condition, these costs are capital expenditures. This means you have to add the cost of the repairs to the cost of the fence or building on your capital cost allowance (CCA) charts on Form T1175, *NISA/Farming – Calculation of Capital Cost Allowance (CCA) and Business-Use-of-Home Expenses*. We explain the CCA chart in Chapter 4.

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

Note

You may have received insurance proceeds to pay for the cost of repairs. If the insurance proceeds compensated you for damages to depreciable property such as buildings or fences, and you used all of them to repair the property within a reasonable period of time, you can claim a deduction for the amount spent on

repairs on line 9795. You will, however, also have to include the insurance proceeds as income on line 9600. If you did not spend all of the insurance proceeds on repairs within a reasonable length of time, include the unexpended excess as proceeds of disposition in column 4 of Area A “Calculation of capital cost allowance (CCA)” on Form T1175. For more details, see the section called “Column 4 – Proceeds of disposition in the year” on page 37.

Line 9798 – Agricultural contract work

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

Record seed cleaning as an eligible expense if the cleaning was itemized separately from the seed purchase on your original invoice. Otherwise, include the cleaning as part of the commodity purchase.

Line 9799 – Electricity

Only the part of your electricity costs that relates to your farming business is deductible. To determine the part you can deduct, keep a separate record of the amounts that apply to the farmhouse, and to other farm properties. For example, the business part of your electricity expense will depend on how much electricity you used for the barns and shops. Since the electricity for the farmhouse is a personal expense, you cannot deduct it unless you meet the conditions we explain in the section called “Business-use-of-home expenses” on page 19.

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

Line 9801 – Freight and trucking

Enter the expenses you incurred for shipping goods. In some cases, you have to report your freight expenses as a commodity purchase. This will ensure that you calculate your NISA eligible net sales correctly. For more information, see the section called “Commodity income” on page 13.

Line 9802 – Heating fuel

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

You can deduct only the part of these costs that relates to your farming business. To determine the part you can deduct, keep a separate record of the amounts you paid for the farmhouse and for other farm properties. For example, the business part of your heating fuel expense will depend on how much heating fuel you used for the barns and shops. Since the heating fuel for the farmhouse is a personal expense, you cannot deduct it unless you meet the

conditions we explain in the section called “Business-use-of-home expenses” on page 19.

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

Line 9804 – Other insurance premiums

Enter the total amount of business-related insurance premiums you incurred to insure your farm buildings, farm equipment (excluding machinery and motor vehicles), livestock, and business interruption. Enter premiums for farm support programs on this line.

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

In most cases, you cannot deduct the amounts you paid to insure personal property such as your home or car. However, if you used the personal property for your farming business, you can deduct the business part of these costs. For more details, see the section called “Business-use-of-home expenses” on page 19 and “Line 9819 – Motor vehicle expenses” on page 25.

Premiums to private health services plans (PHSP)

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

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

Note

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

- the amount from line 150 of your 1999 or 2000 income tax return, whichever applies, before you deduct any amounts for PHSP’s;

minus

- the amounts you entered on lines 207, 212, 217, 221, 229, 231, and 232 on your 1999 or 2000 income tax return, whichever applies.

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

- the amount from line 150 of your 1999 or 2000 income tax return, whichever applies, before you deduct any amounts for PHSP’s;

minus

- the amounts you entered on lines 135, 137, 139, 141, 143 (excluding business losses which reduced the amount on those lines), 207, 212, 217, 221, 229, 231, and 232 on your 1999 or 2000 income tax return, whichever applies.

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

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

Definitions

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

- **Qualified employees** are arm’s length, full-time employees who have three months service since they last became employed with a business carried on by you, with a business in which you are a majority interest partner, or with a business carried on by a corporation affiliated with you. Temporary or seasonal workers are not qualified employees.
- **Arm’s length employees** are, generally, employees who are not related to you and who are not carrying on your business with you, for example, as your partners. For more details, see “Non-arms’ length transactions” on page 35.
- **Insurable persons** are people to whom coverage is extended and who are:
 - qualified employees; or
 - people who would be qualified employees if they had worked for you for three months; or
 - people carrying on your business (including yourself and your partners).

How to calculate your maximum deduction for PHSPs

The following sections explain how to calculate your maximum PHSP deduction based on whether you had employees, when they were employed, and whether you insured them. Find the section that describes your situation.

If you did not have any employees throughout 2000

Your PHSP deduction is restricted by a dollar limit on an annual basis. The limit is a maximum of \$1,500 for yourself, \$1,500 for your spouse and household members who were 18 years of age or older at the start of the period when they

were insured, and \$750 for household members under 18 at the start of the period.

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

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

- A is the number of days during the period of the year when you insured yourself and household members, if applicable, but insured less than 50% of your employees.
- B equals $\$1,500 \times$ the number of household members 18 and over insured during that period.
- C equals $\$750 \times$ the number of household members under 18 insured during that period.

Example 1

Edwin was a sole proprietor who ran his farm alone in 2000. He had no employees and did not insure any of his family members. Edwin paid \$2,000 for PHSP coverage in 2000. In his case, the coverage lasted from July 1 to December 31, 2000, a total of 183 days. Edwin’s maximum allowable PHSP deduction is calculated as follows:

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

Even though Edwin paid \$2,000 in premiums in 2000, he can only deduct \$752, because the annual limit is \$1,500 and he was only insured for about half of the year. If he had been insured for the entire year, his deduction limit would be \$1,500.

Example 2

Bruce was a sole proprietor who ran his farm alone in 2000. He had no employees. From January 1 to December 31, he insured himself, his wife, and his two sons. Bruce paid \$1,800 to insure himself, \$1,800 to insure his wife, and \$1,000 for each of his sons. One of his sons was 15 years old and the other turned 18 on September 1. Bruce’s PHSP deduction is limited to the following amounts:

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

If you had employees throughout 2000

If you had at least one qualified employee throughout all of 2000, and at least 50% of the insurable persons in your business were qualified employees, your claim for PHSP premiums is limited in a different way. Your limit is based on the lowest cost of equivalent coverage for each of your qualified employees. (See page 22 for a definition of qualified employee.)

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

For each of your qualified employees, do the following calculation:

$X \times Y = Z$, where;

- X equals the amount you would pay to provide yourself, your spouse, and your household members with coverage equivalent to that provided to a particular employee, his spouse and household members;
- Y equals the percentage of the premium you pay for that particular employee; and
- Z equals your limit based on that particular employee.

Example

You have one qualified employee. To provide yourself with coverage equivalent to his, you pay a premium of \$1,800. You pay 60% of your employee’s premium. Your deduction limit for yourself is \$1,080, calculated as follows: $\$1,800$ (amount X) \times 60% (amount Y) = $\$1,080$ (amount Z).

The maximum you can claim for yourself is amount Z above, if you had only one qualified employee.

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

Example

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

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

You have to do three calculations.

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

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

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

Your limit is \$300, the least of the amounts calculated for the three employees.

Note

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

If you had employees throughout 2000 but the number of arm’s length employees you insured was less than 50% of all of the insurable persons in your business, your maximum allowable deduction is the lesser of the following two amounts:

Amount 1

Determine this amount by using the following formula:

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

- A is the number of days during the period of the year when you insured yourself and household members, if applicable, but insured less than 50% of your employees.
- B equals $\$1,500 \times$ the number of household members 18 and over insured during that period.
- C equals $\$750 \times$ the number of household members under 18 insured during that period.

Amount 2

If you had at least one qualified employee, amount 2 is the lowest cost of equivalent coverage for each qualified employee, calculated by using the $X \times Y = Z$ formula on page 23. If you did not have at least one qualified employee, the limit in Amount 1 will apply.

If you had employees for part of the year

For the part of the year when you had at least one qualified employee and your insurable arm's length employees represented at least 50% of all the insurable persons in your business, calculate your limit for that period the same way as in the previous section called "If you had employees throughout 2000."

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

Amount 1

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

- A is the number of days during the period of the year when you insured yourself and household members, if applicable, but insured less than 50% of your employees.
- B equals $\$1,500 \times$ the number of household members 18 and over insured during that period.
- C equals $\$750 \times$ the number of household members under 18 insured during that period.

Amount 2

If you had at least one qualified employee, amount 2 is the lowest cost of equivalent coverage for each qualified employee, calculated by using the $X \times Y = Z$ formula on page 23. If you did not have at least one qualified employee, the limit in Amount 1 will apply.

Undeducted premiums

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

Line 9807 – Memberships/subscription fees

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

You can also deduct fees for subscriptions to farming publications used in your farming activities.

Line 9808 – Office expenses

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

Line 9809 – Legal and accounting fees

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

If you paid accounting and legal fees to file an appeal against an assessment or decision under the *Income Tax Act*, the *Canada Pension Plan Act*, the *Quebec Pension Plan Act*, the *Employment Insurance Act*, or the *Unemployment Insurance Act*, do not deduct them here. Deduct these fees on line 232 of your return. You should subtract any reimbursement from the applicable fees, and enter the result on line 232. If you received a reimbursement in 2000 for these types of fees, which you deducted in a previous year, enter the amount of the reimbursement on line 130 of your return.

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

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

Line 9815 – Salaries and wages (other than spouse or dependants)

Enter the amount of gross wages you paid to your employees. Include the cost of board for hired help. Do not include salaries paid to your spouse or dependants. See line 9816 on this page for salaries paid to dependants and line 9828 on page 27 for salaries paid to a spouse. Salaries or drawings paid to yourself are not deductible for tax purposes. As the employer, also include in this total your share of the Canada Pension Plan or Quebec Pension Plan contributions and Employment Insurance premiums. Do not deduct the amounts you withheld from your employees' remuneration, since you already deducted them in the amount you claimed as wages.

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

Line – 9816 Salaries paid to dependants

Keep a detailed record of the amounts you paid to each dependant. As the employer, you include your share of the Canada Pension Plan or Quebec Pension Plan contributions and Employment Insurance premiums. Do not deduct the

amounts you withheld from remuneration, because you already deducted them in the amount you claimed as wages. Do not include the cost of board.

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

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

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

You may have paid wages in kind to your child. For example, you may have given your child livestock or grain instead of cash and deducted the wages as an expense. If you did 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.

Line 9819 – Motor vehicle expenses

Business use of a motor vehicle

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

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

Enter your motor vehicle expenses at line 9819. Do not include any of the following:

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

See line 9829 on page 28 for details on interest and leasing costs. See Chapter 4 for details on CCA.

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

- motor vehicles;
- automobiles; and
- passenger vehicles.

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

An **automobile** is a motor vehicle that is designed or adapted mainly to carry passengers on 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 acquired that, for more than 50% of the distance traveled, was used as a taxi, a bus used in the business of transporting passengers, or a hearse in a funeral business;
- a motor vehicle you acquired to sell, rent, or lease in a motor vehicle sales, rental, or leasing business; or
- a motor vehicle (except a hearse) you acquired to use in a funeral business to transport passengers.

In addition, an **automobile** does not include a van, pick-up truck, or similar vehicle:

- if, in the tax year you got it, the vehicle was used to transport goods, equipment, or passengers to earn income for 90% or more of the distance traveled; or
- that seats at most the driver and two passengers if, in the tax year you got it, it was used to transport goods or equipment to earn income for more than 50% of the distance traveled.

A **passenger vehicle** is generally any automobile you bought after June 17, 1987, or that you leased under an agreement you entered into, extended, or renewed after June 17, 1987. An automobile you bought or leased under the terms of a written agreement you entered into before June 18, 1987, is not a passenger vehicle.

To help you determine what type of vehicle you have, see the following chart. The chart does not cover every situation, but it does provide some of the main definitions.

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

Example

Murray's farming business has a December 31 year end. He owns a truck that is not a passenger vehicle. He uses the truck to pick up supplies and equipment. Murray kept the following records for his 2000 fiscal period:

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

Expenses:

Gasoline and oil.....	\$ 3,500
Repairs and maintenance.....	500
Insurance.....	1,000
Licence and registration fees.....	100
Total expenses for the truck.....	<u>\$ 5,100</u>

This is how Murray determines the motor vehicle expenses he can deduct in his 2000 fiscal period:

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

Murray enters \$4,590 on line 9819 of the form as motor vehicle expenses in his 2000 fiscal period. He calculates and deducts the interest on the loan to buy his truck separately at line 9829.

Note

You may have received insurance proceeds to pay for the cost of repairs. If the insurance proceeds compensated you for damages to a motor vehicle for which you claimed CCA, and you used all of them to repair the vehicle within a reasonable period of time,

claim a deduction for the amount spent on repairs on line 9819. You will, however, also have to include the insurance proceeds as income on line 9600. If you did not spend all of the insurance proceeds on repairs within a reasonable length of time, include the unexpended excess as proceeds of disposition in column 4 of Area A, "Calculation of capital cost allowance (CCA)" on Form T1175, *NISA/Farming – Calculation of Capital Cost Allowance (CCA) and Business-Use-of-Home Expenses*. For more details, see the section called "Column 4 – Proceeds of disposition in the year" on page 37.

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

More than one vehicle

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

Line 9820 – Small tools

If a tool costs you less than \$200, enter its full cost. If it costs you \$200 or more, add the cost to your capital cost allowance charts on Form T1175 as class 8 property. See Chapter 4 for details.

Line 9821 – Soil testing

Enter the amount of expenses you incurred for testing soil samples.

Line 9822 – Storage/drying

Enter the amount of expenses you incurred for storing and drying commodities.

Line 9823 – Licences/permits

On this line, enter the total of annual licence and permit fees that you incurred to run your business.

Line 9824 – Telephone

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

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

Line 9828 – Salaries paid to spouse

You can deduct wages you paid to your spouse, as long as your spouse is not a partner and you follow the same rules that apply to wages paid to your child. See Line 9816 on page 24. If you were a member of a partnership that employed your spouse, the partnership can deduct your spouse's wages if it incurred the expense to earn farming income and the wages were reasonable.

Line 9830 – Prepared feed (35% of non-itemized invoices)

If your purchase invoices of prepared feed and protein supplements are not itemized, record 35% of the amount here. The remaining 65% should be recorded at code 046 under "NISA qualifying commodities and repayment of program benefits."

Line 9831 – Custom feeding (50% of non-itemized invoices)

If your purchase invoices of custom feeding expenses are not itemized, record 50% of the amount here. The remaining 50% should be recorded at code 046 under "NISA qualifying commodities and repayment of program benefits."

Line 9897 – Other (specify)

The expenses listed on the form are only the most common ones. If you have other eligible farming expenses not listed on the form, enter the total amount on line 9897. Then list the items on the blank lines provided under line 9897.

Include other operating or input expenses used to produce your agricultural commodities.

Computer repairs and service – Year 2000

If you repaired your computer to correct problems due to the year 2000 date change, you may deduct the cost at this line. You may claim the cost of repairs as a current expense,

fully deductible in the year, if the following conditions apply:

- the repairs were done to ensure that your computer continues to function after the change from 1999 to 2000;
- you replaced a microchip, systems software, or firmware (software embedded in a chip); and
- the repairs restored your computer to its previous condition so that it performs the same applications as before, but the problems caused by the change to the year 2000 have been eliminated.

If you bought hardware, applications software, or systems software that improves or enhances the performance of your computer in addition to correcting year 2000 problems, the cost is a capital expenditure. Special rules apply if you bought the property before November 1, 1999. For details, see "Special rate for changes to the year 2000" on page 40.

For information about how we determine if costs are current or capital, get Interpretation Bulletin IT-128, *Capital Cost Allowance – Depreciable Property*.

NISA non-eligible expenses

Line 9765 – Machinery lease/rental

Enter the expenses you incurred for leasing machinery used to earn your farming income. If you lease a passenger vehicle, see "Line 9829 – Motor vehicle interest and leasing costs" on page 28.

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

- you have bought the machinery rather than leased it; and
- you have borrowed an amount equal to the fair market value (FMV) of the leased machinery. We define **fair market value** on page 35.

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

To treat your lease this way, get either:

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

Once you have completed the appropriate form, file it with your return for the year you make the lease agreement. Both of these forms explain which property qualifies for this type of treatment.

Line 9796 – Land clearing and draining

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

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

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

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

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

In this case, you add costs for a tile, plastic, or concrete land drainage system to class 8 on your capital cost allowance charts on Form T1175, *NISA/Farming – Calculation of Capital Cost Allowance (CCA) and Business-Use-of-Home Expenses*. See Chapter 4 for details.

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

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

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

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

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

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

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

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

You might incur interest expenses for a property that you used for your farming business, but that you have stopped using for this purpose because you are no longer in

business. Generally, these expenses are not deductible as business expenses. However, you may be able to deduct interest expenses for property if its use changed after 1993.

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

Line 9810 – Property taxes

Enter the total amount of land, municipal, and realty taxes you incurred for property used in your business. If you are repaying a loan for land drainage through your property tax payments to your township, you cannot include the amount you repaid as part of your property tax expense.

Line 9811 – Rent (land, buildings, pastures)

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

If you farmed on a cropshare basis and paid your landlord a share of the crop, add the fair market value of the crops you gave your landlord to your income as a commodity sale. This amount should represent what you would have paid in cash to your landlord for rent. Deduct the same amount as a commodity purchase (see page 35 for the definition of fair market value).

Line 9825 – Quota rental (tobacco, dairy)

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

Line 9826 – Gravel

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

Line 9827 – Purchases of commodities resold

Enter purchases of commodities that you bought for resale and then sold. Enter the corresponding sales of commodities purchased for resale on line 9612, Resales of Commodities Purchased. See page 17 for details.

Line 9829 – Motor vehicle interest and leasing costs

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

If you used a passenger vehicle to earn farming income, there is a limit on the amount of interest you can deduct.

See the definition of passenger vehicle on page 25. Whether you use the cash or accrual method to determine your income, complete the following chart to calculate the interest you can deduct. If you used your passenger vehicle for both personal and farming-business use, complete the chart before you determine how much interest you can deduct as an expense.

Interest chart

Enter the total interest you paid (cash method) or that is payable (accrual method) in your fiscal year \$ _____ A

\$ _____ * × _____ number of days in your fiscal year for which interest was paid or payable \$ _____ B

Your available interest expense is either A or B, whichever amount is less. \$ _____

*For passenger vehicles bought:

- after August 31, 1989, and before January 1, 1997, use \$10; or
- after December 31, 1996, use \$8.33.

Example

Heather's farming business has a December 31 year end. In March 1997, she bought a new passenger vehicle that she uses for both personal and business use. She borrowed money to buy the vehicle, and the interest she paid in her 2000 fiscal period was \$2,200.

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

- \$2,200 (the total interest she paid in her 2000 fiscal period); and
- \$3,040 ($\8.33×365 days).

Heather drove 20,000 kilometres on farming business out of the total 25,000 kilometres she drove in her 2000 fiscal period. Here is how Heather determines the motor vehicle interest expenses she can deduct for her 2000 fiscal period:

$\frac{20,000}{25,000}$ (farming business kilometres) × \$2,200 = \$1,760

Heather enters \$1,760, on line 9819 as motor vehicle interest for her 2000 fiscal period.

There is a limit on the leasing costs you can deduct as an expense if you leased a passenger vehicle to use in a farming business. Complete the following chart to determine your deductible leasing costs.

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

Note

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

Eligible leasing costs chart for passenger vehicles

Enter the total lease charges you paid (cash method) or that were payable (accrual method) for the vehicle in your 2000 fiscal period \$ _____ A

Enter the total lease payments you deducted for the vehicle before your 2000 fiscal period \$ _____ B

Enter the total number of days you leased the vehicle in your 2000 and previous fiscal periods _____ C

Enter the manufacturer's list price \$ _____ D

Enter either the amount on line D or [$\$31,765 + (\text{GST and PST or HST on } \$31,765)$], whichever is more \$ _____ × 85% = \$ _____ E

$\frac{[(\$700 + \text{GST and PST or HST on } \$700) \times \text{line C}] - \text{line B}}{30}$ \$ _____ F

$\frac{[(\$27,000 + \text{GST and PST or HST on } \$27,000) \times \text{line A}]}{\text{line E}}$ \$ _____ G

Available leasing cost: line F or line G, whichever is less. \$ _____ H

Note

If you entered into a lease agreement for a passenger vehicle after 1997 and before January 1, 2000, make the following changes to the chart:

- On line E, use \$30,588 instead of \$31,765.
- On line F, use \$650 instead of \$700.
- On line G, use \$26,000 instead of \$27,000.

If you entered into your lease agreement for a passenger vehicle after 1996 and before January 1, 1998, make the following changes to the chart:

- On line E, use \$29,412 instead of \$31,765.
- On line F, use \$550 instead of \$700.
- On line G, use \$25,000 instead of \$27,000.

If you entered into your lease agreement for a passenger vehicle after 1990 and before January 1, 1997, make the following changes to the chart:

- On line E, use \$28,235 instead of \$31,765.
- On line F, use \$650 instead of \$700.
- On line G, use \$24,000 instead of \$27,000.

Joint ownership of a passenger vehicle

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

Line 9935 – Allowance on eligible capital property

We explain how to determine this allowance in Chapter 5.

Line 9936 – Capital cost allowance

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

Line 9937 – Mandatory inventory adjustment – prior year

If you included an amount for the mandatory inventory adjustment (MIA) on line 9942 in your 1999 fiscal period, deduct the amount as an expense on line 9937 in your 2000 fiscal period. Do not include the valuation of inventories if you are using the accrual method of accounting. For details about the accrual method, see “Reporting methods” on page 5.

Line 9938 – Optional inventory adjustment – prior year

If you included an amount for the optional inventory adjustment (OIA) on line 9941 in your 1999 fiscal period, deduct the amount as an expense on line 9938 in your 2000 fiscal period. For more details on OIA, see the explanation for line 9941 on this page.

Do not include the valuation of inventories if you are using the accrual method. For details about the accrual method, see “Reporting methods” on page 5.

Line 9896 – Other (specify)

The expenses listed on the form are only the most common ones. If you have other non-eligible farming expenses not listed on the form, enter the total amount at line 9896. Then list the items on the blank lines provided under line 9896.

You may have received an overpayment from one of the Disaster Assistance Program identified on line 9544. Use line 9896 to record any overpayments which you repaid. See page 17 for details.

Summary of expenses

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

Summary of income and expenses

Line 9959 – Gross farming income

Enter your gross farming income on line 9959 and on line 168 of your return. If you also completed a Form T1164, add the totals from line 9959 on your Form T1163 and all of your T1164 forms. Enter the result on line 168 of your return.

Line 9969 – Net income (loss) before adjustments

If you are a member of a partnership, this amount is the net farming business income of all partners. If you have a loss, enter the amount in brackets.

Line 9939 – Other additions

Enter the total additions to your income resulting from using the accrual method of accounting for NISA purposes and the cash method for tax purposes. Include a statement showing how you calculated the conversion.

Line 9940 – Other deductions

Enter any deductions to your income resulting from using the accrual method of accounting for NISA purposes and the cash method for tax purposes. Include a statement showing how you calculated the conversion.

If you are a landlord, and you reported crop sharing income on line 126 of your tax return, enter on line 9940 the amount of crop share income you reported as a sale on page 2 of Form T1163 or T1164.

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

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

For more information, see line 9934 on page 33.

Line 9941 – Optional inventory adjustment – current year

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

If you are using the accrual method of accounting for NISA but using the cash method for tax purposes, do not include accrual inventory adjustments on this line. (Accrual inventory adjustments include things such as closing inventory or changes in opening and closing inventory). For details on when you can use accrual accounting for NISA and cash accounting for tax purposes, see page 6.

Unlike with the MIA, the inventory does not have to be purchased inventory. It is all the inventory you still have at the end of your 2000 fiscal period.

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

Line 9942 – Mandatory inventory adjustment – current year

Mandatory inventory adjustment (MIA) decreases your net loss as a result of inventory you hold at the end of your

fiscal period. Read this section, even if you do not have to make the MIA. This section will show you how to determine the value of the farm inventory you bought and still have at the end of your 2000 fiscal period. You will need to know this value if you have to make the MIA this year or in the future.

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

- you use the cash method to report your income (Do not include inventories using the accrual method of accounting. For details about the accrual method, see “Reporting methods” on page 5).;
- you have a net loss on line 9969 of the form; and
- you bought inventory and still have it at the end of your 2000 fiscal period. This does not refer only to inventory that you purchased in 2000. It includes inventory that you had previously purchased and still owned at the end of the 2000 fiscal period.

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

- the net loss before adjustments on line 9969; or
- the value of the purchased inventory you still have at the end of your 2000 fiscal period.

To calculate your MIA, complete charts 1, 2, 3, and 4 on page **Error! Bookmark not defined.** For more information, get Interpretation Bulletin IT-526, *Farming – Cash Method Inventory Adjustments*.

Once you have completed Chart 4, enter the amount of your MIA on line 9942.

In your next fiscal period, you will deduct from your farming income the MIA you add to your net loss in your 2000 fiscal period.

Note

If you bought a specified animal in a non-arm’s length transaction, we consider that you bought the animal in the same year, and at the same price that the seller bought it. For a definition of non-arm’s length transaction, see “non-arm’s length transaction” on page 35.

Definitions

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

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

Farm inventory is tangible property that is:

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

Seed that you have already planted, and fertilizer or chemicals that you have already applied, are 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 generally the highest dollar value you can get for your property in an open and unrestricted market between an informed and willing buyer and an informed and willing seller, who are dealing at arm’s length with each other. We define non-arm’s length transaction on page 35.

Valuing your purchased inventory

To value your purchased inventory, read the text that follows and the example of how to complete the MIA charts. On page 67 of this guide, there are blank charts for you to use. Keep these charts as part of your records. Except for specified animals, you have to value any purchased inventory you bought before or during your 2000 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, separately compare each item or group of items in the inventory.

Value at one of the following amounts the specified animals you bought in your 2000 fiscal period and still have at the end of this period:

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

Value at one of the following amounts the specified animals you bought before your 2000 fiscal period and still have at the end of this period:

- the cash cost;
- 70% of:
 - the value of the specified animals for MIA purposes as determined at the end of your 1999 fiscal period; plus
 - any amounts you paid in your 2000 fiscal period toward the purchase price; or
- any amount between these two amounts.

Example

Doug started his farming business in 1992 and uses the cash method to report his income. His year end is December 31. Doug shows a net loss of \$55,000 on line 9969. Doug has purchased inventory at the end of his 2000 fiscal period. This means he has to decrease his net loss by the MIA. Doug made a chart for the cash cost of his livestock that is purchased inventory at the end of his 2000 fiscal period.

Livestock

Year of purchase	Cost of purchase	Amount Doug paid by the end of his 2000 fiscal period
2000	\$30,000	\$25,000
1999	\$26,000	\$26,000*
1998	\$22,000	\$22,000
1997	\$20,000	\$20,000

*For livestock bought in his 1999 fiscal period, Doug paid \$19,000 in 1999 and \$7,000 in 2000.

Doug'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 2000 fiscal period \$ 15,000
- Bought in his 1999 fiscal period \$ 6,000
- Bought in his 1998 fiscal period \$ 5,000

At the end of his 2000 fiscal period, Doug did not have any other inventory that he bought before his 1998 fiscal period. Doug has registered his livestock under the *Animal Pedigree Act*. He wants to treat these animals as specified animals. Doug completes Chart 1 as follows:

Chart 1 Cash cost of purchased inventory	
Doug enters the amount he paid by the end of his 2000 fiscal period for the specified animals he bought:	
Fiscal period	Cash cost
■ in his 2000 fiscal period	\$ <u>25,000</u> A
■ in his 1999 fiscal period	\$ <u>26,000</u> B
■ in his 1998 fiscal period	\$ <u>22,000</u> C
■ in his 1997 fiscal period	\$ <u>20,000</u> D
■ before his 1997 fiscal period	\$ <u>0</u> E
Doug enters the amount he paid by the end of his 2000 fiscal period for all other inventory he bought:	
■ in his 2000 fiscal period	\$ <u>15,000</u> F
■ in his 1999 fiscal period	\$ <u>6,000</u> G
■ in his 1998 fiscal period	\$ <u>5,000</u> H
■ in his 1997 fiscal period	\$ <u>0</u> I
■ before his 1997 fiscal period	\$ <u>0</u> J

Doug now knows the cash cost of his purchased inventory, including his specified animals. He uses these amounts to calculate the value of his purchased inventory at the end of his 2000 fiscal period. To do this, he completes charts 2, 3, and 4 as follows:

Chart 2 Value of purchased inventory for specified animals	
The small letters in front of each line match the paragraphs at the end of this chart. These paragraphs explain how Doug calculates the number on each line.	
Inventory bought in his 2000 fiscal period	
Doug enters an amount that is not more than the amount on line A but not less than 70% of this amount.	a) \$ <u>20,000</u> K
Inventory bought in his 1999 fiscal period	
Doug enters an amount that is not more than the amount on line B but not less than 70% of the total of the value at the end of his 1999 fiscal period plus any amounts he paid in his 2000 fiscal period toward the purchase price.	b) \$ <u>14,210</u> L
Inventory bought in his 1998 fiscal period	
Doug enters an amount that is not more than the amount on line C but not less than 70% of the total of the value at the end of his 1999 fiscal period plus any amounts he paid in his 2000 fiscal period toward the purchase price.	c) \$ <u>7,546</u> M
Inventory bought in his 1997 fiscal period	
Doug enters an amount that is not more than the amount on line D but not less than 70% of the total of the value at the end of his 1999 fiscal period plus any amounts he paid in his 2000 fiscal period toward the purchase price.	d) \$ <u>4,802</u> N
Inventory bought before his 1997 fiscal period	e) \$ <u>0</u> O

- a) Doug chose \$20,000, which is between the cash cost of \$25,000 and \$17,500 (70% of the cash cost).
- b) Doug chose to value the inventory he bought in his 1999 fiscal period at 70% of the cash cost. Therefore, the value of this inventory at the end of his 1999 fiscal period was \$13,300 (\$19,000 × 70%). Remember, Doug paid \$19,000 for these specified animals in 1999. He paid \$7,000 in 2000.

For his 2000 fiscal period, Doug chose to value the inventory he bought in his 1999 fiscal period at 70% of the total of the value at the end of the 1999 fiscal period plus any amounts he paid in his 2000 fiscal period toward the purchase price. Therefore, the amount he enters on line L is \$14,210 [70% × (\$13,300 + \$7,000)]. He could choose any amount between the cash cost of \$26,000 and the lowest acceptable inventory value of \$14,210.

- c) Doug chose to value the inventory he bought in his 1998 fiscal period at 70% of the cash cost. Therefore, the value of this inventory at the end of his 1998 fiscal period was \$15,400 (\$22,000 × 70%).

For his 1999 fiscal period, Doug chose to value the inventory he bought in his 1998 fiscal period at 70% of the total of the value at the end of his 1998 fiscal period. Therefore, the value of this inventory at the end of his 1999 fiscal period was \$10,780 (\$15,400 × 70%).

For his 2000 fiscal period, Doug chose to value the inventory he bought in his 1998 fiscal period at 70% of the total of the value at the end of his 1999 fiscal period. Therefore, the amount he enters on line M is \$7,546 ($\$10,780 \times 70\%$). He could choose any amount between the cash cost of \$22,000 and the lowest acceptable inventory value of \$7,546.

- d) Doug chose to value the inventory he bought in his 1997 fiscal period at 70% of the cash cost. Therefore, the value of this inventory at the end of his 1997 fiscal period was \$14,000 ($\$20,000 \times 70\%$).

For his 1998 fiscal period, Doug chose to value the inventory he bought in his 1997 fiscal period at 70% of the total of the value at the end of his 1997 fiscal period. Therefore, the value of this inventory at the end of his 1998 fiscal period was \$9,800 ($\$14,000 \times 70\%$).

For his 1999 fiscal period, Doug chose to value the inventory he bought in his 1997 fiscal period at 70% of the total of the value at the end of his 1998 fiscal period. Therefore, the value of this inventory at the end of his 1999 fiscal period was \$6,860 ($\$9,800 \times 70\%$).

For his 2000 fiscal period, Doug chose to value the inventory he bought in his 1997 fiscal period at 70% of the total of the value at the end of his 1999 fiscal period. Therefore, the amount he enters on line N is \$4,802 ($\$6,860 \times 70\%$). He could choose any amount between the cash cost of \$20,000 and the lowest acceptable inventory value of \$4,802.

- e) Doug had not purchased any specified animals before his 1997 fiscal period.

Chart 3	
Value of purchased inventory for all other inventory	
Inventory bought in his 2000 fiscal period: Doug enters the amount on line F or the fair market value, whichever is less.	<u>\$15,000</u> P
Inventory bought in his 1999 fiscal period: Doug enters the amount on line G or the fair market value, whichever is less.	<u>6,000</u> Q
Inventory bought in his 1998 fiscal period: Doug enters the amount on line H or the fair market value, whichever is less.	<u>5,000</u> R
Inventory bought in his 1997 fiscal period: Doug enters the amount on line I or the fair market value, whichever is less.	<u>0</u> S
Inventory bought before his 1997 fiscal period: Doug enters the amount on line J or the fair market value, whichever is less.	<u>0</u> T

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

The MIA that Doug uses for his 2000 fiscal period will be the same amount he deducts from his farming income when he calculates his income for his next fiscal period.

Enter the figure from line W of Chart 4 on line 9942 on the form.

Partnership information – Your share of line a

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

- the full names and addresses of the other partners;
- their social insurance numbers or Business Numbers;
- a breakdown of their shares of the income; and
- their percentages of the partnership.

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

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

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

This does not mean that you cannot use your claim for business-use-of-home expenses. In a future year, you can use any expense you could not deduct in your 2000 fiscal period, as long as you meet **one** of these conditions:

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

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

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

Line 9946 – Net farming income or (loss)

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

- your fiscal year end is December 31, 2000; and
- you did not file Form T1139, *Reconciliation of 1999 Business Income for Tax Purposes*.

Note

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

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

You may have to adjust the figure from line 9946 before entering it on your return if your fiscal year end is not December 31, 2000. See the publication called *Reconciliation of Business Income for Tax Purposes* to calculate the amount of farming income to report on your 2000 return. The publication includes Form T1139. You may have filed Form T1139 with your 1999 return. If so, you probably have to complete the same form for 2000.

Other information chart

Complete this area on Form T1163 only. This area does not appear on Form T1164.

Line 9964 – Your spouse's net income

If line 236 of your spouse's tax return is zero because your spouse's net income is negative, calculate and enter the negative amount.

Partnership information chart

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

Partners' names

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

Percentage (%) share

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

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

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

If another partnership is a partner, determine the beneficial ownership of each individual member.

Example

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

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

Enter the social insurance number (SIN) for each individual partner. For corporate or co-operative partners, enter the Business Number (BN). For trust partners, enter the trust number.

Chapter 4 – Capital Cost Allowance (CCA)

What is capital cost allowance?

You might acquire a depreciable property, such as a building, machinery, or equipment, to use in your farming business. You cannot deduct the cost of the property when you calculate your net farming income for the year. However, since these properties may wear out or become outdated over time, you can deduct their cost over a period of several years. The deduction for this is called capital cost allowance (CCA).

Definitions

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

Available for use

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

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

- the date you first use the property to earn income;
- the second tax year after you acquire the property;
- the time immediately before you dispose of the property; or
- the date the property is delivered or made available to you and is capable of producing a saleable product or

service, or of performing the function for which you acquired it.

Example

If you buy a tractor and the seller delivers it to you in 2000, but it was not in working order until 2001, you cannot claim CCA on it until 2001. However, if you buy a tractor and the seller delivers it to you in working order in 2000, but you did not use it until 2001, you can still claim CCA in 2000 because it was available for use.

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

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

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

Capital cost

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

- the purchase price not including the cost of land, which is not depreciable. See the section called “Land” on page 37;
- the part of your legal, accounting, engineering, installation, and other fees that relates to the purchase or construction of the depreciable property (not including the part that applies to land);
- the cost of any additions or improvements you made to the depreciable property after you acquired it, provided you have not claimed these costs as a current expense; and
- soft costs (such as interest, legal and accounting fees, and property taxes) related to the period you are constructing, renovating, or altering the building.

Depreciable property

Depreciable property is any property on which you can claim CCA.

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

See the sections called “Classes of depreciable property” on page 39 for the most common classes of depreciable properties you could use in your farming operation and “Capital Cost Allowance (CCA) Rates” on page 66. To determine the rate for depreciable property not listed, contact us.

Fair market value (FMV)

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

Non-arm’s length transaction

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

Proceeds of disposition

The proceeds of disposition is generally the sale price of a property. This is usually the amount you received or will receive for your property. This could also include compensation you received for property that has been destroyed, expropriated, damaged, or stolen. For more details about proceeds of disposition, get Interpretation Bulletin IT-220, *Capital Cost Allowance – Proceeds of Disposition of Depreciable Property*, and its Special Release, and Interpretation Bulletin IT-285, *Capital Cost Allowance – General Comments*.

Undepreciated capital cost (UCC)

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

How much CCA can you claim?

Base your CCA claim on your fiscal period, and not the calendar year. The amount of CCA you can claim depends on the type of property you own, and the date you acquired it. You group the depreciable property you own into classes. A different rate of CCA applies to each class. We explain the most common classes of depreciable property in the section called “Classes of depreciable property” on page 39. We list most of the classes of depreciable property and the rates for each class in the section called “Capital Cost Allowance (CCA) Rates” on page 66. There are a few other things you should know about CCA:

- In most cases, you should use the declining balance method to calculate your CCA. This means that you claim CCA on the capital cost of the property minus the CCA you claimed in previous years, if any. The remaining balance declines over the years as you claim CCA.
- You do not have to claim the maximum amount of CCA in any given year. You can claim any amount you like, from zero to the maximum allowed for the year. For example, if you do not have to pay income tax for the year, you may not want to claim CCA. Claiming CCA reduces the amount of CCA available to you for future years.
- In the year you acquire a depreciable property, you can usually claim CCA only on one-half of your net additions

to a class. We explain this 50% rule in the section called “Column 6 – Adjustment for current-year additions” on page 38. The available-for-use rules may also affect the amount of CCA you can claim. See the definition of available for use on page 34.

- You cannot claim CCA on land or on living things such as trees, shrubs, or animals. However, if you receive income from a quarry, sand or gravel pit, or a woodlot, you can claim a type of allowance known as a depletion allowance. For more details about quarries, pits, and woodlots, read Interpretation Bulletin IT-373, *Farm Woodlots and Tree Farms*, and its Special Release, and Interpretation Bulletin IT-492, *Capital Cost Allowance – Industrial Mineral Mines*.
- If you claim CCA and you later dispose of the property, you may have to add an amount to your income as a recapture of CCA. Alternatively, you may be able to deduct an additional amount from your income as a terminal loss. For more information, see the section called “Column 5 – UCC after additions and dispositions” on page 38.
- If you used depreciable property in 2000 that you used in your farming business before January 1, 1972, complete “Area A – Part XVII properties” on Form T1175, *NISA/Farming – Calculation of Capital Cost Allowance (CCA) and Business-Use-of-Home Expenses*. Contact us if you need information about how to claim CCA on that type of property.
- If you are a member of a partnership that provides you with a Form T5013 slip, *Statement of Partnership Income*, you cannot personally claim CCA for property owned by the partnership. The T5013 slip you receive will have already allocated to you a share of the partnership’s CCA on the depreciable farm property.

You were asking...?

- Q. If I start a farming business on June 1, 2000, how do I determine my CCA claim to December 31, 2000?
- A. Since the period is fewer than 365 days, you have to prorate your CCA claim. Calculate your CCA using the rules we discuss in this chapter. However, base your CCA claim on the number of days in your fiscal period compared to 365 days.

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

Form T1175, *NISA/Farming – Calculation of Capital Cost Allowance (CCA) and Business-Use-of-Home Expenses*

Area A – Calculation of capital cost allowance

Use Area A on Form T1175 to calculate your CCA deduction. Add lines (i) and (ii) of the chart and enter the result on line 9936 on page 3 of Form T1163 or T1164. If any part of the CCA which you are claiming is for business-use-of-home expenses, enter that part also in Area B of Form T1175.

If you acquired or disposed of buildings or equipment during the year, you will need to complete Area C, D, E, or F (whichever applies) before you complete Area A.

Even if you are not claiming a deduction for CCA for your 2000 fiscal period, you should still complete these areas to show any additions or disposals during the year. For details on how to complete all these areas, see the following sections.

Column 1 – Class number

If this is the first year you are claiming CCA, read the sections called “Classes of depreciable property” on page 39 for the most common classes of depreciable properties you could use in your farming operation, and “Capital Cost Allowance (CCA) Rates” on page 66. To determine the rate for depreciable property not listed, contact us.

If you claimed CCA last year, you can get the class numbers from last year’s Form T1175.

Generally, if you own several properties in the same CCA class, you combine the capital cost of all these properties in one class. You then enter the total in Area A.

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

If this is the first year you are claiming CCA, skip this column.

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

From your UCC at the start of your 2000 fiscal period, subtract any investment tax credit you claimed or were refunded in 1999. Also, subtract any 1999 investment tax credit you carried back to a year before 1999.

You may have received a GST/HST input tax credit in 1999 for a passenger vehicle you used less than 90% of the time in your business. In this case, subtract the amount of the credit from your beginning UCC for your 2000 fiscal period. For more information, see the section called “Grants, subsidies, and rebates” on page 42.

Note

In 2000, you may be claiming, carrying back, or getting a refund of an investment tax credit. If you still have depreciable property in the class, you have to adjust the UCC of the class to which the property belongs in 2001. To do this, subtract the amount of the credit from the UCC at the beginning of 2001. When there is no property left in the class, report the amount of the investment tax credit as other income on line 9600 in 2001.

Column 3 – Cost of additions in the year

If you acquire or make improvements to depreciable property in the year, we generally consider the improvements to be additions to the class in which the property belongs. See the section called “Class 3 (5%)” on page 39 for an exception to this rule. Enter the details of your 2000 additions on your form as follows:

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

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

Do not include the value of your own labour in the cost of a property you build or improve. Include the cost of surveying or valuing a property you acquire in the capital cost of the property. Remember that a property usually has to be available for use before you can claim CCA. See the definition of **available for use** on page 34.

Notes

If you received insurance proceeds to reimburse you for the **loss** or **destruction** of depreciable property, enter the amount you spent to **replace** the property in column 3 of Area A, and also in column 3 of Area C or D, whichever applies. Include the amount of insurance proceeds as proceeds of disposition in column 4 of Area A and also in column 3 of Area E or F, whichever applies. For more information, see the section called “Insurance proceeds” on page 18.

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

Area C – Details of equipment additions in the year

In this area, list the details of all equipment, machinery, or motor vehicles you acquired or improved in 2000. Group the equipment into the applicable classes, and put each class on a separate line. **Enter on line 9925** the total business portion of the cost of the equipment.

Area D – Details of building additions in the year

In this area, list the details of all buildings you acquired or improved in 2000. Group the buildings into the applicable classes, and put each class on a separate line. **Enter on line 9927** the total business portion of the cost of the buildings. The cost includes the actual purchase price of the building, plus any related expenses that you should add to the capital cost of the building, such as legal fees, land transfer taxes, and mortgage fees.

You should also see the section called “Special situations” on page 41 to find out if any special situations apply in your case when you acquire property.

Land

Land is not depreciable property. Therefore, you cannot claim CCA on its cost. If you acquire a farm property that includes both land and a building, enter in column 3 of

Area D only the cost of the building. To work out the building’s capital cost, you have to split any fees that relate to the purchase of the property between the land and the building. Related fees may include legal and accounting fees.

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

$$\frac{\text{building value}}{\text{total purchase price}} \times \frac{\text{legal, accounting, or other fees}}{\text{total purchase price}} = \frac{\text{the part of the fees you can include in the building's cost}}{\text{total purchase price}}$$

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

Column 4 – Proceeds of disposition in the year

If you disposed of a depreciable property during your 2000 fiscal period:

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

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

- your proceeds of disposition, minus any related expenses; or
- the capital cost of your depreciable property.

Proceeds of disposition are defined on page 35.

Note

If you received insurance proceeds to reimburse you for the **loss** or **destruction** of depreciable property, include the amount of insurance proceeds as proceeds of disposition in column 4 of Area A and also in column 3 of Area E or F, whichever applies. Enter the amount you spent to **replace** the property in column 3 of Area A, and also in column 3 of Area C or D, whichever applies. For more information, see the section called “Insurance proceeds” on page 18.

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

Special rules may apply if you dispose of a building for less than both its undepreciated capital cost and your capital cost. If this is the case, see the section called “Special rules for disposing of a building in 2000” on page 44 for details.

If you dispose of a depreciable property for more than its cost, you will have a capital gain. See Chapter 7 for details on capital gains. You cannot have a capital loss when you sell depreciable property. However, you may have a terminal loss. See the section called “Column 5 – UCC after additions and dispositions,” on page 38 for an explanation of terminal losses.

Note

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

If all of the proceeds of disposition for equipment, machinery, motor vehicles, or for a building are not received in the year you dispose of such property, get Interpretation Bulletin IT-236, *Reserves – Disposition of Capital Property*.

If you need more details, get Interpretation Bulletin IT-220, *Capital Cost Allowance – Proceeds of Disposition of Depreciable Property*.

Area E – Details of equipment dispositions in the year

In this area, list the details of all equipment, machinery, or motor vehicles you disposed of in 2000. Group the properties into the applicable classes, and put each class on a separate line. **Enter on line 9926** the total business portion of the proceeds of disposition of the equipment, machinery, and motor vehicles.

Area F – Details of building dispositions in the year

In this area, list the details of all buildings you disposed of in 2000. Group the buildings into the applicable classes, and put each class on a separate line. **Enter on line 9928** the total business portion of the proceeds of disposition of the buildings.

Column 5 – UCC after additions and dispositions
You cannot claim CCA when the amount in column 5 is:

- negative (see the section called “Recapture of CCA” below); or
- positive, and you do not have any property left in that class at the end of your 2000 fiscal period (see the section called “Terminal loss” on this page).

In either case, enter “0” in column 10.

Recapture of CCA

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

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

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

Terminal loss

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

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

Note

The rules for recapture and terminal loss do not apply to passenger vehicles in class 10.1. However, see the comments in the section called “Column 7 – Base amount for CCA” on page 39 to calculate your CCA claim.

Column 6 – Adjustment for current-year additions

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

Calculate your CCA claim only on the net adjusted amount. Do not reduce the cost of the additions in column 3, or the CCA rate in column 8. For example, if you acquired a property in 2000 for \$30,000, you would base your CCA claim on \$15,000 ($\$30,000 \times 50\%$).

If you acquired and disposed of depreciable property of the same class in 2000, the calculation in column 6 restricts your CCA claim. Calculate the CCA you can claim as follows:

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

In some cases, you do not make an adjustment in column 6. For example, you may buy depreciable 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 2000. However, if you transfer personal property, for example a car or a personal computer, into your business, the 50% rule applies to the particular property transferred.

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.

The 50% rule does not apply when the available-for-use rule (for the definition, see page 34) denies a CCA claim until the second tax year after you acquired a property.

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

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

For a class 10.1 vehicle you disposed of in your 2000 fiscal period, you may be able to claim 50% of the CCA that would be allowed if you still owned the vehicle at the end of the preceding year. This is known as the **half-year rule on sale**.

You can use the half-year rule on sale if, at the end of your 1999 fiscal period, you owned the class 10.1 vehicle you disposed of in 2000. If this applies to you, in column 7 enter 50% of the amount in column 2.

Column 8 – Rate (%)

Enter the rate in this column for each class of property in Area A of Form T1175. For a list of rates, see the section called “Capital Cost Allowance (CCA) Rates” on page 66. For more detailed information on certain kinds of property, see the section called “Classes of depreciable property” on this page.

Column 9 – CCA for the year

In column 9, enter the CCA you would like to deduct for 2000. The CCA you can deduct cannot be more than the amount you get when you multiply the amount in column 7 by the rate in column 8. You can deduct any amount up to the maximum.

If this is your first year of business, you may have to prorate your CCA claim. See the section called “You were asking ...?” on page 36.

For Part XI assets, add the amounts in column 9 and enter the total in line (i). For Part XVII assets, add the amounts in column 6 and enter the total in line (ii). Enter the total of lines (i) and (ii) on line 9936 on page 3 of Form T1163 or T1164. See the section called “Personal use of property” on page 42 to find out how to calculate your CCA claim if you are using the property for both business and personal use.

Note

To calculate the CCA you can claim in column 9 if you acquired class 10 or 12 property related to the year 2000 problem, see the section called “Special rates for changes to the year 2000” on page 40.

Column 10 – UCC at the end of the year

This is the UCC at the end of your 2000 fiscal period. It is the amount you will enter in column 2 when you calculate your CCA claim next year.

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

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

Classes of depreciable property

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

Buildings

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

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

Note

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

Class 1 (4%)

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

Class 3 (5%)

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

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

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

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

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

Class 6 (10%)

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

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

- the building is used for farming or fishing; or

- the building has no footings or other base supports below ground level.

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

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

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

For additions or alterations to such a building:

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

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

Other property – Class 8 (20%)

Class 8 includes property that is not included in any other class. For example, furniture, appliances, fixtures, most machinery, and equipment you use in your business are all in this class.

Storage facilities for fresh fruit and vegetables – Class 8 (20%)

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

Electronic office equipment – Classes 8 (20%), 10 (30%), and 12 (100%)

You can elect to include in a separate class, one or more properties that would otherwise be included in class 8 or class 10. This new class does not change the specified rate. However, it ensures that any part of the cost of the equipment that has not been deducted as CCA will be fully deductible as a terminal loss on the disposition of all the

property in that class. For more information on terminal losses, see the section called “Column 5 – UCC after additions and dispositions” on page 38.

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;
- photocopiers; and
- electronic communications equipment, such as a facsimile transmission device or telephone equipment.

This election will only apply to properties that each cost \$1,000 or more.

To make an election to include this property in a separate prescribed class, let us know by attaching a letter to your return for the tax year in which you acquired the property.

Note

You might still own the electronic office equipment at the beginning of the fifth tax year following the tax year in which the property became available for use. If so, you will have to transfer the UCC of each separate class from the separate prescribed class to the general class in which it would otherwise belong.

Special rate for changes to the year 2000

Usually, if you bought computer systems software or firmware to replace property likely to malfunction due to changes to the year 2000, you would have a current expense, fully deductible in the year. For details, see “Computer repairs and service – Year 2000” on page 27.

However, the purchase is a capital expenditure if:

- you bought hardware;
- you bought systems software that, in addition to correcting problems with the change to the year 2000, improved the performance of your computer beyond its previous capability; or
- you bought applications software.

Eligible computer hardware and systems software are in class 10. When you combine the accelerated CCA with the usual rate of class 10, this can result in a deduction of up to 100% of the cost in the year of purchase.

Applications software is in class 12. When you combine the accelerated CCA with the usual rate of class 12, this can result in a deduction of up to 100% of the cost in the year you buy the software.

To qualify, you must have purchased the software or hardware after December 31, 1997, and before November 1, 1999. The maximum amount of accelerated CCA you can claim is \$50,000.

To claim the special rate of CCA, you have to file an election. To make the election, send us a letter with your return providing the following information:

- a description of the software or hardware you replaced;

- a description of the property you bought to replace it;
- the cost of the purchase;
- the date you bought the replacement software or hardware.

Complete the following chart to calculate the total CCA you can claim for class 10 and class 12.

CCA Calculation for Classes 10 and 12		
	Class 10	Class 12
Calculation of regular CCA from Area A of Form T1175		
Class 10 – Col. 7 _____ × 30% =	\$ _____	1
Class 12 – Col. 7 _____ × 100% =		\$ _____
Calculation of accelerated CCA for hardware and software		
(Capital cost × rate = accelerated CCA)		
Class 10 _____ × 85% = _____	\$ _____	3
Class 12 _____ × 50% = _____		\$ _____
Total accelerated CCA = _____ *		
Total CCA (Enter in Column 9 of Form T1175). For class 10 add lines 1 and 3 and put the total on line 5. For class 12 add lines 2 and 4 and put the total on line 5		
	\$ _____	\$ _____
*Total accelerated CCA cannot be more than \$50,000.		

Passenger vehicles – Class 10.1

Your passenger vehicle can belong to either class 10 or class 10.1. We define a passenger vehicle on page 25. Include your passenger vehicle in class 10 unless it meets a class 10.1 condition. List each class 10.1 vehicle separately.

Include your passenger vehicle in class 10.1 if it meets **one** of these conditions:

- you bought it after December 31, 1999, and it cost more than \$27,000; or
- you bought it after December 31, 1997, and before January 1, 2000, and it cost more than \$26,000.

If a passenger vehicle you bought after December 31, 1999, cost more than \$27,000, we consider the capital cost of that vehicle to be \$27,000 plus related GST/HST and PST. If you bought the passenger vehicle after December 31, 1997, and before January 1, 2000, and it cost more than \$26,000, we consider the capital cost of that vehicle to be \$26,000 plus related GST/HST and PST.

The \$27,000 and \$26,000 amounts are the capital cost limits for a passenger vehicle. However, to determine the class to which your passenger vehicle belongs, you have to use the cost of the vehicle before you add GST and PST or HST, if they apply.

Example

Vivienne owns a farming business. On June 21, 2000, she bought two passenger vehicles to use in her farming business. The PST rate for her province is 8%. Vivienne kept the following records for 2000:

	Cost	GST	PST	Total
Vehicle 1	\$30,000	\$2,100	\$2,400	\$34,500
Vehicle 2	\$23,000	\$1,610	\$1,840	\$26,450

Vivienne puts vehicle 1 in class 10.1, since she bought it after December 31, 1999, and it cost her more than \$27,000. Before Vivienne enters an amount in column 3 of Area C, she has to calculate the GST and PST on \$27,000. She does this as follows:

- GST at 7% of \$27,000 = \$1,890; and
- PST at 8% of \$27,000 = \$2,160.

Therefore, Vivienne's capital cost is \$31,050 (\$27,000 + \$1,890 + \$2,160). She enters this amount in column 3 of Area C.

Vivienne puts vehicle 2 into class 10, since she bought it after December 31, 1999, and it did not cost her more than \$27,000. Vivienne's capital cost is \$26,450 (\$23,000 + \$1,610 + \$1,840). She enters this amount in column 3 of Area C.

Note

The GST rate is 7% throughout the country and we have used a PST rate of 8% for this example only. To determine the PST for your calculation, use the current rate that applies in your province. You would not calculate the Quebec PST in the same way as in the above example. You may live in a province that has a harmonized sales tax (HST) of 15%. For more information about HST, get the guide called *General Information for GST/HST Registrants*.

Special situations

Changing from personal to business use

If you bought a property for personal use and then started using it in your farming business in your 2000 fiscal period, there is a change in use. You need to determine the capital cost for business purposes.

Enter the FMV of the property in column 3 of Area C or D, whichever applies, if, at the time of change in use, the FMV of the depreciable property is less than its original cost. Use the following chart to determine the amount to enter in column 3 when the FMV is more than its original cost.

Capital cost calculation

Actual cost of the property	\$ _____	A
FMV of the property	\$ _____	B
Amount on line A	\$ _____	C
Line B minus line C (if negative, enter "0")	\$ _____	D*
Enter all capital gains deductions claimed for the amount on line D*	\$ _____ × R** =	\$ _____ E
Line D minus line E (if negative, enter "0")	\$ _____ × IR** =	\$ _____ F
Your capital cost is line A plus line F	\$ _____	G

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

** See the box below for an explanation.

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

Under proposed legislation for dispositions of capital property made **after** February 27, 2000, the **inclusion rate (IR)** for capital gains and losses may be reduced. The inclusion rate will depend on whether you had net capital gains or net capital losses in one or more periods in 2000. To calculate your inclusion rate, get the guide called *Capital Gains*. The rate "**R**" to use on line E is the inverse of the inclusion rate on line F. For example, if the inclusion rate on line F is 2/3, the rate to use on line E is 3/2.

Note

The deemed capital cost of the land when you change its use is its fair market value (FMV). Enter the FMV of the land on line 9923 in Area G.

Personal use of property

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

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

Example

Jennifer owns a business. She bought a car in 2000 that she uses both for personal and for business use. The car cost \$20,000, including all charges and taxes. Therefore, she includes the car in class 10. Her business use varies from year to year. She calculates her CCA on the car for 2000 as follows:

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

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

Jennifer enters \$2,000 on line 9936 on page 3 of Form T1163 or T1164.

Note

The capital cost limits on a class 10.1 vehicle (a passenger vehicle) still apply when you split the capital cost between business and personal use. See the section called "Passenger vehicles – Class 10.1" on page 41 for more details.

Grants, subsidies, and rebates

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

Get Interpretation Bulletin IT-273, *Government Assistance – General Comments*, and its Special Release for more details about government assistance.

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

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

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

- For a passenger vehicle you use 90% or more for your business, subtract the amount of the credit from the vehicle's cost before you enter its capital cost in column 3 of Area C.
- For a passenger vehicle you use less than 90% for your business, do not make an adjustment in 2000. In 2001, subtract the amount of the credit from your beginning UCC.

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

Non-arm's length transactions

When you acquire depreciable property in a non-arm's length transaction, there are special rules to follow to determine the property's cost. See the definition of **non-arm's length transaction** on page 35. These special

rules will not apply if you get the property because of someone's death.

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

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

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

Capital cost calculation	
The seller's cost or capital cost	\$ _____ A
The seller's proceeds of disposition	\$ _____ B
Amount from line A	\$ _____ C
Subtract line C from line B (if negative, enter "0")	\$ _____ D
Enter any capital gains deduction claimed for the amount on line D \$ _____ × R* =	\$ _____ E
Subtract line E from line D (if negative, enter "0") \$ _____ × IR* =	\$ _____ F
Capital cost (line A plus line F)	\$ _____ G
Enter this amount in column 3 of either Area C or D, whichever applies.	
Do not include the cost of the related land. Include the cost of the related land on line 9923, "Total cost of all land additions in the year," in Area G.	
* See the box below for an explanation.	

Under proposed legislation for dispositions of capital property made **after** February 27, 2000, the **inclusion rate (IR)** for capital gains and losses may be reduced. The inclusion rate will depend on whether you had net capital gains or net capital losses in one or more periods in 2000. To calculate your inclusion rate, get the guide called *Capital Gains*. The rate "**R**" to use on line E is the inverse of the inclusion rate on line F. For example, if the inclusion rate on line F is 2/3, the rate to use on line E is 3/2.

Note

The deemed capital cost of the land when you change its use is its fair market value (FMV). Enter the FMV of the land on line 9923 in Area G.

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

- the FMV at the time you buy it;
- if you bought it after 1999, \$27,000 plus any GST and PST, or HST, you would pay on \$27,000;

- if you bought it after 1997 and before January 1, 2000, \$26,000 plus any GST and PST, or HST, you would pay on \$26,000; 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.

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 with no members who are individuals resident in Canada, or no members that are other partnerships. If you pay more for the property than the seller paid for the same property, calculate the capital cost as follows:

Capital cost calculation	
The seller's cost or capital cost	\$ _____ A
The seller's proceeds of disposition	\$ _____ B
Amount from line A	\$ _____ C
Subtract line C from line B (if negative, enter "0") \$ _____ × IR* =	\$ _____ D
Capital cost (line A plus line D)	\$ _____ E
Enter this amount in column 3 of either Area C or D, whichever applies. Do not include the cost of the related land. Include the cost of the related land on line 9923, "Total cost of all land additions in the year," in Area G.	
*See the box below for an explanation.	

Under proposed legislation for dispositions of capital property made **after** February 27, 2000, the **inclusion rate (IR)** for capital gains and losses may be reduced. The inclusion rate will depend on whether you had net capital gains or net capital losses in one or more periods in 2000. To calculate your inclusion rate, get the guide called *Capital Gains*.

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

For more details on non-arm's length transactions, get Interpretation Bulletin IT-405, *Inadequate Considerations – Acquisitions and Dispositions*, and Interpretation Bulletin IT-419, *Meaning of Arm's Length*.

Special rules for disposing of a building in the year

If you disposed of a building in the year, special rules may apply that make the proceeds of disposition an amount other than the actual proceeds of disposition. This happens when you meet both of the following conditions:

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

* See the definition of **non-arm's length transaction** on page 35.

Calculate the cost amount as follows:

- If the building was the only property in the class, the cost amount is the undepreciated capital cost (UCC) of the class before you disposed of the building.
- If there is more than one property in the same class, you have to calculate the cost amount of each building as follows:

$$\frac{\text{capital cost of the building}}{\text{capital cost of all the properties in the class that have not been previously disposed of}} \times \text{UCC of the class} = \text{cost amount of the building}$$

Note

The capital cost of depreciable property has to be recalculated to determine the cost amount if:

- any property in the class of the building was acquired at non-arm's length;
- any property in the class of the building was previously used for a purpose other than gaining or producing income from property; or
- the part of a property used for gaining or producing income has changed.

If you disposed of a building under these conditions and you or a person with whom you do not deal at arm's length disposed of the land in the same year, calculate your deemed proceeds of disposition as shown in Calculation A on this page.

If you, or a person with whom you do not deal at arm's length, did not dispose of the land in the same year as the building, calculate your deemed proceeds of disposition as shown in Calculation B, on page 45.

Calculation A	
Land and building sold in the same year	
FMV of the building at the time you disposed of it	\$_____ A
FMV of the land immediately before you disposed of it	\$_____ B
Line A plus line B	\$_____ C
Seller's cost amount of the land	\$_____ D
Total capital gains (without reserves) from any disposition of the land (such as a change in use) in the three-year period before you or a person not dealing at arm's length with you disposed of the building, to either you or another person not dealing at arm's length with you	\$_____ E
Line D minus line E (if negative, enter "0")	\$_____ F
Line B or line F, whichever amount is less	\$_____ G
Line C minus line G (if negative, enter "0")	\$_____ H
Cost amount of the building immediately before you disposed of it	\$_____ I
Capital cost of the building immediately before you disposed of it	\$_____ J
Line I or line J, whichever amount is less	\$_____ K
Line A or line K, whichever amount is more	\$_____ L
Deemed proceeds of disposition for the building – Line H or line L, whichever amount is less (enter this amount in column 3 of Area F, and include it in column 4 of Area A)	\$_____ M
Deemed proceeds of disposition for the land – Proceeds of disposition of the building and the land	\$_____ N
Amount from line M	\$_____ O
Line N minus line O (include this amount on line 9924 of Area G)	\$_____ P
If you have a terminal loss on the building, include it on line 9897 on page 3 of your form.	

Calculation B
Land and building sold in different years

Cost amount of the building immediately before you disposed of it	\$ _____	A
FMV of the building immediately before you disposed of it	\$ _____	B
Line A or line B, whichever amount is more	\$ _____	C
Actual proceeds of disposition, if any	\$ _____	D
Line C minus line D	\$ _____	E
Line E \$ _____ x R*	\$ _____	F
Amount from line D	\$ _____	G
Deemed proceeds of disposition for the building		
Line F plus line G (enter this amount in column 3 of Area F, and include it in column 4 of Area A)	\$ _____	H

If you have a terminal loss on the building, include it on line 9897 on page 3 of your form.

*See the box below for an explanation.

Under proposed legislation for dispositions of capital property made **after February 27, 2000**, the **inclusion rate (IR)** for capital gains and losses may be reduced. The inclusion rate will depend on whether you had net capital gains or net capital losses in one or more periods in 2000. To calculate your inclusion rate, get the guide called *Capital Gains*. The rate “R” to use on line F in Chart B is determined by the calculation $(1 - IR)$. For example, if the IR is $2/3$, the rate to use on line F is $(1 - 2/3) = 1/3$.

Ordinarily, you can deduct all of a terminal loss, but only part of a capital loss. Calculation B ensures that you use the same factor to calculate a terminal loss for a building as you use to calculate a capital loss on land. As a result of this calculation, you add part of the amount on line E to the actual proceeds of disposition from the building (see the section called “Terminal loss” on page 38).

Replacement property

In a few cases, you can postpone or defer adding a capital gain or recapture to income. You might sell a business property, and replace it with a similar one, or your property might be stolen, destroyed, or expropriated, and you replace it with a similar one. You can defer tax on the amount of sale proceeds if you reinvest them in replacement property within a reasonable period of time. For property to be considered as replacement property, it must meet the following three conditions:

- you acquire the new property for the same or for a similar purpose as you used the former property;
- you or a person related to you use the new property for the same or a similar purpose as the former property; and
- it must be reasonable to conclude that the property was acquired to replace the former property.

Get Interpretation Bulletin IT-259, *Exchanges of Property*, and its Special Release, and Interpretation Bulletin IT-491, *Former Business Property*, and its Special Release if you need more details.

You can also defer a capital gain or recapture of CCA when you transfer property to a corporation, a partnership, or your child. For more details on transferring farm property to your child, see page 56. For information on transfers to a corporation or a partnership, see:

- Information Circular 76-19, *Transfer of Property to a Corporation Under Section 85*;
- Interpretation Bulletin IT-291, *Transfer of Property to a Corporation Under Subsection 85(1)*;
- Interpretation Bulletin IT-378, *Winding-Up of a Partnership*; and
- Interpretation Bulletin IT-413, *Election by Members of a Partnership Under Subsection 97(2)*.

Area B – Business-use-of-home expenses

Use this chart to list your allowable expenses for business use of home. The individual expenses should also be listed on page 3 of Form T1163 or T1164 at the appropriate lines. You can also record any business-use-of-home expense carryforward from a previous year on the chart. This chart is for information purposes, and to help you make an adjustment at line 9934 if you have a loss in the year. See page 33 for more information about this adjustment.

Note

Be sure to include any amount of CCA on business-use-of-home that you claimed on line 9936 of Form T1163 or T1164.

Area G – Details of land additions and dispositions in the year

In this area, enter the total cost of acquiring land in 2000. The cost includes the actual purchase price of the land, plus any related expenses that you should add to the capital cost of the land, such as legal fees, land transfer taxes, and mortgage fees. **Enter on line 9923** the total cost of all land additions in the year. You cannot claim CCA on land. Do **not** enter this amount in column 3 of Area A.

Enter on line 9924 the total of all amounts you received or will receive for disposing of land in the year.

Area H – Details of quota additions and dispositions in the year

Enter on line 9929 the total cost of acquiring quotas in the year.

Enter on line 9930 the total of all amounts you received or will receive for disposing of quotas in the year.

Area I – Details of equity

Line 9931 – Total business liabilities

A liability is a debt or obligation of a business. Total business liabilities is the total of all amounts your farming business owes at the end of its fiscal period. This includes accounts payable, notes payable, taxes payable, unpaid

salaries, wages and benefits, interest payable, deferred or unearned revenues, loans payable, mortgages payable, or any other outstanding balance.

Line 9932 – Drawings in 2000

A drawing is any withdrawal of cash or other assets and services of a business by the proprietor or partners. This includes such transactions by the proprietor or partners (or family members) as withdrawing cash for non-business use, and using business assets and services for personal use.

Line 9933 – Capital contributions in 2000

A capital contribution is an addition of cash or other assets to the farming business you made during its fiscal period. This includes adding personal funds to the business account, paying business debts with personal funds, and transferring personal assets to the farming business.

The following example summarizes this chapter on CCA.

Example

In 2000, Trevor bought a building to use for business purposes. The total cost was \$95,000 (the total of the \$90,000 total purchase price and the \$5,000 total expenses connected with the purchase), as follows:

Building value	\$75,000
Land value	\$15,000
Total purchase price.....	<u>\$90,000</u>

Expenses connected with the purchase:

Legal fees.....	\$3,000
Land transfer taxes.....	\$2,000
Total fees	<u>\$5,000</u>

Trevor’s farming business has a December 31 year end. In 2000, Trevor’s farming income was \$6,000 and his expenses were \$4,900. Therefore, his net income before deducting CCA was \$1,100 (\$6,000 – \$4,900).

Before Trevor can complete his CCA schedule, he has to calculate the capital cost of the building. Since land is not depreciable farm property, he has to calculate the part of the expenses connected with the purchase that relates only to the building. To do this, he has to use the following formula, which we explain on page 37 under the heading called “Land.”

$$\frac{\$75,000}{\$90,000} \times \$5,000 = \$4,166.67$$

This \$4,166.67 represents the part of the \$5,000 in legal fees and land transfer taxes that relates to the purchase of the building, while the remaining \$833.33 relates to the purchase of the land. Therefore, the capital cost of the building is:

Building value	\$ 75,000.00
Related expenses	\$ 4,166.67
Capital cost of the building.....	<u>\$ 79,166.67</u>

Trevor enters \$79,166.67 in column 3 of Area D.

He includes \$15,833.33 (\$15,000 + \$833.33) on line 9923 of Area G as the capital cost of the land.

Note

Trevor did not own farm property before 2000. Therefore, he has no undepreciated capital cost to enter in column 2 of Area A.

Trevor acquired his farm property in 2000. Therefore, he is subject to the 50% rule that we explain under the heading called “Column 6 – Adjustment for current-year additions” on page 38.

Chapter 5 – Eligible Capital Expenditures

What is an eligible capital expenditure?

You may buy property that has no physical existence, but gives you a lasting economic benefit. Some examples are milk and egg quotas. We call this kind of property **eligible capital property**. The price you pay to buy this kind of property is an **eligible capital expenditure**.

What is an annual allowance?

You cannot deduct the full cost of an eligible capital expenditure, since the cost is capital and the eligible capital property gives you a lasting economic benefit. However, you can deduct part of its cost each year. We call the amount you can deduct your **annual allowance**.

What is a cumulative eligible capital (CEC) account?

This is the bookkeeping record you set up to determine your annual allowance. You also use your CEC account to keep track of the property you buy and sell. We call the property in your CEC account your eligible capital property. You base your annual allowance on the balance in your account at the end of your fiscal period. Keep a separate account for each business.

How to calculate your annual allowance

Complete the following chart to calculate your annual allowance and the balance in your CEC account at the end of your 2000 fiscal period.

Calculating your annual allowance and your CEC account balance at the end of your 2000 fiscal period

Balance in the account at the start of your 2000 fiscal period	_____	A
Eligible capital expenditures you made in your 2000 fiscal period	_____	B
75% × line B	_____	C
Line A plus line C	=====	D
All the amounts you received or are entitled to receive from the sale of eligible capital property in your 2000 fiscal period	_____	E
All the amounts that became receivable in your 2000 fiscal period from the sale of eligible capital properties before June 18, 1987	_____	F
Line E plus line F	_____	G
75% × line G	_____	H
Cumulative eligible capital account balance Line D minus line H	_____	I
Annual allowance 7% × line I	_____	J
CEC account balance at the end of 2000 line I minus line J	=====	K

Note

An eligible capital expenditure is reduced by the amount of any assistance you received or will receive from a government. Also, an amount forgiven (or entitled to be forgiven) on loans from a government reduces your CEC account.

Under proposed legislation, if your fiscal period is less than 365 days, you have to prorate your claim. Base your claim on the number of days in your fiscal period compared to 365 days.

You can deduct an annual allowance if there is a **positive** balance in your CEC account at the end of your 2000 fiscal period. You can deduct up to a maximum of 7% of the balance, but you do not have to deduct the maximum annual allowance. If there is a **negative** balance on line I in the chart above, see the section called “Sale of eligible capital property” – Fiscal period ending in 2000” on this page.

Example

Heather started her farming business on January 1, 2000. Her business has a December 31 year end. During 2000, she bought a milk quota for \$16,000. To calculate her annual allowance and her CEC account balance at the end of her fiscal year, she completes the chart as follows:

Balance at the start of Heather’s 2000 fiscal period	\$ _____	0 A
Heather’s eligible capital expenditure: milk quota	\$ <u>16,000</u>	B
75% × line B	<u>12,000</u>	C
Line A plus line C	<u>12,000</u>	D

Heather does not have any amounts to include on lines E to H. Therefore, her cumulative eligible account balance is the amount on line D. 12,000 I

Heather’s annual allowance is 7% × line I \$ 840 J

Balance at the end of 2000 (line I **minus** line J) \$ 11,160 K

Sale of eligible capital property – Fiscal period ending in 2000

When you sell eligible capital property, you have to subtract part of the proceeds of disposition from your cumulative eligible capital account.

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

- in your 2000 fiscal period; or
- before June 18, 1987, and the proceeds of disposition become due to you in your 2000 fiscal period.

For 2000, the amount you have to subtract is 75% of the **total** of these amounts:

- the proceeds of disposition of all eligible capital property you sell in your 2000 fiscal period (include the total amount from a sale even if you do not get any or all of the proceeds until after 2000); and
- the amount of any proceeds that become due to you in your 2000 fiscal period from eligible capital property you sold before June 18, 1987.

If you have a negative balance in your CEC account after you subtract the required amount, you have to do a calculation to determine the part of that amount to include in your farming income.

Under proposed legislation for dispositions of eligible capital property for fiscal periods that end after February 27, 2000, the way to calculate the amount to include in farming income has changed. The portion of the negative amount in your CEC account that exceeds the annual allowances deducted is multiplied by either 8/9 or 2/3, depending on your fiscal period end.

If your fiscal period ends after February 27, 2000, and before October 18, 2000, use the factor 8/9. If your fiscal period ends after October 17, 2000, use the factor 2/3. To that result, add the lesser of the excess and the annual allowances deducted. The total is the amount you include in your farming income. The following example shows how to calculate the amount to include in farming income.

Example

Carol started her farming business on January 1, 1994, with a December 31 year end. In 1994, Carol bought an egg quota for \$10,000. Carol sold her business on September 1, 2000. She sold her egg quota for \$15,000 and she does not have any other eligible capital property in her business. She deducted annual allowances each year as follows:

1994	\$ 525
1995	488
1996	454
1997	422
1998	393
1999	<u>365</u>
Total	\$ <u>2,647</u>

The amount included in Carol’s farming income on line 9600, “Other income,” is the total of A and C:

Calculation of amount A:

The lesser of i) or ii):

i) Excess amount calculated as follows:	
Proceeds of disposition: \$15,000	
\$15,000 × 75%	\$ 11,250
Plus: total annual allowances deducted	<u>2,647</u>
	\$ 13,897
Minus: 75% of eligible capital expenditures	
\$10,000 × 75%	\$ <u>7,500</u>
Excess amount	\$ 6,397 i
ii) Total annual allowances deducted	\$ 2,647 ii
The lesser of i) or ii)	\$ 2,647 A

Calculation of amount B:

Excess amount	\$6,397
Minus: total annual deductions taken	<u>\$2,647</u>
	\$ <u>3,750</u> B

Calculation of amount C:

Line B × 2/3	\$ 2,500 C
Line A plus line C	\$ <u>5,147</u>

The amount Carol includes in farming income on line 9600, “Other income,” is \$5,147.

In this example, the fiscal period ends on December 31. Carol uses a factor of 2/3 to calculate the amount to include in farming income. However, if her fiscal period ended before February 28, 2000, and she disposed of her business before that date, the whole amount (\$6,397, line A plus line B) would be included in her farming income.

Carol does not have an exempt gains balance in this example, because she did not file Form T664, *Election to Report a Capital Gain on Property Owned at the End of February 22, 1994*. If you filed Form T664, see Chapter 5 in the guide called *Business and Professional Income* for information about eligible capital property, and get the *Capital Gains Election Package*.

Under changes proposed for 2000, you may be able to elect to use capital losses to offset the proceeds of disposition from eligible capital property other than goodwill. Call us for details.

If the property is considered a qualified farm property, part of the farming income may be eligible for the capital gains deduction. For more details, read the following section.

Farming income from the sale of eligible capital property eligible for the capital gains deduction

Part of your farming income from the sale of eligible capital property (ECP) that is **qualified farm property (QFP)** may be eligible for the capital gains deduction. You will find the definition of QFP on page 55. If you have more than one business, make a separate calculation for each. If you are a sole proprietor, complete Chart 1 to calculate the amount eligible for the capital gains deduction from the sale of ECP that is QFP. If your farming business is a partnership, complete Chart 2.

Note

If you do not want to take advantage of the capital gains deduction for 2000, do not complete these charts.

Under proposed legislation for dispositions of capital property in 2000, the inclusion rate for dispositions of eligible capital property is as follows:

- 3/4 for fiscal periods ending before February 28, 2000;
- 2/3 for fiscal periods ending after February 27, 2000, and before October 18, 2000; and
- 1/2 for fiscal periods ending after October 17, 2000. The proposed changes are reflected in the following two charts.

**Chart 1 – Sole proprietor
Farming income eligible
for the capital gains deduction**

Farming income from the sale of ECP (other than recapture of annual allowances deducted in previous years) for 2000 before applying your exempt gains balance* _____ **A**

All or part of your exempt gains balance for the business that you are using to reduce the amount on line A for 2000 _____ **B**

Line A **minus** line B _____ **C**

All proceeds of disposition from the sale of ECP that is QFP during fiscal periods that began after 1987 and ended before February 28, 2000 _____ **D**

All eligible capital expenditures made or incurred for QFP sold during fiscal periods that began after 1987 and ended before February 28, 2000 _____ **E**

Outlays and expenses related to dispositions described on line D not deducted in computing income _____ **F**

Line E **plus** line F _____ **G**

Line D **minus** line G _____ **H**

Amount from line H _____ $\times 3/4 =$ _____ **I**

All proceeds of disposition from the sale of ECP that is QFP during fiscal periods ending after February 27, 2000, and before October 18, 2000 _____ **J**

All eligible capital expenditures made or incurred for QFP sold during fiscal periods ending after February 27, 2000, and before October 18, 2000 _____ **K**

Outlays and expenses related to dispositions described on line J not deducted in computing income _____ **L**

Line K **plus** line L _____ **M**

Line J **minus** line M _____ **N**

Amount from line N _____ $\times 2/3 =$ _____ **O**

All proceeds of disposition from the sale of ECP that is QFP during fiscal periods ending after October 17, 2000 _____ **P**

All eligible capital expenditures made or incurred for QFP sold during fiscal periods ending after October 17, 2000 _____ **Q**

... continued in next column

**Chart 1 – Sole proprietor
Farming income eligible
for the capital gains deduction
(continued)**

Outlays and expenses related to dispositions described on line P not deducted in computing income _____ **R**

Line Q **plus** line R _____ **S**

Line P **minus** line S _____ **T**

Amount from line T _____ $\times 1/2 =$ _____ **U**

Line I **plus** line O **plus** line U _____ **V**

All taxable capital gains from the dispositions of ECP of the farming business that is QFP for fiscal periods that began after 1987 and ended before February 23, 1994 _____ **W**

Farming income eligible for the capital gains deduction from the sale of ECP that is QFP for fiscal periods that began after February 22, 1994 _____ **X**

Line W **plus** line X _____ **Y**

Line V **minus** line Y _____ **Z**

Farming income eligible for the capital gains deduction for 2000 (line C or line Z, whichever is less) _____ **AA**

Enter the amount from line **AA** on line 173 of Schedule 3, *Capital Gains (or Losses) in 2000*. You can get this schedule in the *General Income Tax and Benefit Guide* package. To claim the capital gains deduction, use Form T657, *Calculation of Capital Gains Deduction for 2000*.

* You only have an exempt gains balance if you filed Form T664, *Election to Report a Capital Gain on Property Owned at the End of February 22, 1994*. For information about how to apply your exempt gains balance, see the guide called *Business and Professional Income*.

**Chart 2 – Partnerships
Farming income eligible
for the capital gains deduction**

Farming income from the sale of ECP (other than recapture of annual allowances deducted in previous years) for 2000 _____ **A**

All proceeds of disposition from the sale of ECP that is QFP during fiscal periods that began after 1987 and ended before February 28, 2000 _____ **B**

All eligible capital expenditures made or incurred for QFP sold during fiscal periods that began after 1987 and ended before February 28, 2000 _____ **C**

Outlays and expenses related to dispositions described on line B not deducted in computing income _____ **D**

Line C **plus** line D _____ **E**

Line B **minus** line E _____ **F**

Amount from line F _____ $\times 3/4 =$ _____ **G**

All proceeds of disposition from the sale of ECP that is QFP during fiscal periods ending after February 27, 2000, and before October 18, 2000 _____ **H**

All eligible capital expenditures made or incurred for QFP sold during fiscal periods ending after February 27, 2000, and before October 18, 2000 _____ **I**

Outlays and expenses related to dispositions described on line H not deducted in computing income _____ **J**

Line I **plus** line J _____ **K**

Line H **minus** line K _____ **L**

Amount from line L _____ $\times 2/3 =$ _____ **M**

All proceeds of disposition from the sale of ECP that is QFP during fiscal periods ending after October 17, 2000 _____ **N**

... continued in next column

**Chart 2 – Partnerships
Farming income eligible
for the capital gains deduction
(continued)**

All eligible capital expenditures made or incurred for QFP sold during fiscal periods ending after October 17, 2000 _____ **O**

Outlays and expenses related to dispositions described on line N not deducted in computing income _____ **P**

Line O **plus** line P _____ **Q**

Line N **minus** line Q _____ **R**

Amount from line R _____ $\times 1/2 =$ _____ **S**

Line G plus line M plus line S _____ **T**

All taxable capital gains from the disposition of ECP for the farming business that is QFP for fiscal periods that began after 1987 and ended before February 23, 1994 _____ **U**

Farming income eligible for the capital gains deduction from the sale of ECP that is QFP for fiscal periods that began after February 22, 1994 _____ **V**

Line U **plus** line V _____ **W**

Line T **minus** line W _____ **X**

Farming income eligible for the capital gains deduction for 2000 (the lesser of line A and line X) _____ **Y**

Your share of the amount on line Y _____ **Z**

The amount you claimed as business income reduction for 2000* _____ **AA**

Your share of the farming income eligible for the capital gains deduction
(line Z **minus** line AA) _____ **BB**

Enter the amount from line **BB** above on line 173 of Schedule 3, *Capital Gains (or Losses) in 2000*. To claim the capital gains deduction, use Form T657, *Calculation of Capital Gains Deduction for 2000*.

*You would only have a business income reduction if you filed Form T644, *Election to Report a Capital Gain on Property Owned at the End of February 22, 1994*. For information about applying your business income reduction, see the *Capital Gains Guide*.

Replacement property

If you sell an eligible capital property and acquire a replacement eligible capital property by the end of the following tax year, you can elect to postpone all or any part of the gain on the sale. For more details, get Interpretation Bulletin IT-259, *Exchanges of Property*.

For more information about eligible capital expenditures, get:

- Interpretation Bulletin IT-123, *Transactions Involving Eligible Capital Property*, and
- Interpretation Bulletin IT-143, *Meaning of Eligible Capital Expenditure*, and its Special Release.

Chapter 6 – Farm Losses

When the expenses for your farming business are more than the income for the year, you have a net operating loss. However, before you can calculate your net farm loss for the year, you may have to increase or decrease the loss by certain adjustments explained in the sections called “Line 9941 – Optional inventory adjustment – current year” and “Line 9942 – Mandatory inventory adjustment – current year” on page 30.

If you have a net farm loss for the year, read this chapter for information on how to treat your loss. For more details on farm losses, get 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 are not sure whether farming was your chief source of income, contact the Business Enquiries Section of your tax services office.

Fully deductible

If you made your living from farming, we consider farming to be your chief source of income. As long as farming was your chief source of income, you can deduct the full amount of your net farm loss from other income. Farming can still be your chief source of income even if your farm did not show a profit. Other income could come from investments, part-time employment, and so on.

To determine if farming was your chief source of income, you need to consider such factors as:

- gross income;
- net income;
- capital invested;
- cash flow;
- personal involvement;

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

Although you may have been a partner in a farming business, you still have to determine if farming was your own chief source of income.

When farming is your chief source of income and you have a net farm loss in 2000, you may have to reduce the loss when you have other income in 2000. Any loss that is left is your farm loss for 2000.

Example

Rick’s 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 (OIA). Rick kept the following records for 2000:

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

To reduce the loss amount, Rick adds back his OIA. He determines his farm loss for 2000 as follows:

Farm loss before adjustments	(\$ 50,000)
Add optional inventory adjustment	\$ <u>15,000</u>
Farm loss after adjustments	(\$ 35,000)
Add other income	\$ <u>2,000</u>
Farm loss for 2000	(\$ <u>33,000</u>)

Carryback – 2000 farm loss

You can carry your 2000 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 2000 farm loss to your 1997, 1998, or 1999 returns, complete Form T1A, *Request for Loss Carryback*. File one copy of the form with your 2000 return. Do not file an amended return for the year in which you apply the loss.

Applying your farm losses from years before 2000

On your 2000 return, you may be able to apply farm losses you had in any year from 1990 to 1999. You can apply these losses if you did not already deduct them, and if you have net income in 2000. To apply these losses to 2000, you have to apply the loss from the earliest year first.

Non-capital loss

You may have incurred a loss in 2000 from a business other than farming. If this loss is more than your other income for the year, you may have a non-capital loss. Use Form T1A, *Request for Loss Carryback*, to calculate your 2000 non-capital loss.

You can carry back your 2000 non-capital loss up to three years and forward up to seven years.

If you choose to carry back your 2000 non-capital loss to your 1997, 1998, or 1999 returns, complete Form T1A. File one copy of the form with your 2000 return. Do not file an amended return for the year in which you apply the loss.

For more details about non-capital losses, get Interpretation Bulletin IT-232, *Losses – Their Deductibility in the Loss Year or in Other Years*.

Partly deductible (restricted farm losses)

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

However, if farming was not your chief source of income (for example, you did not rely on farming alone to make your living), you may be able to deduct only part of your net farm loss.

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

How to calculate your restricted farm loss

If farming was not your chief source of income and you had a net farm loss, the loss you can deduct depends on the amount of your net farm loss.

When your net farm loss is \$15,000 or more, you can deduct \$8,750 from your other income. The rest of your net farm loss is your restricted farm loss.

When your net farm loss is less than \$15,000, the amount you can deduct from your other income is one of the following two amounts, whichever is **less**:

- A) your net farm loss for the year; or
- B) $\$2,500 \text{ plus } 50\% \times (\text{your net farm loss minus } \$2,500)$.

The amount remaining is your restricted farm loss.

Note

When the farm loss you deduct is different from your actual farm loss because of the restricted farm loss calculation, you should indicate this on your return on the line called "Farming Income" on page 1. For example, you can do this by noting "restricted farm loss," "RFL," or "Section 31" to the left of line 168.

Example

Sharon ran a cattle farm that was capable of making a profit. However, farming was not her chief source of income in 2000. In 2000, she had a net farm loss of \$9,200, which she calculated on line 9946 on page 4 of her Form T1163. The part of Sharon's net farm loss she can deduct from her other income in 2000 is either amount A or amount B, whichever is **less**:

- A) \$9,200; or

- B) $\$2,500 \text{ plus } 50\% \times (\$9,200 \text{ minus } \$2,500)$
 $\$2,500 \text{ plus } 50\% \times (\$6,700)$

Therefore, B = \$2,500 plus \$3,350 = \$5,850.

Since Sharon can only deduct either A or B, whichever amount is **less**, she enters \$5,850 on line 141 of her return and deducts this amount from her other income in 2000. Her restricted farm loss is the amount that remains, which is \$3,350 (\$9,200 minus \$5,850). Sharon prints "Section 31" to the left of line 168 on her return to show that the loss she is deducting is the result of a restricted farm loss calculation.

Applying your 2000 restricted farm loss

You can carry back your 2000 restricted farm loss up to three years, and carry it forward up to ten years. The amount you deduct in any year cannot be more than your net farm income for that year. If you have no farm income in any of those years, you cannot deduct any restricted farm loss.

To carry back your 2000 restricted farm loss to your 1997, 1998, or 1999 returns, use Form T1A, *Request for Loss Carryback*. File one copy of the form with your 2000 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 2000

You may have net farm income in 2000. If so, you may be able to apply to your 2000 return restricted farm losses you had in any year from 1990 to 1999. 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 2000. You have to apply the loss from the earliest year first, before you apply the losses from other years. Claim this amount at line 252 of your return.

You may have sold farmland at a time when you had 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 the section called "Restricted farm losses" on page 55.

Non-deductible

If you did not run your farm as a business, you cannot deduct any part of your net farm loss. For your farm to have been a business, it must have been able to make a profit. If it was 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 7 – Capital Gains

General information

This chapter explains the capital gains rules for people who farm. We cover the general capital gains rules in the 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 can use the terms **sold** instead of **disposed of** and **bought** instead of **acquired**, if they more clearly describe your situation.

List the dispositions of all your properties on Schedule 3, *Capital Gains (or Losses) in 2000*. You can get this schedule in the *General Income Tax and Benefit Guide* package.

You may be a member of a partnership that provides you with a T5013 slip, *Statement of Partnership Income*. If the partnership has a capital gain, the partnership will allocate part of that gain to you. The gain will show on the partnership's financial statements or on your T5013 slip.

What is a capital gain?

You have a capital gain when you sell, or are considered to have sold, a capital property for **more** than its adjusted cost base **plus** the outlays or expenses you incurred to sell the property. To calculate your capital gain, subtract the adjusted cost base of your property from the proceeds of disposition. From this amount, subtract any outlays or expenses you incurred when selling your property.

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

You have to include your taxable capital gain in income. Not all of your capital gain is taxable.

New capital gains rates for 2000

Under proposed legislation for the year 2000, the capital gains **inclusion rate** may be reduced. To determine your capital gains **inclusion rate** for 2000, get the guide called *Capital Gains*.

A disposition of depreciable property may result in a capital cost allowance recapture. We explain **recapture** on page 38.

What is a capital loss?

You have a capital loss when you sell, or are considered to have sold, capital property for **less** than its adjusted cost base **plus** the outlays or expenses you incurred to sell the property. To calculate your capital loss, subtract the adjusted cost base of your property from the proceeds of disposition. From this amount, subtract any outlays or expenses you incurred when selling your property.

Calculate the allowable portion of your capital loss using your inclusion rate for 2000. You can generally only deduct an allowable capital loss from a taxable capital gain.

New capital loss rates for 2000

Under proposed legislation for the 2000, your capital loss **inclusion rate** ranges may be reduced. For details, get the guide called *Capital Gains*.

A loss on a disposition of depreciable property may only result in a terminal loss. We explain **terminal loss** on page 38.

Definitions

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

Adjusted cost base (ACB) The ACB is the original cost of the property (including amounts you paid to buy it, such as commissions and legal fees). ACB includes other costs, such as the cost of any additions, or the cost to renovate or improve the property.

Fair market value (FMV) This is generally the highest dollar value you can get for your property in an open and unrestricted market between a willing and informed buyer and a willing and informed seller who are dealing at arm's length with each other. We define **non-arm's length transaction** on page 35.

Inclusion rate This is the rate at which your capital gains or losses are taxed or allowed. It depends on the period or periods in 2000 when you had your gains or losses. For more information get the guide called *Capital Gains*.

Outlays and expenses Outlays and expenses are amounts you incurred to sell a capital property. These expenses include costs such as commissions, surveyors' fees, transfer taxes, and advertising costs.

Proceeds of disposition In most cases, the proceeds of disposition is the sale price of the property. We define this term on page 35.

How to calculate your capital gain or loss

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

Proceeds of disposition	\$_____	A
Adjusted cost base	\$_____	B
A minus B	\$_____	C
Outlays and expenses	\$_____	D
C minus D = capital gain (loss)	\$_____	E

Note

You have to separately calculate the capital gain or loss on each property.

Did you sell capital property in 2000 that you owned before 1972?

If you did, you have to apply a special set of rules when you calculate 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*.

Disposing 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 generally do not pay tax on any capital gains when you dispose of it. Therefore, if you sold farmland that included your home in 2000, 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.

We usually consider 1/2 hectare of land (approximately 1 acre) on which your residence is situated to be part of your principal residence. We will allow you more if you can prove that you needed more land to use and enjoy your principal residence.

Method 1

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

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

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

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

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

Under proposed legislation for 2000, the capital gains inclusion rate may be reduced. In the following example, the sale took place February 1, 2000, therefore the inclusion rate for the capital gain is 3/4. Get the guide called *Capital Gains* for details about calculating the inclusion rate.

Example

On February 1, 2000, Helena sold her 32-acre farm, which included her principal residence. One acre of land is part of her principal residence. Helena has these details:

Value of land when she purchased her farm

FMV of similar farmland per acre.....	\$ 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 farmland per acre	\$ 12,000
FMV of a typical residential building site in the area	\$ 25,000

Adjusted cost base (ACB) – actual purchase price

Land	\$120,000
House	60,000
Barn	16,000
Silo	4,000
Total	<u>200,000</u>

Proceeds of disposition – actual sale price

Land	\$200,000
House	75,000
Barn	20,000
Silo	5,000
Total	<u>\$300,000</u>

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
	<u>\$100,000</u>	<u>\$200,000</u>	<u>\$300,000</u>

Minus ACB			
Land	\$ 15,000*	\$105,000	\$120,000
House	60,000		60,000
Barn		16,000	16,000
Silo		4,000	4,000
	<u>\$ 75,000</u>	<u>\$125,000</u>	<u>\$200,000</u>

Gain on sale	\$ 25,000	\$ 75,000	\$100,000
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Minus: Gain on principal residence**			
	<u>25,000</u>		<u>25,000</u>

Capital gain	\$ <u>0</u>	\$ <u>75,000</u>	\$ <u>75,000</u>
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Taxable capital gain (3/4 × \$75,000)			\$ <u>56,250</u>
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* Helena uses the value of a typical residential building site for the land that is part of her principal residence, since the FMV of a typical site in the area is more than the FMV of one acre of farmland.

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

Note

If your home **was not** your principal residence for every year you owned it, there could be a capital gain on it that you have to include in your income. Form T2091(IND), *Designation of a Property as a Principal Residence by an Individual (Other Than a Personal Trust)*, will help you calculate the number of years for which you are entitled to designate your home as your principal residence and calculate the part of your gain, if any, that is taxable. You can get this form from your tax services office.

Method 2

Determine the capital gain on your land and your principal residence. Then subtract \$1,000 from the gain. Subtract an

additional \$1,000 for each year after 1971 that the property was your principal residence and you were a resident of Canada. Using Method 2, you can reduce a gain to nil, but you cannot create a loss.

To calculate your capital gain, use the following formula:

Proceeds of disposition	\$ _____	A
Adjusted cost base	\$ _____	B
A minus B	\$ _____	C
Outlays and expenses	\$ _____	D
Capital gain before reduction – C minus D	\$ _____	E
Method 2 reduction	\$ _____	F
Capital gain after reduction – E minus F	\$ _____	G

Note

Transfer the entries on lines A, B, D, and G to the relevant columns on Schedule 3, *Capital Gains (or Losses) in 2000*, under “Qualified farm property” or “Real estate and depreciable property.”

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

- a statement by you that you sold your farm and are electing under subparagraph 40(2)(c)(ii) of the *Income Tax Act*;
- a description of the property you sold; and
- the number of years after 1971 that the farmhouse was your principal residence 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 information:

- a description of the farm, including the size of the buildings and construction type;
- the cost and date of the 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, get Interpretation Bulletin IT-120, *Principal Residence*.

Restricted farm losses

You may have a capital gain from farmland you sell in 2000. You may also have restricted farm losses from previous years that you have not yet used. In this case, you can deduct part of these losses from the gain. The part you can deduct is the property taxes and the interest on money you borrowed to buy the land, if you included these amounts in the calculation of the restricted farm loss in question.

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

Qualified farm property and cumulative capital gains deduction

If you have a taxable capital gain from the sale of qualified farm property, you may be able to claim a capital gains deduction. We explain qualified farm property below. For details on how to calculate your capital gains deduction, get Form T657, *Calculation of Capital Gains Deduction for 2000*, and Form T936, *Calculation of Cumulative Net Investment Loss (CNIL)*.

Under proposed legislation for 2000, the taxable portion of your gain may be reduced. For details, get the guide called *Capital Gains*.

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

What is qualified farm property?

Qualified farm property is certain property you or your spouse own. It is also certain property owned by a family-farm partnership in which you or your spouse holds an interest. You will find a definition of a common-law **spouse** in the “Identification” area of your *General Income Tax and Benefit Guide*.

Qualified farm property includes:

- a share of the capital stock of a family-farm corporation that you or your spouse owns;
- an interest in a family-farm partnership that you or your spouse owns;
- 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 farming business in Canada by any **one** of the following:

- you, your spouse, or any of your parents or children (we define **children** on page 56);
- the beneficiary of a personal trust, or the spouse, parent, or child of such a beneficiary;
- a family-farm corporation where any of the above persons owns a share of the corporation; or
- a family-farm partnership where any of the above persons (except a family-farm corporation) owns an interest in the partnership.

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

- in the year you disposed of it, the property or the one it replaced was used principally in a farming business in Canada by any of the above persons or a family-farm partnership or corporation; or
- the property was used principally in a farming business in Canada for at least five years, during which the property was owned by any of the above persons or a family-farm partnership or corporation.

We will consider other real or eligible capital property to be used to carry on a farming business in Canada if:

- 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 has an interest) must have owned the property; and
- you meet one of the following two conditions:
 - the property or the property it replaced was used mainly in a farming business in Canada in which any of the above persons was actively engaged on a regular and ongoing basis. Also, in any two years of ownership, the person's gross income from the farming business was larger than the person's income from all other sources in the year; or
 - a family-farm partnership or corporation used the property for at least 24 months, mainly to carry on a regular and continuous farming business in Canada. Also, during this time, you, your spouse, any of your children, or your parents must have been actively engaged in the farming business.

Transfer of farm property to a child

You may be able to transfer Canadian farm property to your child. When you do this, you can postpone tax on any taxable capital gain and any recapture of capital cost allowance until the child sells the property. To do this, **both** of these conditions have to be met:

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

Your **children** include:

- your natural child, your adopted child, or your spouse's child;
- your grandchild or great-grandchild;
- your child's spouse; or
- another person who is wholly dependent on you for support and who is, or was immediately before the age of 19, in your custody and control.

The following types of properties qualify for this transfer:

- farmland;
- depreciable property, including buildings; and
- eligible capital property.

Furthermore, a share of the capital stock of a family-farm corporation and an interest in a family farm partnership also qualify for this transfer if your child is a resident of Canada just before the transfer.

For 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 FMV; and
- $4/3 \times$ your cumulative eligible capital property from the business \times $\frac{\text{FMV of the property}}{\text{FMV of all your eligible capital property from the farming business}}$

Example

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

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

Therefore, Wade can transfer:

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

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

For more details, and for information about transfers of eligible capital property, get 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 the year

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

- the child was resident in Canada just before the parent's death;
- the property was used mainly in a farming business on a regular and ongoing basis by the deceased, the deceased's spouse, or any of the children before the parent's death; and

- the property was transferred to the child no later than 36 months after the parent's death. In some cases, we may allow the transfer, even if it took place later than 36 months after the parent's death.

The following types of farm property qualify for this transfer:

- land and buildings, or other depreciable property used in a farming business; and
- a share of the capital stock of a family-farm corporation, and an interest in a family-farm partnership, if the child was resident in Canada just before the parent's death and the property transfers to the child no later than 36 months after the parent's death. In some cases, we may allow the transfer, even if it took place later than 36 months after the parent's death.

For most property, the transfer price can be any amount between the ACB and its FMV.

For depreciable property, the transfer price can be an amount between the property's FMV and a special amount. For more information, see Chapter 3, "Deemed Disposition 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. The settlor is the person who sets up a trust, or the person who transfers property to a trust. For more information about the restrictive meaning of settlor, get Interpretation Bulletin IT-374, *Meaning of "Settlor."*

For more details on these transfers, get Interpretation Bulletin IT-349, *Intergenerational Transfers of Farm Property on Death*, and Interpretation Bulletin 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. At the time of the transfer, the farmer can postpone any taxable capital gain or recapture of CCA.

If the spouse later disposes of the property, the farmer generally has to report 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, get Interpretation Bulletin IT-511, *Interspousal and Certain Other Transfers and Loans of Property*.

A transfer of farm property can also occur after the farmer dies. For more information, see Chapter 3, "Deemed Disposition of Property," in the guide called *Preparing Returns for Deceased Persons*.

Other special rules

You may also be able to postpone paying tax on capital gains in the following situations.

Reserves

When you dispose of a capital property, you usually receive full payment at that time. However, sometimes you receive the amount over a number of years. For example, you may sell a capital property for \$50,000 and receive \$10,000 at the time of the sale. You receive the remaining \$40,000 over four years. In this situation, you can claim a reserve. Generally, a reserve allows you to defer reporting part of the capital gain to the year in which you receive the proceeds. However, there is a limit to the number of years you can do this. For more information on reserves, get the guide called *Capital Gains*.

Exchanges or expropriations of property

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

Commodity List

Qualifying

Non-Qualifying

COMMODITY	CODE	ON SDRM	BC	AB	SK	MB	ON	QC	PE	NB	NS	NF
GRAINS, OILSEEDS, AND SPECIAL CROPS												
Barley (seed)	003	No										
Barley (feed)	018	No										
Beans (dry edible)	004	No										
Borage	006	No										
Buckwheat	007	No										
Canadian Wheat Board payments	002	No										
Canary seed	008	No										
Canola	010	No										
Chick peas/garbanzo beans	023	No										
Corn (seed)	011	No										
Corn (feed)	019	No										
Faba beans	012	No										
Field peas (seed)	013	No										
Field peas (feed)	022	No										
Flaxseed	014	No										
Forage (including pellets, silage)	264	No										
Forage seed	015	No										
Grain (pellets, screenings, silage)	039	No										
Hemp	030	No										
Lathyrus	040	No										
Lentils	041	No										
Lupins	042	No										
Millet	043	No										
Mustard seed	044	No										
Oats (seed)	045	No										
Oats (feed)	020	No										
Oilseed radish	038	No										
Prepared feed and protein supplements	046	No										
Quinoa	047	No										
Rice	048	No										
Rice, wild	270	No										
Rye	049	No										
Safflower	050	No										
Soybeans, including canatto, nato (seed)	053	No										
Soybeans, including canatto, nato (feed)	057	No										
Straw	267	No										
Sugar beets (including molasses)	268	No										
Sunflowers	054	No										
Tobacco	269	No										
Triticale	055	No										
Vegetable seed (seed production only)	051	No										

COMMODITY	CODE	ON SDRM	BC	AB	SK	MB	ON	QC	PE	NB	NS	NF
GRAINS, OILSEEDS, AND SPECIAL CROPS (continued)												
Wheat (seed)	056	No										
Wheat (feed)	021	No										
EDIBLE HORTICULTURE												
Apples and By-products	060	Yes										
Berries												
Black/red currants	065	Yes										
Blackberries	066	Yes										
Blueberries	067	Yes										
Cranberries	068	Yes										
Gooseberries	069	Yes										
Loganberries	070	Yes										
Raspberries	071	Yes										
Saskatoon berries	072	Yes										
Strawberries	073	Yes										
Tame elderberries	074	Yes										
Fruit												
Fruit juice (except apple)	081	Yes										
Grapefruit	082	Yes										
Grapes	083	Yes										
Kiwi fruit	084	Yes										
Lemons	085	Yes										
Oranges	086	Yes										
Watermelon	087	Yes										
Wine (except apple)	088	Yes										
Fruit – Tender												
Apricots	091	Yes										
Cherries (sweet, sour)	092	Yes										
Nectarines	093	Yes										
Peaches	094	Yes										
Pears	095	Yes										
Plums	096	Yes										
Prunes	097	Yes										
Herbs and Spices												
Anise	101	Yes										
Basil	102	Yes										
Caraway seed	103	Yes										
Chives	104	Yes										
Cilantro	105	Yes										
Comfrey	106	Yes										
Coriander	107	Yes										
Dill	108	Yes										
Evening primrose	109	Yes										
Fennel	110	Yes										
Fenugreek	111	Yes										
Fresh herbs	112	Yes										
Garlic	113	Yes										

COMMODITY	CODE	ON SDRM	BC	AB	SK	MB	ON	QC	PE	NB	NS	NF
EDIBLE HORTICULTURE (continued)												
Ginseng	114	Yes										
Marjoram	115	Yes										
Mint	116	Yes										
Monarada	117	Yes										
Oregano	118	Yes										
Parsley	119	Yes										
Pepper	120	Yes										
Rosemary	121	Yes										
Sage	122	Yes										
Salsify	123	Yes										
Scorzonera	124	Yes										
Summer savory	125	Yes										
Tarragon	126	Yes										
Thymol	127	Yes										
Watercress	128	Yes										
Medicinal herbs	145	Yes										
Borage (herb)	146	Yes										
Mushrooms	131	No										
Nuts (all)	140	No										
Potatoes and By-products	147	Yes										
Potatoes (for potato chips)	148	Yes										
Potatoes (feed)	149	Yes										
Vegetables – Field Fresh												
Artichokes	160	Yes										
Asparagus	161	Yes										
Beets	162	Yes										
Bok choy	163	Yes										
Broccoli	164	Yes										
Broccoli	165	Yes										
Brussels sprouts	166	Yes										
Cabbage (green, red)	167	Yes										
Cantaloupe	168	Yes										
Carrots	169	Yes										
Cauliflower	170	Yes										
Celery	171	Yes										
Chinese cabbage	172	Yes										
Chinese vegetables	173	Yes										
Collards	174	Yes										
Cucumbers	175	Yes										
Eggplant	176	Yes										
Endive	177	Yes										
English cucumbers	178	Yes										
Fiddleheads	179	Yes										
Flowers (edible)	180	Yes										
Horseradish	181	Yes										
Kohlrabi	182	Yes										
Leeks	183	Yes										

COMMODITY	CODE	ON SDRM	BC	AB	SK	MB	ON	QC	PE	NB	NS	NF
EDIBLE HORTICULTURE (continued)												
Lettuce	184	Yes										
Melons	185	Yes										
Mustard leaves	186	Yes										
Onions	187	Yes										
Onions (yellow seeded)	188	Yes										
Onion sets	189	Yes										
Parsnip	190	Yes										
Peppers (red, green, or sweet)	191	Yes										
Pumpkins	192	Yes										
Radish	193	Yes										
Rhubarb	194	Yes										
Rocket	195	Yes										
Romaine lettuce	196	Yes										
Rutabagas	197	Yes										
Shallots	198	Yes										
Snap beans	199	Yes										
Spanish onions	200	Yes										
Spinach	201	Yes										
Squash	202	Yes										
Sweet corn	203	Yes										
Sweet peas	204	Yes										
Sweet potatoes/yams	205	Yes										
Swiss chard	206	Yes										
Tomatoes	207	Yes										
Turnips	208	Yes										
Vegetable marrow	209	Yes										
Wax beans	210	Yes										
Weeds (edible)	211	Yes										
Witloof chicory	212	Yes										
Zucchini	213	Yes										
Vegetables – Field Processing												
Adzuki beans	216	Yes										
Baby carrots	217	Yes										
Broad beans	218	Yes										
Cabbage (for coleslaw only)	297	Yes										
Cabbage	298	Yes										
Carrots	219	Yes										
Cauliflower	299	Yes										
Chick peas/garbanzo beans	220	Yes										
Cucumbers	300	Yes										
Gherkins	221	Yes										
Green beans	222	No										
Green peas	223	No										
Jacob beans	224	Yes										
Lima beans	225	No										
Mung beans	226	Yes										
Okra	227	Yes										

COMMODITY	CODE	ON SDRM	BC	AB	SK	MB	ON	QC	PE	NB	NS	NF
Vegetables – Field processing (continued)												
Peppers	301	Yes										
EDIBLE HORTICULTURE (continued)												
Pumpkin	302	Yes										
Red beets	303	Yes										
Snap beans	228	Yes										
Soldier beans	229	Yes										
Squash	304	Yes										
Sweet corn	305	No										
Stevia	230	Yes										
Tomatoes	231	No										
Wax beans	306	No										
Vegetables – Greenhouse												
Cherry tomatoes	233	Yes										
Cucumbers	234	Yes										
Lettuce	235	Yes										
Peppers	236	Yes										
Tomatoes	237	Yes										
NON-EDIBLE HORTICULTURE												
Bedding plants	132	No										
Flowers and ornamental foliage	133	No										
Fruits and vegetables (non-edible)	134	No										
Seeds and bulbs	135	No										
Shrubs	136	No										
Sod (peat moss based)	137	No										
Sod (mineral based)	141	No										
Trees (cultivated Christmas)	138	No										
Trees (fruit and ornamental)	139	No										
POULTRY												
Chickens												
Pullets for meat production	360	No										
Broilers	361	No										
Roasters	362	No										
Pullets for egg production	365	No										
Chicken Eggs												
Eggs from purchased pullets	363	No										
Eggs from purchased chicks	364	No										
Commercial game birds	336	No										
Ducks (including eggs)	332	No										
Geese (including eggs)	333	No										
Turkeys	334	No										
Turkey eggs	342	No										
CATTLE AND CALVES (including hides)												
Slaughter cattle												
Cattle raised from birth	702	No										
Cows and bulls	706	No										
Grain-fed veal	704	No										

COMMODITY	CODE	ON SDRM	BC	AB	SK	MB	ON	QC	PE	NB	NS	NF
CATTLE AND CALVES (including hides, continued)												
Purchased cattle	700	No										
Feeder cattle												
Cattle raised from birth	710	No										
Purchased cattle	708	No										
Calves												
Calf sales (excluding purebreds)	712	No										
Bull semen, cattle embryos	712	No										
Non-purebred breeding stock (sold for breeding purposes)	712	No										
Purebreds												
Purebred cattle (max. \$1,000/head)	714	No										
Purebred cattle (sales in excess of \$1,000/head)	716	No										
Cattle and calf purchases	762	No										
Bull semen and cattle embryo purchases	762	No										
SHEEP AND LAMBS (including hides)												
Slaughter lambs												
Ewes and rams	734	No										
Lambs raised from birth	730	No										
New crop lambs (less than 85 lbs)	732	No										
Purchased feeders	728	No										
Feeder lambs	736	No										
Purebreds												
Purebred sheep and lambs (max. \$70/head)	738	No										
Purebred sheep and lambs (sales in excess of \$70/head)	740	No										
Sheep and lamb purchases	763	No										
OTHER RED MEATS (including hides, velvet, and pelts)												
Buffalo/bison	350	No										
Commercial game animals	351	No										
Deer	352	No										
Elk	353	No										
Goats (including milk)	354	No										
Llamas	355	No										
Rabbits	356	No										
Swine/hogs	341	No										
OTHER COMMODITIES												
Bees and bee by-products	311	No										
Leaf cutter bees	312	No										
Dogs	313	No										
Donkeys/mules	367	No										
Dulse	314	No										
Exotic birds/game	368	No										
Fish meal	263	No										
Groundhogs/hedgehogs	369	No										
Honey	129	Yes										
Horses (including hides)	316	No										

COMMODITY	CODE	ON SDRM	BC	AB	SK	MB	ON	QC	PE	NB	NS	NF
OTHER COMMODITIES (continued)												
Kenaf	317	No										
Manure	318	No										
Maple products	130	Yes										
Milk and cream (cattle)	319	No										
Ostriches/rheas (including eggs)	337	No										
Peat moss	321	No										
Pheasants (including eggs)	338	No										
Pregnant mare urine (PMU)	322	No										
Ranch fur	238	No										
Wood	259	No										
Wool	328	No										

Note

For information on any commodities not included in this listing, please contact the NISA Administration. See page 13 for more information on the Ontario SDRM program.

Program Payment List

Program payments received as compensation for commodity income or loss are included in calculating your eligible net sales and your gross margin. The following list identifies these program payments.

See the commodity list to determine if the commodity that the program payment was for is qualifying or non-qualifying in your province. Record the program payment accordingly on Form T1163 or T1164, using the line code for the program payment. Record program payments that are not listed here as other farming income on line 9600.

PROGRAM PAYMENT	QUALIFYING	NON-QUALIFYING
Crop/Hail insurance		
Grains, oilseeds, and special crops	401	432
Edible horticulture crops	402	433
Non-edible horticulture crops	470	472
Other commodities	463	434
Dairy subsidies		435
Grape Acreage Reduction Program		
Acreage payment for removal of vines	409	
Green Plan, Farm-Based Program		
Permanent cover practices	466	
Gross Revenue Insurance Program (GRIP)		
Grains, oilseeds, and special crops	410	445
Edible horticulture crops	411	446
Non-edible horticulture crops	474	476
Industry Transition Assistance Fund	478	
Livestock Feed Insurance Program	412	
Potato Virus Y Necrotic Strain Compensation (PVYN)	417	
Transitional Financial Assistance Program (TFA)	427	
Waterfowl/Wildlife Damage Compensation		
Grains, oilseeds, and special crops	418	423
Horticulture	419	424
Other commodities	425	455

Capital Cost Allowance (CCA) Rates

In this list, you will find the more common depreciable properties a farming business may use. The CCA rates appear at the end of the list. (For details on the CCA rates for classes 13, 14, 34, and Part XVII of the *Income Tax Act*, contact your tax services office.)

Depreciable property	Class No.	Depreciable property	Class No.
Aircraft – Acquired before May 26, 1976	16	Harrows	8
Aircraft – Acquired after May 25, 1976	9	Hay balers and stookers	
Automobiles	10	Drawn	8
Bee equipment	8	Self-propelled	10
Boats and component parts	7	Hay loaders	8
Breakwaters		Ice machines	8
Cement or stone	3	Incubators	8
Wood	6	Irrigation equipment – Overhead	8
Brooders	8	Irrigation ponds	6
Buildings and component parts		Leasehold interest	13
Wood, galvanized, or portable	6	Manure spreaders	8
Other:		Milking machines	8
Acquired after 1978 and before 1988*	3	Mixers	8
Acquired after 1987	1	Mowers	8
Fruit and vegetable storage (after Feb. 19, 1973)	8	Nets	8
Casing, cribwork for waterwells	8	Office equipment	8
Chain-saws	10	Outboard motors	10
Cleaners – grain or seed	8	Passenger vehicles (see Chapter 3)	10 or 10.1
Combines		Piping – Permanent	2
Drawn	8	Planters – All types	8
Self-propelled	10	Ploughs	8
Computer hardware and systems software **	10	Pumps	8
Coolers – Milk	8	Rakes	8
Cream separators	8	Roads or other surface areas – Paved or concrete	17
Cultivators	8	Silo fillers	8
Dams		Silos	8
Cement, stone, wood, or earth	1	Sleighs	10
Diggers – All types	8	Sprayers	8
Discs	8	Stable cleaners	8
Docks	3	Stalk cutters	8
Drills – All types	8	Swathers	
Dugouts, dikes, and lagoons	6	Drawn	8
Electric-generating equipment (not more than 15 kW)		Self-propelled	10
Acquired after May 25, 1976	8	Threshers	8
Acquired before May 26, 1976	9	Tile or concrete drainage system – Acquired before 1965	8
Electric motors	8	Tillers – All types	8
Elevators	8	Tools	
Engines – Stationary	8	Less than \$200	12
Fences – All types	6	\$200 and more	8
Forage harvesters		Tractors	10
Drawn	8	Trailers	10
Self-propelled	10	Trucks	10
Graders – Fruit or vegetable	8	Trucks (freight)	16
Grain-drying equipment	8	Wagons	10
Grain loaders	8	Water towers	6
Grain separators	8	Weeders	8
Grain-storage building		Welding equipment	8
Wood, galvanized steel	6	Well equipment	8
Other	1	Wharves	
Greenhouses (all except as noted below)	6	Cement, steel, or stone	3
Greenhouses of rigid frames covered with replaceable		Wood	6
flexible plastic (this applies to taxation years after		Windchargers	8
1988 for greenhouses acquired after 1987)	8	Wind-energy conversion equipment	
Grinder	8	acquired before February 22, 1994	34
Harness	10	acquired after February 21, 1994	43

* 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.

** See also "Special rate for changes to the year 2000" on page 40.

Rates

Class 1	4%
Class 2	6%
Class 3	5%
Class 6	10%
Class 7	15%
Class 8	20%

Rates

Class 9	25%
Class 10	30%
Class 10.1	30%
Class 12	100%
Class 16	40%
Class 17	8%

How to Calculate the Mandatory Inventory Adjustment (MIA)

See page 30 in Chapter 3 for instructions on how to complete the following charts.

Chart 1
Cash cost of purchased inventory

Enter the amount you paid by the end of the 2000 fiscal period for the specified animals you bought:

■ Fiscal period	Cash cost	
■ in your 2000 fiscal period	\$ _____	A
■ in your 1999 fiscal period	\$ _____	B
■ in your 1998 fiscal period	\$ _____	C
■ in your 1997 fiscal period	\$ _____	D
■ before your 1997 fiscal period	\$ _____	E

Enter the amount you paid by the end of your 2000 fiscal period for all other inventory you bought:

■ in your 2000 fiscal period	\$ _____	F
■ in your 1999 fiscal period	\$ _____	G
■ in your 1998 fiscal period	\$ _____	H
■ in your 1997 fiscal period	\$ _____	I
■ before your 1997 fiscal period	\$ _____	J

Chart 3
Value of purchased inventory for all other inventory

Inventory bought in your 2000 fiscal period:
Enter the amount on line F or the fair market value, whichever is less. \$ _____ P

Inventory bought in your 1999 fiscal period:
Enter the amount on line G or the fair market value, whichever is less. \$ _____ Q

Inventory bought in your 1998 fiscal period:
Enter the amount on line H or the fair market value, whichever is less. \$ _____ R

Inventory bought in your 1997 fiscal period:
Enter the amount on line I or the fair market value, whichever is less. \$ _____ S

Inventory bought before your 1997 fiscal period:
Enter the amount on line J or the fair market value, whichever is less. \$ _____ T

Chart 2
Value of purchased inventory for specified animals

Inventory bought in your 2000 fiscal period
Enter an amount that is not more than the amount on line A but not less than 70% of this amount. \$ _____ K

Inventory bought in your 1999 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 1999 fiscal period plus any amounts you paid in your 2000 fiscal period toward the purchase price. \$ _____ L

Inventory bought in your 1998 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 1999 fiscal period plus any amounts you paid in your 2000 fiscal period toward the purchase price. \$ _____ M

Inventory bought in your 1997 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 1999 fiscal period plus any amounts you paid in your 2000 fiscal period toward the purchase price. \$ _____ N

Inventory bought before your 1997 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 1999 fiscal period plus any amounts you paid in your 2000 fiscal period toward the purchase price. \$ _____ O

Chart 4
Calculation of MIA

Enter the amount of your net loss from line 9969 of Form T1163 or T1164. \$ _____ U

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

■ the amount on line K	\$ _____
■ the amount on line L	\$ _____
■ the amount on line M	\$ _____
■ the amount on line N	\$ _____
■ the amount on line O	\$ _____
■ the amount on line P	\$ _____
■ the amount on line Q	\$ _____
■ the amount on line R	\$ _____
■ the amount on line S	\$ _____
■ the amount on line T	\$ _____
Total value of inventory	\$ _____ V

MIA – enter the amount on line U or line V, whichever is less. \$ _____ W

GST/HST Rates

Farm goods and services taxable at 7% (GST) or 15% (HST) include:

- crop dusting;
- contract work, including field clearing, tilling, harvesting done by one farmer on behalf of another;
- road-clearing services;
- stud or artificial insemination services;
- storing goods (i.e., storing grain in a grain elevator);
- beeswax;
- maple sugar candy;
- canary seed, lawn seed, and flower seed;
- bedding plants, sod, cut flowers, living trees, and firewood;
- furs, animal hides, and dead animals not suitable for human consumption;
- fertilizer in bulk quantities of less than 500 kg, or any quantities of soil or soil mixture whether or not it contains fertilizer;
- gravel, stones, rock, soil, and soil additives;
- livestock or poultry not normally raised as food or to produce food for human consumption (i.e., horses, mules, rabbits, exhibition poultry, and mink); and
- processed wool, feathers, and down.

Many farm products and purchases, such as milk sales and feeder-cattle purchases, are taxable, but at 0%. We refer to these as zero-rated. You do not pay GST/HST when you buy these products and you do not charge GST/HST when you sell them to your customers.

Zero-rated farm products are:

- fruit and vegetables;
- grains or seeds in their natural state, treated for seeding purposes or irradiated for storage purposes, hay or silage, or other sodder crops, when they are sold in quantities larger than ordinarily offered for sale to consumers, **except** grains and seeds sold to use as feed for wild birds or pet food;
- feed sold by a feedlot operator, as long as the price is separately identified on the invoice or written agreement;
- hops, barley, flax seed, straw, sugar cane, or sugar beets;
- livestock such as cattle, hogs, poultry, bees, or sheep that are raised or kept to produce food, or to be used as food, for human consumption, or to produce wool;
- poultry or fish eggs that are produced for hatching;
- fertilizer sold in individual bags of at least 25 kg when the total quantity is at least 500 kg;
- wool that is not further processed than washed; and
- tobacco leaves that are not further processed than dried and sorted.

Zero-rated farm purchases are:

- large farm tractors (60 PTO h.p. and over);
- pull and self-propelled combines, swathers, and wind-rowers;
- headers for combines, forage harvesters, swathers or wind-rowers, and combine pickups;
- forage harvesters, and self-propelled, tractor-mounted, or pull-type mechanical fruit or vegetable pickers or harvesters;
- mouldboard and disc ploughs (3 or more furrows), and chisel ploughs and subsoil chisels (at least 8 feet or 2.44 metres);
- discers, rod weeders, or bean rods (at least 8 feet or 2.44 metres);
- field and row crop cultivators (at least 8 feet or 2.44 metres);
- combination discer-cultivators (at least 8 feet or 2.44 metres);
- rototillers and rotovators (at least 6 feet or 1.83 metres);
- harrows sold in complete units and pulverizers (at least 8 feet or 2.44 metres);
- land packers, mulchers, and rotary hoes (at least 8 feet or 2.44 metres);
- airflow seeders, grain and seed drills (at least 8 feet or 2.44 metres), and farm-type row-crop or toolbar seeders or planters designed to seed two or more rows at a time;
- mower conditioners, hay balers, hay cubers, hay rakes, hay conditioners, hay crushers, hay crimpers, hay tedders, swath turners, and wind-row turners;
- bale throwers, elevators, or conveyors, silage baggers and round bale wrapping machines;
- grain bins or tanks with capacity of 181 m³ or less (5000 bushels);
- transportable grain augers, utility augers, elevators and transportable conveyors with belts less than 76.2 cm (30 inches) wide and 0.48 cm (3/16 inch) thick;
- bin sweep or cleaner attachments for portable grain augers;
- tractor-powered pneumatic grain conveyors;
- feed mills, including roller mills and hammer mills;
- feed mixers, grinders, grinder mixers, and tub grinders;
- ensilage mixers, and self-propelled feed or ensilage carts;
- grain toasters to use in livestock feed production;
- grain dryers;
- farm bulk milk coolers;
- assembled and fully operational milking systems or individual components of these systems;

- automated and computerized farm livestock or poultry feeding systems or individual components of these systems;
- self-propelled, tractor-mounted, or pull-type agricultural wagons or trailers designed for off-road handling and transporting of grain, forage, livestock feed, or fertilizer, and to be used at speeds not exceeding 40 km per hour;
- mechanical rock or stone pickers, rock or root rakes, and rock or root wind-rowers, forage blowers, silo unloaders, and shredders with an operational width of at least 3.66 m or 12 feet;
- tractor-mounted, self-propelled, or pull-type field sprayers with tank capacities of at least 300 litres or 66 gallons;
- granular fertilizer or pesticide applicators with operational capacity of at least 0.2265 m³ or 8 cubic feet;
- liquid box, tank, or flail manure spreaders and injection systems for liquid manure spreaders;
- leafcutter bees;
- complete feeds, supplements, micro-premixes, macro-premixes, and mineral feeds other than trace mineral salt feeds, labelled in accordance with the *Feeds Regulations*, and designed for rabbits or a specific type of farm livestock, fish, or poultry ordinarily raised or kept for human consumption or to produce wool, and sold in 20 kg or more bulk quantities or bags;
- feed sold in 20 kg or more bulk quantities or bags designed for ostriches, rheas, emus, or bees;
- food processing by-products sold in 20 kg or more bulk quantities or bags used as feed or as ingredients in feed for farm livestock, fish, or poultry that is ordinarily raised or kept for human consumption or to produce wool, or for rabbits, ostriches, rheas, emus, or bees;

- pesticides used for agricultural purposes labelled by the *Pest Control Products Regulations* and not designed for domestic use;
- sales of quotas between farmers for zero-rated products (including dairy, turkey, chicken, eggs, and tobacco leaves); and
- farmland rented to a registrant under a sharecropping arrangement where a share of the production that is zero-rated is part of the price (any other extra payments are taxable).

GST/HST registrants can claim an **input tax credit** for the GST/HST they paid or owe for expenses used to provide taxable goods and services at the rates of 0%, 7%, and 15%.

A limited number of goods and services you purchase are exempt from GST/HST. Since you do not pay GST/HST on these goods and services, there is no input tax credit to claim.

Examples of **exempt** goods and services include:

- insurance services sold by insurance companies, agents, or brokers;
- most services provided by financial institutions, such as arranging loans or mortgages; and
- most health, medical, and dental services.

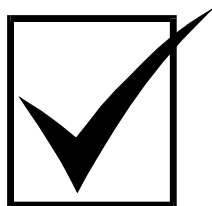
For more information about GST/HST, get the guide called *General Information for GST/HST Registrants* from your tax services office.

Index

	Page		Page
Accounting fees	24	Electricity expenses	21
Accrual method	6	Electronic office equipment	40
Adjustments	11	Eligible capital expenditures	46
Advertising and marketing	21	Eligible capital property	46
Annual allowance on eligible capital property	46	Eligible leasing costs chart for passenger vehicles	29
Available for use	34	Exchanges or expropriations of property	57
Base amount for capital cost allowance	39	Expense records	6
Breeding fees	21	Fence repairs	21
Breeding herd chart	15	Fertilizers	20
Building repairs	21	Fiscal period	5
Buildings	39	Freight and trucking	21
Business liabilities	45	Gifts	14
Business use of a motor vehicle	25	Goods and services tax rebate	8
Business-use-of-home expenses	19	Grain	14
Capital contributions in 2000	46	Grants	18
Capital cost allowance (CCA)	8, 34	Grants and their effect on CCA	42
Capital cost allowance (CCA) rates	66	GST Information	68
Capital gains	53	Heating fuel expenses	22
Capital gains deduction	55	Income records	6
Cash method	5	Income tax instalment	7
CCA for the year	39	Industry codes	11
CFIP (Canadian Farm Income Program)	10	Input tax credits	19
Change in use of depreciable property	41	Insurance proceeds	18, 36
Changing your method of reporting income	6	Interest chart	29
Clearing land	28	Interest expenses	28
Commodity income	13	Interest on the money you borrow for a passenger vehicle	28
Commodity purchases	19	Inventory	31
Containers	20	Joint ownership of a passenger vehicle	29
Contract work	17, 21	Land	28, 37
Cost of additions to depreciable property	36	Leasing costs for a passenger vehicle	28
Crop insurance	21	Legal fees	24
Cumulative eligible capital (CEC) account	46	Lime	20
Dates to remember	7	Livestock sold	14
Definitions		Losses	
Adjusted cost base (ACB)	53	Fully deductible	51
Automobile	25	Non-deductible	52
Available for use	34	Partly deductible (restricted farm loss)	52
Capital cost	35	Machinery expenses	21
Cash cost	31	Mandatory inventory adjustment – current year	30
Child	56	Mandatory inventory adjustment – prior year	30
Depreciable property	35	Mandatory inventory adjustment charts	67
Fair market value (FMV)	35, 53	Medicine expenses	21
Inventory	31	Membership/subscription fees	24
Motor vehicle	25	More than one vehicle	26
Non-arm's length transaction	35	Motor vehicle expenses	24
Outlays and expenses	53	NISA, net income stabilization account	8
Passenger vehicle	25	Non-arm's length transactions	35
Proceeds of disposition	37	Office expenses	24
Purchased inventory	31	Oilseeds	14
Specified animals	31	Optional inventory adjustment – current year	30
Undepreciated capital cost (UCC)	35	Optional inventory adjustment – prior year	30
Destroying livestock	15	Other expenses	30
Details of equity	45	Other income	18
Disposing of a building in 2000	44		
Disposing of farmland that includes your principal residence	54		
Draining land	28		
Drawings in 2000	46		

	Page		Page
P artnerships	8, 34	Sale of eligible capital property	47
Passenger vehicles	25	SDRM, Ontario self-directed risk management	11, 13
Patronage dividends	17	Seeds	19
Payment in kind	13	Selling capital property in 2000 that you owned before 1972	54
Pesticides (herbicides, insecticides, fungicides)	20	Small tools	26
Plants	19	Storage facilities for fresh fruit and vegetables	40
Prepaid expenses	19	Subsidies	42
Prescribed drought region (PDR)	15	T elephone expenses	27
Private health services plans premiums	22	Terminal loss	38
Proceeds of disposition	35	Time limits	7
Program payments	16	Transfer of farm property to a child	56
Property taxes	28	Transfer of farm property to a child if a parent dies in 2000	56
Q ualified farm property and cumulative capital gains deduction	55	Transfer of farm property to a spouse	57
R eal property or eligible capital property as qualified farm property	55	Trucking	17
Rebates	17	Twine	20
Recapture of capital cost allowance (CCA)	38	U CC after additions and dispositions	38
Record books	6	UCC at the end of the year	39
Rent (land, building, pasture)	28	UCC at the start of the year	36
Rental income	17	V aluing your purchased inventory	31
Replacement property	45, 51	Vehicle definitions	25
Reporting partnership income	7	Veterinary fees	21
Reserves	15, 57	W hat is a capital cost allowance?	34
Restricted farm losses	52, 55	What is a capital gain?	53
S alaries	24	What is a capital loss?	53
Salaries paid to dependants	24	Wood	16

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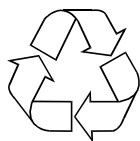
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