TEAM ALBERTA ADVANCING POLICY ON BEHALF OF ALBERTA'S CROP SECTOR

The Honourable Bill Morneau
Minister of Finance
House of Commons
Ottawa, ON
K1A 0A6

Via Email: Bill.Morneau@parl.gc.ca
Consultation_tax_2017@canada.ca

May 24th, 2017

Re: Consultation on Cash Purchase Tickets

Dear Minister Morneau,

Team Alberta is pleased to have the opportunity to provide comments as part of the Government's consultation on the income tax deferral available via cash purchase tickets for deliveries of listed grains as announced in the 2017 federal budget.

Team Alberta represents over 14,000 farmer members from the four major crop commissions in the province of Alberta including the Barley, Canola, Pulse and Wheat Commissions. Team Alberta had the pleasure of discussing this issue shortly after it was first announced when farmer directors and staff met with parliamentarians in Ottawa from April 4th to 6th, 2017. Our time in Ottawa included a meeting with Mr. Ted Cook, Director, Tax Legislation Division with the Department of Finance. What became evident during our discussions was that there is little understanding not only of the ongoing utility of this income balancing/tax deferral mechanism in the absence of the Canadian Wheat Board (CWB), but the far-reaching implications if farmers were to lose access to this tool.

When farmers deliver grain to a licensed elevator, they have the ability to request that payment for that delivery be deferred to the next tax year. This deferral, which serves as a valuable tax planning tool, is an important piece of many farmers' overall business planning strategies. It allows them to manage the ebb and flow of farm income, and allows them to market grain to both the highest value and highest demand opportunities. International grain flows are not predictable from year to year; grain and oilseed markets are truly driven by many international events. Some years the highest demand and best values for certain crops occur from September to December, whereas in some years demand is at its highest between February and June. In such a circumstance, producers would effectively be taxed on two years of income in one fiscal year, and have significantly lower income in either the preceding or following year. The existing cash ticket deferral mechanism allows for some risk mitigation and income balancing in these circumstances, which are not uncommon.

As demonstrated in the examples provided by Myers Norris Penny LLP (attached), the impact on farm businesses, whether partnerships, sole proprietors, or corporate family farms, can be significant. The existing policy allowing for deferral of cash tickets is an important tool in ensuring that farm operations, whatever their business structure, are treated fairly relative to other Canadian businesses. The removal of the deferral option will have a disproportionate and significant negative impact on farm operations relative to non-farm Canadian businesses of similar sizes.

As data from Statistics Canada through 2015 demonstrates, deferrals have been used consistently since their introduction in 1973 (even after the CWB was removed in 2013).

Data from the Western Grain Elevator Association indicates that on average over the last three years (2014-2016), 19,341 farmers per year have used the tool. This demonstrates the variability that exists for producers who grow and market several crops on the same farm every year.

For clarity, it would be inappropriate to assume that the same farmers use the deferral provision every year. Different geographies and crops are impacted differently every year by production, transportation, and marketing challenges. The consistent use of the provision indicates that there is a similar percentage of producers every year who rely on the ability to balance their income.

The inability for farmers to manage income volatility will also ripple throughout the rural economy, affecting grain handlers, crop input retailers, machinery dealers and other businesses that sell products and services to farmers. Machinery payments, for example, are often made on an annual basis, and producers typically have a planned approach to machinery replacement. This may mean annual investments of $1M or more as a portion of their machinery fleet is replaced regularly. Balancing income from year to year is a critical component of this capital planning process. We are also concerned about the effect on the domestic processing industry, be it canola crushing, malting barley, milling wheat, or pulse processing. If producers are forced to choose between taking advantage of rail export capacity, which is often the limiting resource, and delivering to domestic processors which often have fewer logistics restrictions, we are concerned that domestic processors may be hardest hit in years where income levels are unbalanced and a producers' first priority becomes managing their tax position.

Also outlined in the 2017 federal budget was a new target for Canada's agriculture sector to increase agri-food exports from $55 to $75 billion/year by 2025. Canada's cropping sector is poised to do our part to grow the country's economy, but that is a target that can only be met if the federal government works in partnership with Canadian farmers to eliminate any barriers that may serve to impede growth. If the ability to defer income is removed, farmers may have to choose between making a grain sale at the best price and managing their tax position. "If farmers are not able to deliver grain when market opportunities arise because of tax swings, Canada could miss out on sales to international competitors due to a lack of available inventory" (MNP, 2017).

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The Government's rationale for the elimination of this tax mechanism is based on a false premise. As outlined in Chapter 4 of the 2017 Federal Budget, "changes in the marketing regime in Canada," have led to the belief that "there is arguably no longer a clear policy rationale for maintaining the tax deferral accorded to deferred cash tickets as payment for listed grains." When the Alberta Wheat Commission (AWC) polled their members on this matter in April 2017, the feedback was consistent. Although the delays associated with payment for listed grains sold via the CWB have been eliminated, famers are still price takers, exposed to the same level of income volatility and assuming many of the same risks they did when the mechanism was first introduced in 1973. Add to this an unreliable logistics system and it is clear to see that Canadian farmers operate in a very unique environment which deserves special consideration.

We have a responsibility as a country to ensure that our farmers remain profitable and sustainable. The consequences of this proposed policy change would be dire for many Canadian farmers and severely limit the sector's ability to meet growth objectives.

We thank you for considering Team Alberta's position on this important matter and invite you to contact Erin Gowriluk, Manager, Government Relations and Policy with the Alberta Wheat Commission should you have any questions with respect to our submission. Ms. Gowriluk can be reached via email at: egowriluk@albertawheat.com or by telephone at 403.219.7901.

Sincerely,

Jason Lenz
Alberta Barley Chair

Greg Sears
Alberta Canola Producers Commission Chair

D'Arcy Hilgartner
Alberta Pulse Growers Chair

Kevin Auch
Alberta Wheat Commission Chair

CC: The Right Honourable Justin Trudeau, Prime Minister of Canada
The Honourable Lawrence MacAulay, Minister of Agriculture and Agri-Food
The Honourable Ralph Goodale, Minister of Public Safety and Emergency Preparedness
Jeff Nielsen, President, Grain Growers of Canada

Team Alberta is a collaborative initiative led by the province's four crop commissions:

Alberta Barley ALBERTA CANOLA ALBERTA PULSE GROWERS Alberta Wheat COMMISSION