

HOW BUSINESS INFORMATION IS ORGANIZED

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For

Enhancing Data for Complex Agricultural
Establishments

Presentation overview

- Accounting Practices
- Complex Ownership Arrangements
- Sharing of farming and non-farming assets
- Tax Strategies

Accounting Practices

- Accounting information is gathered and reported depending upon the users requirements.

Users

- 1. Financial Institutions
- 2. Tax officials
- 3. Owners
- 4. Agristability/Agriinvest
- 5. Other government programs, including
SRTC, WSIB, etc

- 1. Financial Institutions

Depending upon the producer and the lender, data is to be reported in different ways. Generally, the larger and more diversified the entity, the higher the reporting standards.

- Income and variable expenses by group (eg dairy, crops, chickens, etc)
- Production information by commodity
- Non-farming information
- Fixed costs, including overall wages, usually are lumped together and can cause a problem in separating them by farming and non-farming.

- 2. Tax Officials

- This includes HST and Corporate Tax requirements
- With GIFI this detailed accrual financial statement information is sent to the government when you file. However, many times it is less detailed than what the institutions required, therefore numerous numbers may be grouped together.
- These numbers are for audit purposes, not statistical purposes.
- Also non-farming numbers are usually grouped with farming operation numbers. (Eg. resale of commodities, custom work, grain elevators, etc)

- 3. Owners.

This of course will vary considerably depending on how they are managing their operation and what information they would like from their complex operation.

If they would like to know what each facet of the operation is profiting their organization, then detailed records of each area needs to be provided to accountants to present them into proper statements. This is not the norm.

Generally the large owners, would like to make sure that the bank will be happy with their financial statements, including what ratios they look at, etc, long-term planning, that they paid their lowest legal taxes and got the highest out of any programs. The complex operations are usually also looking to ensure growth and profitability, the banks are a larger part of this growth, rather than the government.

- The reasoning behind this, is that supply management does not rely upon government programs, also large cash crop operations with elevators, drying facilities, etc exceed the maximum limits on subsidies and ACC loans, therefore, they need to have outside sources from the banks for operating loans to continue. The percentage of subsidy income is a smaller percentage of income compared to smaller operations, therefore, the larger operations, must reduce costs, by providing their own drying, trucking, elevators, quantity discounts, etc. They also provide those services to other farmers to help offset the costs and ensure profitability in a low commodity price year.

Complex Ownership Arrangements

1. Corporation A owning the cropping operations, drying, storage and trucking and then some of the land. This Corporation A is owned by other companies (C, D and E) owned by individuals and their individual spouses.
- Individuals related owning some of the land personally outside of all of the corporations that is rented to the Corporation A or to their individual corporations C, D and E.

AgriStability/Agriinvest

- This is a more detailed breakdown of farming vs non-farming income for those that participate.
- Most large dairy/chicken operations are not in these programs, even if they also are cropping and other diversification.

Other Government

- This can influence what expenses are paid. As an example in the SRTC, the credit can be based upon the wages, therefore, for the year or 2 years higher wages may occur in the operation, while other years dividends were paid to management. This can look like wages have increased.
- WSIB. You need to breakdown each farming operation by type and therefore, detailed records need to be kept. Example cropping vs trucking wages paid.

2. $\frac{1}{2}$ Supply management operation owned by parents Corporation A, along with some of the land.

$\frac{1}{2}$ Supply management operation owned by parents Corporation B, along with some of the land.

Both corporations share some expenses.

This operation is set up for estate planning to give each corporation to a child eventually.

- 3. Supply management operation owned by 49% foreign ownership (usually dutch BV), along with 51% Canadian partners. The Dutch BV is effectively owned by the Canadian Partners. There is a complicated profit split, due to ROI, residence is usually outside partnership. This usually goes on for about 5 years, due to tax laws, then they bring the dutch BV to canada and merge the 2 owners. Usually by this time, for tax purposes all is eventually rolled into a corporation.

- 4. Corporation A in cropping owned by brothers. The Corporation B for non-farming operations owned by brother's spouses. They usually operate out of the same offices and major facilities, however, are separate for cropping. This becomes very difficult to separate fixed costs, however, it is irrelevant to the banks as they usually require consolidated statements.

Sharing of farm and non-farming assets

- This is very common in complex operations. The assets are owned by the same entity, however, do not get separated out for financial statement purposes. The users usually do not require this to be divided out.
- Assets include equipment required for custom work, drying facilities, trucks, storage facilities. Also buildings and land required for farming and non-farming operations.
- Storage facilities, marketing operations, personnel, etc required for horticulture operation usually include for their own (farming) and purchased produce (non-farming). There are very few large horticulture producers that do not buy other farmers products to ensure that they have enough diversified produce to sell at Food Terminals, etc.

Tax Strategies

- These include forward thinking and involve the producers paying their lowest legal taxes.
- Due to the fact that most farms report on a cash basis for tax, there are many more tax planning opportunities for farming that are not available to other entities reporting on an accrual basis.

Types of Structures

- Proprietorship
- Partnership
- Corporation
- Joint Venture
- Co-ownership
- Limited Partnership

Tax strategies include:

Tax planning and forward thinking

OIA/MIA

Levelling income each year by use of cash basis

Using the tax structure that best fits your operation and minimizes taxes

Using tax free rollover provisions

CGE

Use of other credits available to all taxpayers

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