

# 10 TAX TIPS

For Farm  
Owners and  
Agricultural  
Producers

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*We make life  
less taxing<sup>®</sup>*



# ABOUT FBC

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FBC is a third-generation family company.

We've worked with Canadian agricultural producers to minimize their income taxes and maximize their assets for over 65 years. Our people are at the heart of our business, and at the heart of the communities we serve.

FBC offers an industry-leading Membership model, which means we help our Members year-round with tax planning and ongoing business consulting.

In this eBook we'll outline tried-and-true strategies that we use to help our Members identify tax savings and optimize tax returns.



This material is provided for educational purposes only.  
Always consult a tax professional like FBC regarding your specific tax situation.

# 1

## Keep Business and Personal Accounts Separate

It's easy to lose track of cash transactions. Instead, use a credit card or debit card to cross-check your receipts.

**It's a good idea to have a separate business account and credit card so you don't mix personal and business expenses.**

As a bonus, if all transactions are business related, you can claim any associated expenses with that card or account. For example, the annual fee on a points card, or the interest from a balance carried from one month to the next, can be claimed if all transactions are business related.



# 2

## Keep Good Records



If you're self-employed or a small business owner, you are required by law to keep a record of your transactions. If you keep good records, you will avoid Canada Revenue Agency (CRA) fines in the event of an audit. Plus, putting in the work now means you'll save time when it comes to filing your taxes.

### **Here are five easy ways to organize your receipts:**

#### **1. Save Your Receipts**

The CRA won't accept your bank or credit card statements to justify deductible business expenses - you need an itemized receipt that corresponds with the transaction. Hang on to those receipts for at least [six years](#) after your last Notice of Assessment, which is as far back as the CRA will ask to see them in the event of an audit. You can keep the physical receipts or digital copies.

#### **2. Spend time reviewing your receipts once a month**

Sit down for [30 minutes](#) every month to review and categorize your receipts. This keeps things manageable as the year progresses and keeps you on top of your spending, so you don't miss out on any tax deductions. Purchase an accordion folder every year to house all business receipts. These inexpensive folders are easy to obtain and allow you to organize your receipts by category and year, so finding a specific receipt is a snap in the future.



# 2

## Keep Good Records (continued)

### 3. Back Up Your Receipts

Since receipts tend to fade with time, we recommend you keep a [digital copy](#) of each receipt. A good practice is to snap a picture of each receipt on your phone which you can upload to a central location later.

### 4. Go Digital

Software like [Kashoo](#) allows you to take a picture and digitize the receipt on the spot, then you can throw the hard copy in the accordion folder.

### 5. Get Ahead of Tax Season

Our own app, [FBC Tax Advantage](#), is a free app that's part of our Membership model and gives you the ability to track, manage and store your tax slips, medical expenses and charitable donation receipts.

Throughout the year, you can "snap, save and forget about it", since FBC will attach the receipts to your tax file and take care of it for you.



# 3

## Don't Miss Any Tax Deductions

If you are a sole proprietor or in a partnership, look at the “[Statement of Farming Activities](#)” document you receive with your tax return.

It lists several expenses you can claim on your tax return, some of which include feed, livestock purchases, veterinary fees, machinery expenses, building repairs and maintenance, crop insurance, machine rentals and more.

A good way to lower your tax bill is to make use of the [capital cost allowance](#).

High-value items with a long-lasting life in your business (like a tractor or silo) could qualify for a capital cost allowance deduction. Since they wear out over time, you can deduct their cost over a period of several years.

There are different rates of depreciation depending on the item. For example, a tractor has a 30% depreciation rate.

### Commonly Missed Tax Deductions

- Accounting, bookkeeping and tax preparation fees
- Branded charitable donations
- Business expenses like a landline, cellphone or internet
- Home office expenses, including utilities, house insurance, repairs, property taxes and mortgage interest
- Charitable donations made to a registered Canadian charity through your business
- Interest charged on your mortgage, business loans or credit cards may be tax deductible
- Vehicle costs like licence and registration fees, fuel and oil, insurance, maintenance and repairs
- Employee salaries and benefits

# 4

## Top up your TFSA each year



**In 2019, the Tax-Free Savings Account (TFSA) contribution limit was increased to \$6,000.**

If you're making less income one year, it's a great option since there's no penalty if you withdraw from the account.

The investment income in the account, and capital appreciation from stocks and bonds, is also tax-free.

# 5

## Plan Your RRSP Contribution

When you have higher income, consider contributing to a Registered Retirement Savings Plan (RRSP), since contributions are tax deductible. That will help bring down your taxable income.



# 6

## Take Advantage of a Spousal RRSP

If your spouse is earning less money than you are, the spousal RRSP will help even out retirement savings for the both of you.

If you have a lot of money in your RRSP when you retire, and your spouse has less, you'll be paying more income tax since you are in a higher tax bracket. If you even it out, less tax is paid on the same income when you retire.





# 7

## Time Capital Gains and Losses to Reduce your Overall Tax Burden

If you incur a capital gain early in the tax year, you can choose to recognize capital losses towards the end of the year to offset the gains.

Individuals can also make use of the lifetime capital gains exemption.

If you have [capital gains arising from the disposition of certain properties](#) (qualified farm and fishing properties) and meet certain conditions - the exemption could spare you from paying taxes on some or all of it.

Note that there are rules around qualified farmland. Talk to a tax professional to find out if you qualify.



# 8

## Have a Risk Management Plan



Protect your farm from unforeseeable market circumstances with risk management planning.

This may include cash flow planning, looking for profit margin opportunities in production, and controlling expenses, and could include insurance strategies specific to your farm operation.

**There are government-run risk management programs available to farmers, like AgriStability and AgriInvest.**

[AgriStability](#) provides financial assistance and payments when you experience margin declines that are more than 30 per cent.

[AgriInvest](#) allows you to make annual deposits based on a percentage of your Allowable Net Sales and receive matching contributions from federal, provincial and territorial governments.

# 9

## Know the Difference Between Employee and Contractor Work

You might be hiring contractors to take care of some of the bigger jobs on your farm or ranch. However, it's important to know the differences between [contractors](#) and [employees](#).

If a contractor decides to argue they are an employee, the CRA may later hit you with unpaid taxes, penalties, interest, CPP and EI premiums. We recommend having a written agreement setting out the intentions of both parties that offers some protection if a contractor changes their mind and argues that they are an employee. Here are some key differences:

### 1. Contractors Set Their Terms

Contractors decide how and when to perform the required work. They don't have anyone overseeing their activities and they're free to work when, and for whom they choose, and may provide his or her services to different payers at the same time. And ultimately, they can accept or refuse work from you.

### 2. Contractors Assume the Financial Risk

Employees don't assume any financial risk and their expenses are reimbursed. However, a contractor has no guarantee of steady income and may either make a profit or incur a loss. Their income depends on the value and results of their contracts.

### 3. Contractors are not Dependent on Your Business

When contractors earn the majority of their income from one client, the CRA could perceive the relationship as an employer-employee one. The contractor should have several contracts in place with many different clients, and only earn a fraction of their total revenues from your business.

If you're unsure about how to treat your workers and want to avoid any trouble with the CRA, speak to a tax consultant.

# 10 Always File a Tax Return and File on Time



You can access money under various government programs only by filing a return.

For example, if you want to claim the GST, HST credit or Canada Child Benefit, the net income declared on your tax return determines the amount you receive.

**Always file on time - the sooner you file, the sooner you get your refund.**

The CRA starts charging compound daily interest the day after the tax filing deadline. If you file your taxes late, you'll have to pay a penalty of 5% of the balance owed plus 1% for each month you are late, to a maximum of 12 months.

If you are late multiple years, the penalty can increase to 10% plus 2% for each month your return is late, to a maximum of 20 months.

If you're incorporated and paying installments, there is installment interest, along with penalties.

# CONTACT FBC

## Questions or concerns?

Call us at 1-800-265-1002, ask a question on our live chat at [www.fbc.ca](http://www.fbc.ca), or email us at [fbc@fbc.ca](mailto:fbc@fbc.ca).

FBC started in Ontario by working with family farms, and we continue to work with thousands of farm Members across Canada.

We deliver more value to agricultural producers than the traditional accounting approach through our industry leading, year-round membership model.



## FBC Membership

### Tax Preparation

We'll come to you to complete your tax return at a time convenient for you

### Tax Planning

All Members have a personalized tax plan to maximize tax savings today and over the long run

### Tax Consultation

We understand that business questions may arise at any point in the year, not just at tax time. Unlike other firms, FBC Membership includes year-round access to our team of experts at no extra cost

### Audit representation

We provide audit representation on any challenges to your returns for income tax or GST/HST

This material is provided for educational purposes only.  
Always consult a tax professional like FBC regarding your specific tax situation.