YEAR-END TAX PLANNING FOR YOUR FARM

A TAX READINESS TOOLKIT TO SAVE YOU TIME AND MONEY

2024 TAX YEAR

FBC

ABOUT FBC

For more than 70 years, we've been committed to providing financial peace of mind to Canada's hard-working farmers and small business owners.

Combining industry expertise with advanced technology, we help you pay less tax today and over the long-term. Our affordable bookkeeping and payroll services are designed to support your back-office and administrative needs saving you time so you can focus on your business.

You work hard for your money.
We help you keep it.

Disclaimer: This material is provided for educational and informational purposes only. Always consult a tax specialist like FBC regarding your specific tax situation.

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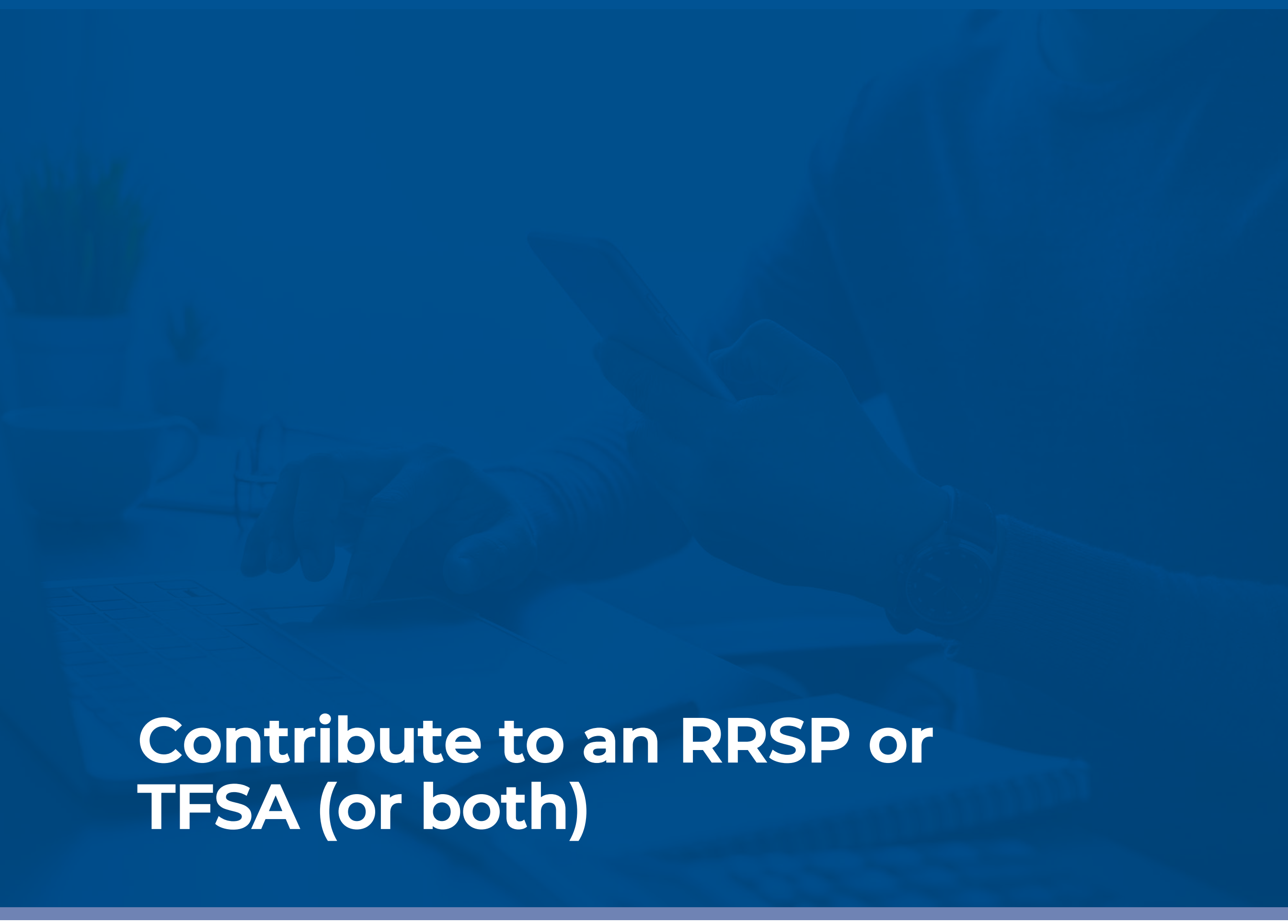
INTRODUCTION

While fall is one of the busiest times for farmers, it's also the best time to start thinking about your taxes.

Fall is the ideal time to begin thinking about your taxes. It gives you the opportunity to get organized and evaluate actions you can take before the tax year ends to minimize your future business or corporate income taxes.

Think of this toolkit as your road map to help you stay organized, lower your tax burden, and keep more of your hard-earned money in your pocket.



Contribute to an RRSP or TFSA (or both)

Are you investing in a registered retirement savings plan (RRSP) or tax-free savings account (TFSA)? If you're not, you're missing out on tax savings.

However, you might be wondering, should I use an RRSP or TFSA? The answer is both if possible—and you should max them out to the best of your ability. Depending on your tax bracket and your personal and business savings goals, however, one may meet your needs better than the other.

We go over the key differences between an RRSP and TFSA below to help you determine which one is right for you.

Contributing to an RRSP

RRSPs are a tax deferral mechanism. Contributions to an RRSP are deductible against your current income so you receive immediate tax relief and tax-sheltered growth. When you eventually go to withdraw the money in your retirement, it's taxed at that time when you are paying lower taxes. To maximize the benefits of the RRSP, you should contribute to it when you're in a higher tax bracket and withdraw from it when you're in a lower tax bracket. Contributing to an RRSP can significantly bring down your taxable income.

Earned income is required to build RRSP contribution room. If your business is incorporated and you pay yourself through dividends, consider withdrawing sufficient salary by December 31 to maximize your RRSP contributions.

Let's look at an example:

- **You make $140,000 in 2023 and contribute $15,000 to your RRSP**
- **The CRA will tax you on $125,000 of income instead of $140,000, since the contribution is tax deductible**
- **You pay tax on the contribution in the year you withdraw it, so if you take out some of the money in your retirement when you have a lower income, you'll pay less tax on that income.**

How much can I contribute to an RRSP?

First, it is important to understand the difference between your deduction limit and your contribution limit:

- Your deduction limit is the amount you're permitted to put into your RRSP and use as a deduction on your income tax report. **For the 2024 tax year, it is up to 18% of your reported 2023 income (to a maximum of $31,560, whichever is less).**
- Your contribution limit is equal to the current year's deduction limit plus any unused deduction room from previous years.

Since most people do not contribute the maximum amount to their RRSPs every year, your deduction limit will be much lower than your contribution limit.

If you have multiple RRSPs, including one for a spouse, your deduction limit (as calculated above) applies to all of them combined.

Here's an example:

- **Alex's full-time, pre-tax employment income in 2023 was $145,000. His maximum *deduction limit* for the 2024 tax year would be calculated as follows:**
  - **$145,000 × 18% = $26,100 (less than the maximum limit of $31,560 for 2024)**
  - **Alex can deduct up to $26,100 through his RRSP contribution for the 2024 tax year**
- **If Alex contributes $20,000 to his RRSP for 2024, he'll have $6,100 that he can carry forward in contribution room for the 2025 tax year. Assuming his deduction limit stays the same, he will be able to contribute a total of $32,200 ($26,100 + $6,100) in 2025.**

If you over-contribute to your RRSP by more than $2,000 in any given year, you may have to pay a tax of 1% per month on the amounts that exceed your RRSP deduction limit.

To find out your contribution room for RRSP review your latest notice of assessment or notice of reassessment. You can also find this information on a TFSA form, which the Canada Revenue Agency (CRA) sends you if your RRSP deduction limit changed since your last assessment.

This RRSP contribution deadline will vary based on the year, however, it is typically the first 60 days of the following year.

The deadline to contribute to your RRSP for the 2024 tax year is **February 28, 2025**.

Contributing to a TFSA

Tax-Free Savings Accounts (TFSA) don't give you up-front tax relief, but your money accumulates tax-free, and you won't be taxed on withdrawals.

You can use your TFSAs for investments like Guaranteed Investment Certificates (GICs) stocks, bonds, or mutual funds. Any investment income earned through in your account, and capital appreciation from stocks and bonds, is tax-free.

Unlike an RRSP, you don't need earned T4 income to accumulate the contribution room in your TFSA.

For 2024, the maximum amount you can contribute is $7,000 plus any unused contribution room from previous years.

You will accumulate TFSA contribution room each year (from 2009 even if you do not file a tax return or open a TFSA. You can also withdraw from your TFSA at any time, and withdrawals free up more contribution room for you in the future.

There's technically no deadline to contribute to your TFSA. If you haven't maxed out your TFSA, you can carry any unused contribution room into the next year - it is carried forward on January 1.

If you exceed your accumulated TFSA contribution limit, the excess amount will be subject to a 1% penalty tax per month for as long as the over contribution remains in your account. This penalty applies to each month the excess amount is present, not just for a single year.

For example, if you over contribute $3,000, you will be charged $30 (1% of $3,000 for each month the excess remains in your account. If the over contribution persists for an entire year, the total penalty would be $360. However, if the excess is not withdrawn, the penalty will continue to accrue in subsequent years until the over contribution is removed or absorbed by new contribution room.

It's important to monitor your TFSA contributions carefully and promptly correct any over contributions to avoid accumulating significant penalties over time.

To learn more about TFSA contribution limits, read our blog post "What is the TFSA Limit for 2024?"

Is an RRSP or TFSA better for me?

There are a few questions you should ask yourself before choosing between these two options:

- To determine which savings vehicle is best for you, consider these key questions:
- What is your current tax bracket?
- What do you anticipate your tax bracket will be in retirement?
- When do you expect to need the funds?
- How might your choice affect income-tested benefits like Old Age Security (OAS)?

Most people are in a higher tax bracket during their income-earning years. If this applies to you, investing in an RRSP is your best bet to take advantage of a reduced tax rate when you withdraw the money.

If you're saving for a big-ticket purchase, a TFSA will allow you to contribute up to $7,000 per year in a tax-sheltered investment, free to withdraw at any time.

Still unsure what is right for you?

Below are some scenarios that may help you.

If you're earning less than $55,000:

- Prioritize contributing to a TFSA first. At this income level, you're in the lowest tax bracket, so the immediate tax deduction from RRSP contributions may be less beneficial.
- TFSAs offer more flexibility for withdrawals without tax consequences, which can be advantageous if you need access to funds.

If you're earning between $55,000 and $111,000:

- Consider a balanced approach, contributing to both RRSP and TFSA.
- The tax deduction from RRSP contributions becomes more valuable in this bracket.
- Aim to max out your TFSA ($7,000 for 2024) if possible, then direct additional savings to your RRSP.

If you're earning between $111,000 and $173,000:

- Prioritize RRSP contributions to take advantage of the higher tax deduction in this bracket.
- If you have additional savings capacity after maximizing your RRSP, contribute to your TFSA.

If you're earning over $173,000:

- Focus primarily on maximizing your RRSP contributions. The tax deduction is most valuable in these higher tax brackets.
- After maximizing your RRSP, direct any additional savings to your TFSA.

Additional Considerations

When should I contribute to an RRSP first?

- If you have a matching contribution retirement or pension plan with your employer, maximize your contributions before considering a TFSA.

When should I contribute to a TFSA first?

- If you think your income after retirement age will be greater than what you earn now (i.e., you have a pension or some other retirement income), your money should go into your TFSA first. It's better to pay the lower income tax rate on that money now, than the higher rate you'll pay when you take it out later.
- If you think you might need the money before retirement age, TFSAs are more flexible, and you won't pay any taxes upon withdrawal.
- If you're in retirement, and you're close to your Old Age Security claw back amount, consider withdrawing more money from your TFSA as opposed to your RRSP as these amounts won't be added to your income.

Ideally, contribute to both RRSPs and TFSAs if possible. This strategy maximizes tax benefits and provides flexibility for various financial goals. The best choice depends on your individual circumstances, including current and expected future income, savings goals, and overall financial situation. Consider consulting with a financial advisor to develop a strategy tailored to your specific needs.

Comparison of RRSP and TFSA

	RRSP	TFSA
Purpose	• Primarily to save for retirement • Can also be used to: o Finance your first home under government's "Home Buyer's Plan" o Save for education for yourself or your spouse under government's "Lifelong Learning Plan"	• Save for any purpose
Annual Limit for 2024 tax year	***Deduction limit is the lesser of:*** • 18% of previous year's reported income • Maximum $31,560/year	***Contribution limit:*** • $7,000 • Up to maximum cumulative amount
Unused Contribution	• You may contribute amounts up to and including your previous years contribution limit plus the current year's deduction limit	• You can invest your entire unused contribution amount any time
Contribution Deadline	• February 28, 2025	• Contribution limits are based on a calendar year
Impact on Taxes	• Tax deductible (up to limit)	• Not tax deductible
Withdrawals and Reporting	• Taxed on withdrawal at marginal tax rate applicable at time of withdrawal • Must report as income on tax return • Earnings are not tax-sheltered • Contribution room is lost for amounts you withdraw	• Not taxed on withdrawal – your contributions are made from net income • Not reported as income tax on tax return • Earnings are tax-sheltered • Withdrawn amounts are added back to your contribution room for the following year • No minimum withdrawal requirements
Plan Maturity	• Matures December 31st of the year you turned 71 • Must start withdrawals by age 71 or open an RRIF (Registered Retirement Income Fund)	• Does not mature
Spousal Plan	• You can contribute directly to a spousal RRSP (be aware of contribution and withdrawal limits)	• Not applicable - you can contribute to your Spouse's TFSA any time.

- For information on the First Time Home Buyer's Plan (FHSA) please visit the CRA's website.

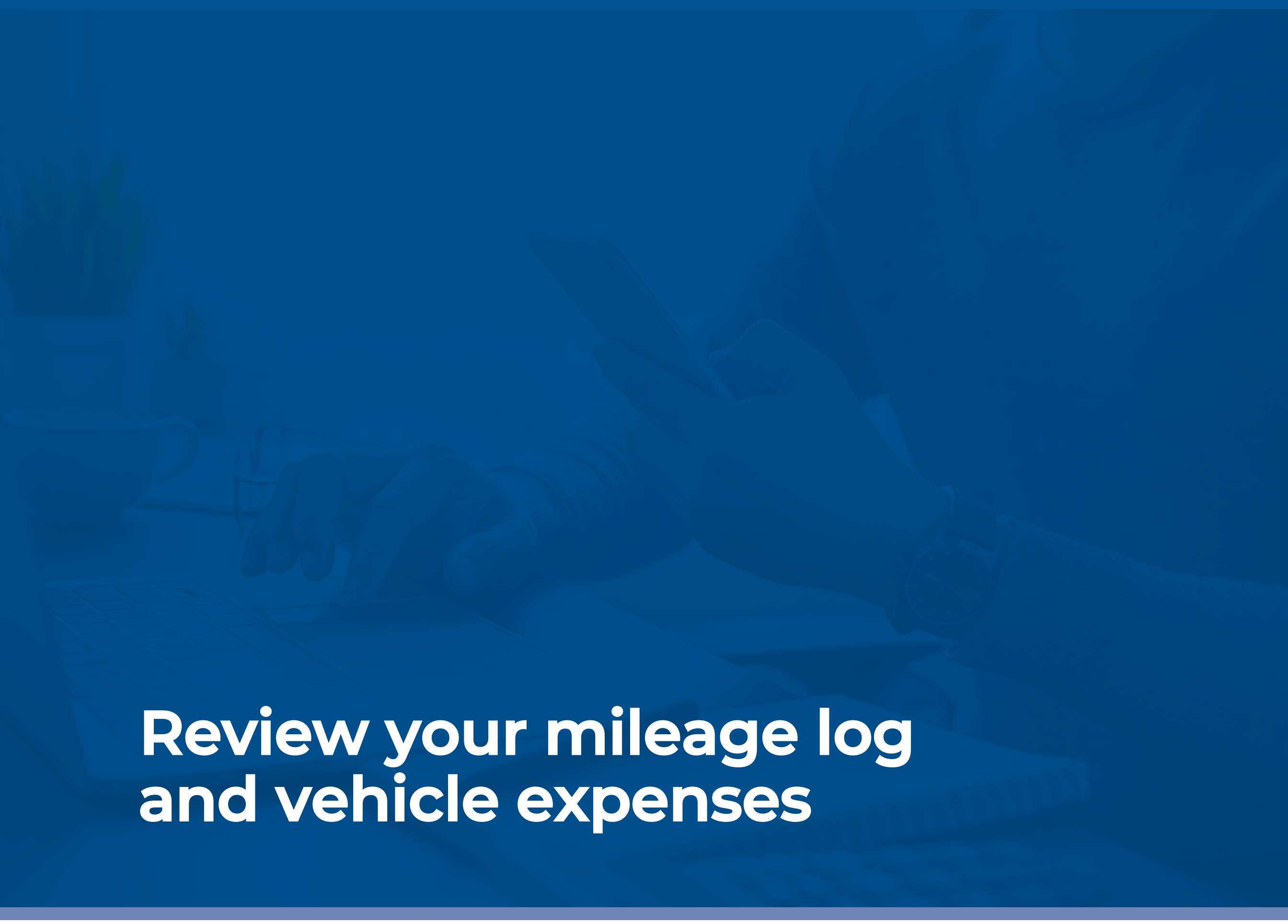
How to start building wealth with RRSPs and TFSAs

Whatever option you choose, the most important thing is to start using RRSPs and TFSAs as part of your long-term wealth building strategy.

Here are some additional savings strategies to consider:

- **Every penny saved counts** – Farmers and small business owners may feel they don't have enough money left over after business expenses to make either option worthwhile. Nothing could be further from the truth. Your investments will likely earn compound interest so, over time, even small contributions can add up. It's best to just start saving, even small amounts as soon as you can.
- **Automate regular contributions** – Don't get caught scrambling to meet your RRSP contribution deadline or forget to put money aside for your TFSA. Work with a financial planner to set up automatic withdrawals so you can make contributions easy and painless.
- **Don't lose sight of your TFSAs and RRSPs savings goals** – Whether it's tax deferral or saving for a big trip, there is a bigger financial reason you made these contributions in the first place. Remember, taking out an RRSP prematurely will have tax implications, likewise, there are rules about when you can re-contribute to your TFSA.

Click here to book your free consultation



Review your mileage log and vehicle expenses

If you use your personal vehicle for business-related activities, you can deduct a portion of vehicle use expenses such as fuel and maintenance costs. Make sure you're regularly updating your mileage log—a record of your business travel for the entire year. Without a record of your mileage, the CRA will disallow your vehicle expenses as a tax deduction.

What qualifies as business use of vehicle?

Simply put, any use of your personal vehicle used to earn business income.

Driving from your home to your place of work (if outside the home) is considered personal travel or a commute and does not qualify as business use of your personal vehicle.

The CRA has stated that in the following situations, driving to or from home would qualify as business use of your vehicle:

- Travel from your home to a client's place of business (or other location to attend a business meeting) and travel directly back home
- Travel from your home to a client's place of business (or other location to attend a business meeting) and back to your office/place of work
- Travel from a client's place of business (or other location to attend a business meeting) and back home

If you run a farm, business use of vehicle will also include trips to pick up parts or farm supplies, and to deliver grain. If you did not live on your farm, the travel between the farm and your home is not considered business travel.

In fishing, business use of vehicle will also include trips to pick up parts or boat supplies, and to deliver fish to markets. It also includes driving to and from the fishing boat if your home is your main place of business.

What are eligible vehicle expenses?

You can deduct a portion of the following expenses that are related to using your vehicle for business use:

- Licence and registration fees
- Fuel and oil costs
- Insurance
- Interest on money borrowed to buy a motor vehicle
- Maintenance and repairs
- Leasing costs
- You can claim the cost of the vehicle itself over time through the Capital Cost Allowance (CCA)

You can also deduct the full amount of the following:

- Parking fees related to your business activities
- Supplementary business insurance for your motor vehicle

It's important to note is that the kind of vehicle you own affects the expenses you can deduct. There are different rules (particularly as they relate to Capital Cost Allowance) based on the CRA's definition of "motor vehicles", "passenger vehicles", "zero-emission passenger vehicles" and "zero-emission vehicles."

There are also rules that apply if you jointly own or lease your vehicle.

Talk to a tax specialist to ensure you're properly applying your deductions and CCAs.

How do I track vehicle expenses?

You will use your logbook to calculate what percentage of your vehicle was used to earn business income. As such, you need to keep track of your mileage from January 1 to December 31 either by recording your odometer during business use or using a mileage tracking app.

Remember, while most mileage tracking apps use GPS to record your vehicle in motion, but they're not 100% accurate. It's always a good idea to keep a separate record of your odometer with any pertinent notes and receipts as back up.

For each trip, list the date, destination, purpose, and number of kilometres you drive. For each tax year, you must record your total kilometres from the year, and the kilometres you drove while earning business income.

Don't forget to record your odometer reading at the beginning of the tax year, and at the end of the tax year. If you change vehicles, note the dates of the change and the odometer reading for the new or leased vehicle.

Let's look at an example:

- **Your odometer reading at the end of the year was 40,000 km.**
- **Thanks to your logbook, you know 32,000 km was for business use.**
- **Divide 32,000/40,000 to find out what percentage of the time the car was used to earn business income. This equals 80%.**
- **This means you can deduct 80% of your eligible vehicle expenses as business expenses.**

Once you determine your vehicle expenses, you can calculate your vehicle deduction. If you work in transportation, you may be able to claim additional expenses.

You can calculate your vehicle deduction using the same percentage:

- **Let's say your vehicle expenses were $6,000 for the year.**
- **If you multiply $6,000 by 80%, you get $4,800, which means you can deduct $4,800 of your vehicle expenses on your tax return.**

What if I have more than one vehicle?

If you use more than one vehicle for your business, keep a separate record for each one that shows the total kilometres driven in one year and the business kilometres driven, and all the associated expenses with each vehicle. You'll also have to calculate the expenses separately for each vehicle.

Additional Considerations

For those with vehicle loans or leases, there are specific rules and calculations for deducting interest expenses and leasing costs. These can be complex and may have limitations, particularly for passenger vehicles.

We recommend consulting with a tax specialist for detailed guidance on these aspects of vehicle expenses.

Organize your vehicle expense receipts

Aside from a copy of your logbook for the CRA, keep all your receipts for automobile expense deductions organized or, at the very least, get them organized before year-end so you can accurately calculate your vehicle expenses.

Remember, if the CRA challenges your automobile expenses, you'll need to have easy access to the proof. For more tips on organizing receipts, please see the next section "Organize your receipts".

VEHICLE EXPENSES FOR CORPORATIONS

Corporations may deduct all reasonable vehicle expenses (subject to limits imposed through the Income Tax Act). There is some complexity, however, when it comes to shareholders and employee use of vehicles.

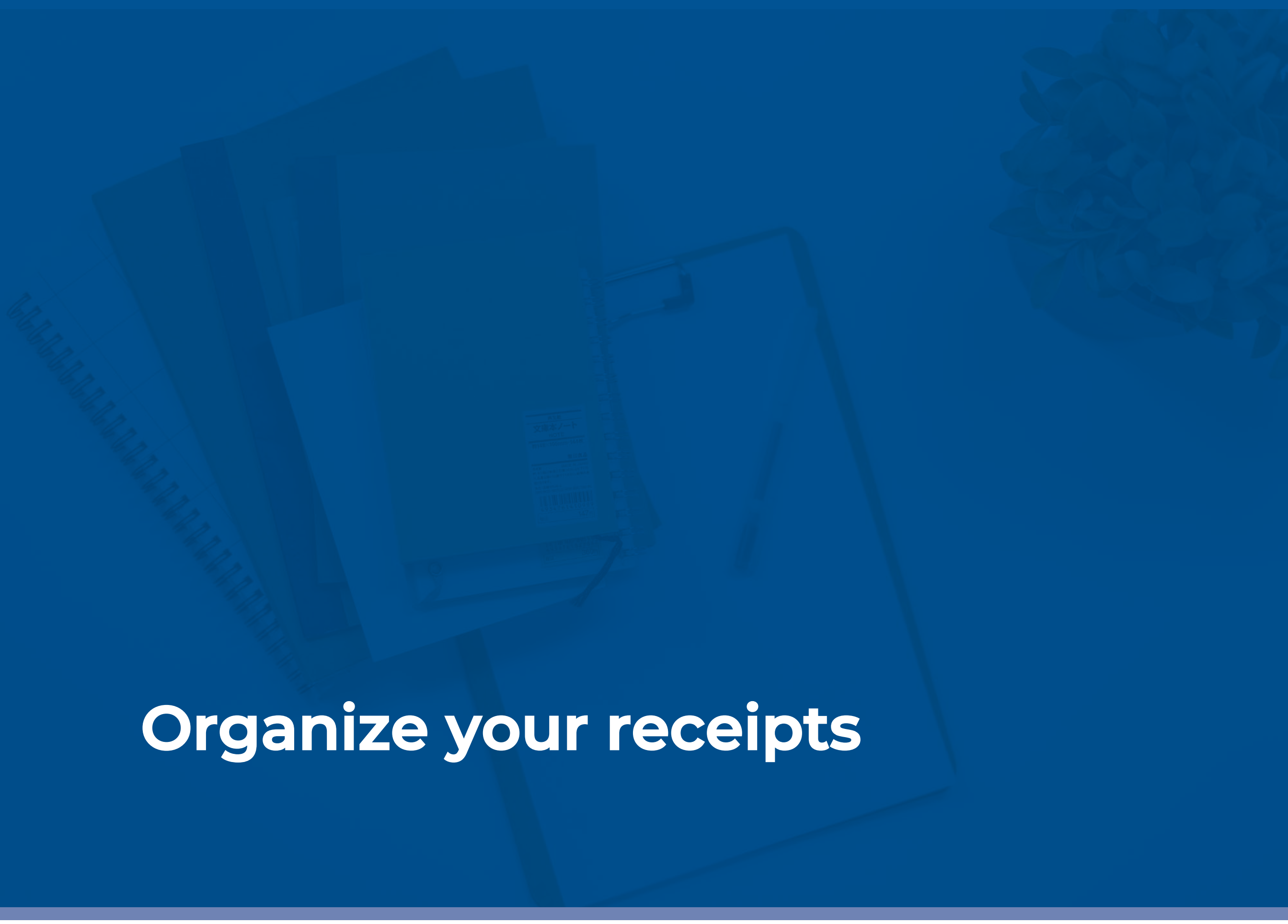
A shareholder of a corporation may use a vehicle supplied by the corporation for purposes other than the corporation’s business. The shareholder’s personal use of a vehicle that is either owned or leased by the corporation is a taxable benefit to the shareholder if the shareholder is also an employee and has access to the vehicle in their capacity as an employee.

If the vehicle is made available to a shareholder who is not also an employee, the value of the benefit is included in the shareholder’s income as a "benefit conferred on a shareholder".

If an employee uses a company-owned vehicle for personal reasons or is given an allowance to an employee that uses their own vehicle, the employee may be in receipt of a taxable benefit.

It's crucial for corporations to maintain detailed records of both business and personal use of company vehicles. These records should include mileage logs, dates of use, and the purpose of each trip. Accurate record-keeping is essential for properly calculating taxable benefits for shareholders and employees, as well as for supporting the corporation's vehicle expense deductions. Without proper documentation, the CRA may disallow deductions or assess additional taxable benefits, potentially resulting in unexpected tax liabilities. As with all aspects of corporate tax planning, consistent and thorough record-keeping is key to ensuring compliance and maximizing legitimate deductions.

Please visit the CRA website to learn more or speak to a tax specialist to get advice specific to your business situation.



Organize your receipts

You want to be in a good position to claim as much as you can when tax season rolls around so it's to your advantage to get receipts organized before year-end.

If you don't maintain records of your transactions and are audited by the CRA, you could face hefty fines and penalties.

Your records should be filed along with canceled cheques and other vouchers to support your book entries.

The following are some tips for receipt organization.

Use a business-only account and credit card

It's easy to lose track of cash transactions. Instead, use a credit card and/or debit card to cross-check your receipts. Make sure to set up a separate business account and credit card, so you don't mix personal and business expenses.

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

Spend time reviewing your receipts monthly

You can avoid the last-minute scramble if you sit down for 30 minutes every month to review and categorize your receipts. This keeps receipts manageable as the year progresses, keeps you on top of your spending, and ensures you don't miss out on any potential expense-related tax deductions.

A simple and cost-effective way to organize your receipt is to use an accordion folder. We recommend organizing your receipts by category and year, so finding a specific receipt is a snap in the future.

Make notes on the back of receipts

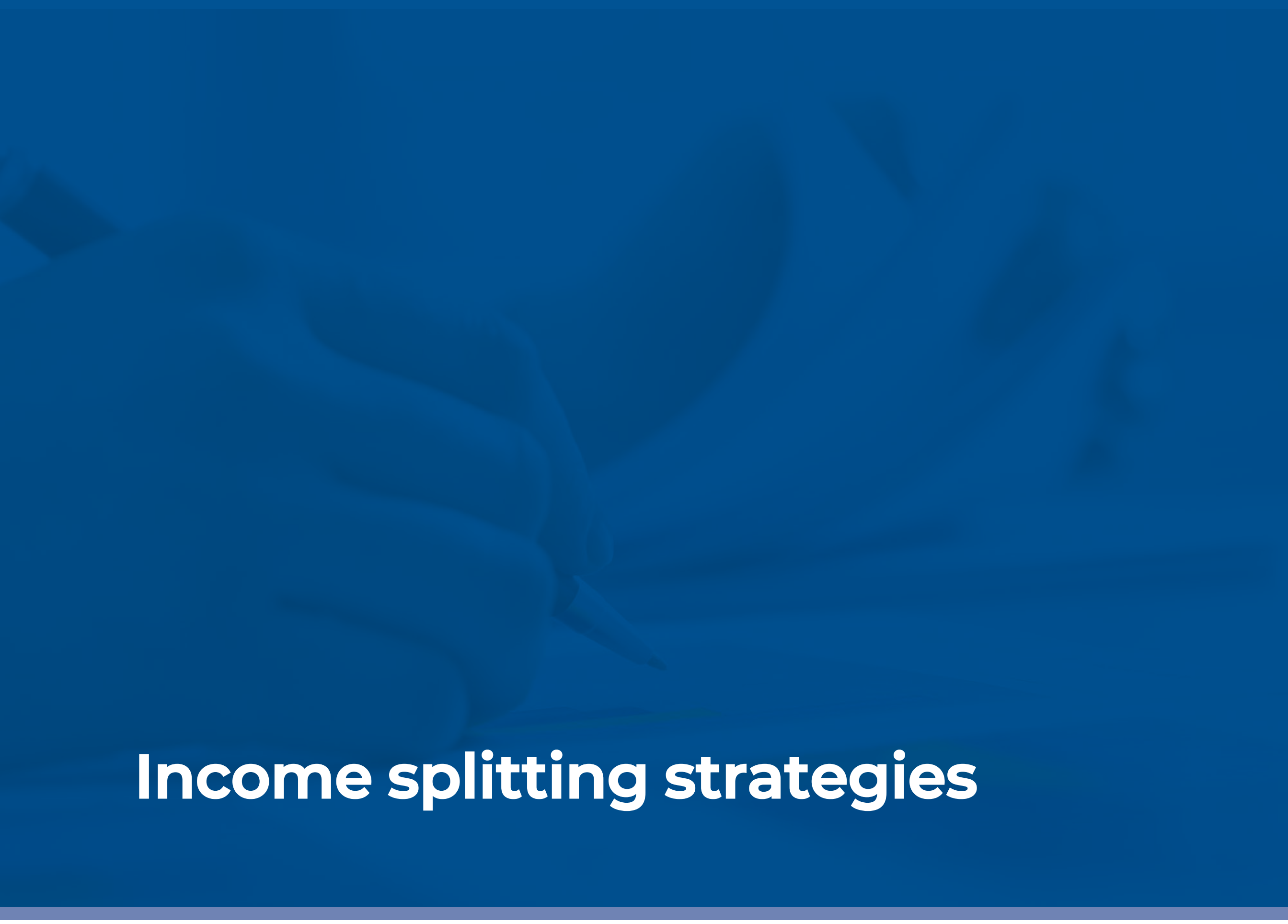
For meal and entertainment receipts, write who you met with and the purpose of the meeting on the back of the receipt right after the meeting. That way you're not struggling to remember details later.

Remember, you can deduct 50 per cent of your total meal and entertainment expenses for business purposes.

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.

You can also use an app on your mobile device to take a picture and digitize the receipt on the spot.



Income splitting strategies

Income splitting is the strategy of redistributing income within a family—usually from a spouse in a higher tax bracket to a spouse in a lower tax bracket—to reduce a family's overall tax bill. In general, income splitting works best when one spouse earns significantly more income than the other, so the tax savings are more significant

Income splitting isn't as simple as having the higher-income earner gift investments or investment money to the lower-income earner. The CRA has attribution rules that require individuals to declare income sources, including any income made from investments with savings or capital. As such, any income generated from a gifted investment would be attributed back to the high earner and taxed at a higher rate.

Fortunately, there are some exceptions to these rules. Here we outline four income-splitting strategies you can use to pay less tax as a family and grow your wealth.

As always, it is recommended that you seek advice from a tax specialist before proceeding with any income-splitting strategies.

Strategy #1: Lend investment money to your spouse or common-law partner

You can lend money to your spouse as long as you follow these rules:

- It must be an interest-bearing loan and you must have a loan agreement in place.
- The interest needs to match the prescribed rate* set by the CRA at the time the loan is made.
- Your spouse must pay the interest by January 30 of the following year.
- The prescribed rate remains fixed for the term of the loan.

The prescribed rate set is quarterly by the CRA. It is currently at 5% (as of September 30, 2024)

Advantages of lending investment money to your spouse or common-law partner:

✓ Stable loan terms: The loan is locked in at the CRA prescribed rate at the time the loan is issued, and interest must be paid by January 30 of each year, so there is no guesswork about the repayment schedule or fear of a rate increase.

✓ A win-win for income shifting: While the high earner must declare the interest paid to them as income, their total income only increases by the prescribed rate at the time of the loan (currently 5%). Likewise, the lower-income earner must declare any dividends or income generated from the loan, but as long as they receive a higher rate of return than the prescribed rate at the time of the loan (for example, greater than the current 5%), they family still comes out ahead. Plus, income earned is taxed at the lower-income earner's rate.

✓ Deductibles: Any interest payments made can be deducted from the lower-income earner's taxable income.

Disadvantages of lending investment money to your spouse or common-law partner:

➢ Legal requirements: As with any other loan, there needs to be a loan agreement or promissory note drafted to make the loan official and to outline the terms. Seeking legal counsel to do this is highly recommended.

➢ Estate complications: If either spouse passes before the loan is repaid, it can create potential headaches for the executor and next of kin, especially if estate plans do not include contingencies around these scenarios. For example, if the higher-earning spouse passes before the loan is repaid, is the surviving spouse financially able to repay the loan? It is highly recommended that estate plans include provisions for spousal loans.

➢ Accounting complications: This income-splitting strategy requires extra tax reporting steps that may require professional accounting support, which is an additional cost for those who typically prepare their own tax returns.

➢ Record keeping: A detailed record of transactions must be kept in case of a CRA audit. While this isn't a heavy lift, it is still another piece of paperwork you must track in addition to your current administrative burden as a small business owner.

➢ Costs: From legal advice to estate planning to additional accounting support, there are many costs associated with establishing a spousal loan correctly. These need to be weighed against the potential rate of return to ensure that you're still benefiting financially.

Strategy #2: Make contributions to a Spousal RRSP

You can also contribute to a spousal RRSP to help even out retirement savings for you and your spouse if they earn a lower income, since contribution room is based on earned income.

Here's how it works:

- Your spouse would open a spousal RRSP account in their name (separate from their personal RRSP account), and you could contribute to the spousal RRSP.
- Be careful not to go over your RRSP contribution limit. If you max out your RRSP, you can't contribute to the spousal RRSP.
- When your spouse withdraws the money in retirement, they'll pay the tax on the withdrawals at their lower tax rate.

Advantages of making contributions to a Spousal RRSP:

✓ Ease of set up: Unlike the spousal loan, the spousal RRSP can be set up very quickly and does not require the same level of tax, accounting, and estate planning support.

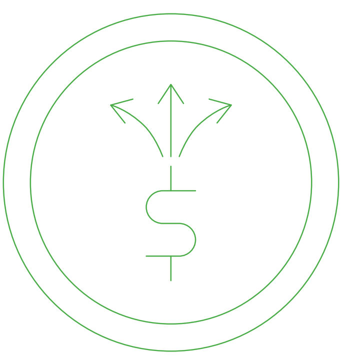
✓ Immediate impact: The tax advantages are immediate for the higher-income earner in the form of a tax-deductible contribution.

✓ Long-term stability: In retirement, it provides income stability for the lower-income earner while taking advantage of the lower tax rate when the RRSP is converted to a RRIF. Overall, it successfully lowers a family's tax burden without much effort.

Disadvantages of making contributions to a Spousal RRSP:

➢ No early withdrawals: Funds must remain in the plan for at least three years from the last date of contribution to the spousal RRSP (including the year of contribution), or the CRA attribution rules kick in and the contributor will be taxed accordingly. Withdrawals made after 3 years from the last date of contribution to the spousal RRSP will be included in the recipients (spouse's) taxable income.

➢ Maximum contribution limit: This strategy only works if the higher-earning spouse has contribution room. If they've maxed their contributions in a given tax year, they cannot contribute even if the lower-income spouse has contribution room.



Strategy #3: Max out your Spousal TFSAs

While Tax-Free Savings Accounts (TFSAs) do not reduce your current tax burden, they can provide families with tax-free income in future.

Here's how it works:

- Anything that happens inside the TFSA is sheltered from tax so the income generated from the TFSA isn't taxable to anyone. This means you can max out your TFSA contribution as well as your spouse's without paying any tax – even when you go to withdraw.

- Unlike with a spousal RRSP, you can withdraw funds at any time without triggering any tax implications. But withdrawing money early prevents you from maximizing your long-term investment.

- The TFSA limit for 2024 is $7,000 (per person). See our blog post "What's the TFSA Limit for 2024" for information on lifetime and annual TFSA contribution limits.

Advantages of maxing out your Spousal TFSAs:

✓ Tax-free growth: All future earnings from your TFSA remain tax-free.

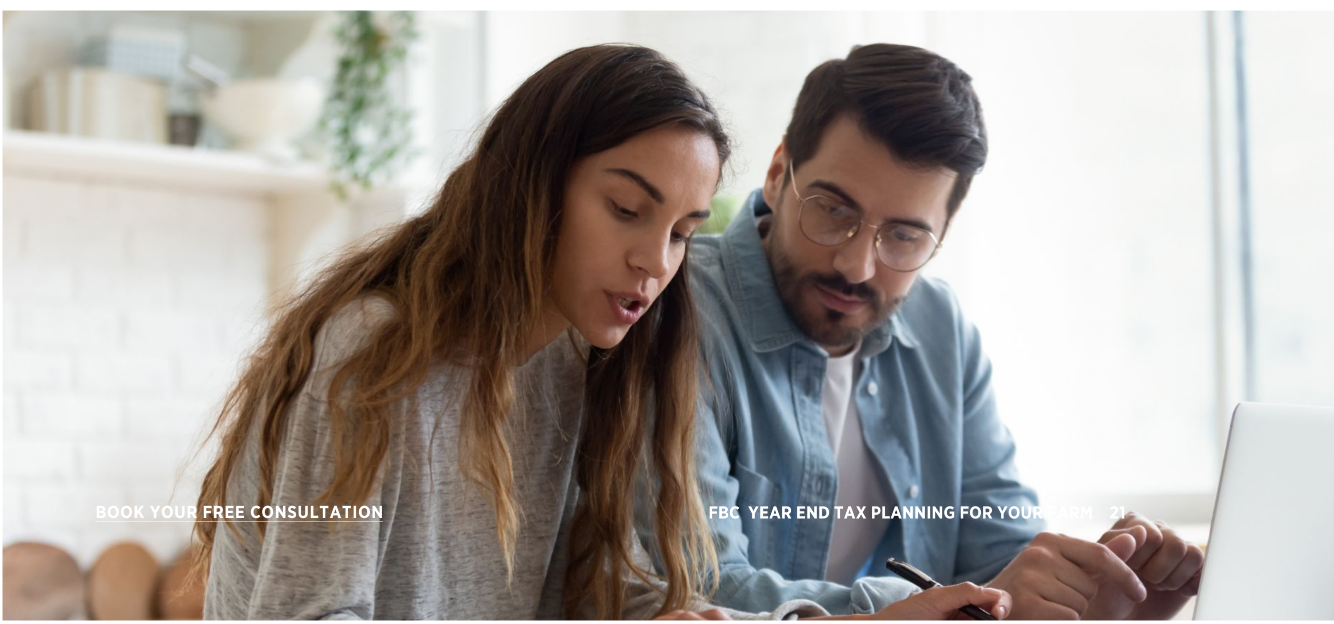
✓ Ease of withdrawal: Unlike spousal RRSPs which must remain in the plan for three years, TFSAs can be withdrawn at any time.

✓ Maximize spousal contributions: You can max out your spouse's TFSA contributions without having to worry about attribution rules as you do with spousal loans.

Disadvantages of maxing out your Spousal TFSAs:

➢ Ease of withdrawal: Nothing is keeping you from withdrawing money from a TFSA at any time, which makes it all too easy to take out money before it's had a chance to grow those long-term earnings that come with compounded interest.

➢ No immediate tax break: TFSAs are not deductible and therefore, do not reduce your taxable income.



Strategy #4: Split Pension Income

If you're 65 years or older, you can split up to 50% of eligible pension income with your spouse. Eligible pension income includes:

- Lifetime annuity payments under a registered pension plan.
- Registered retirement savings plan (RRSP).
- Deferred profit-sharing plan.
- Payments from a registered retirement income fund (RRIF)*.

While you'll still receive the actual income, you can split it on your tax return to lower your tax payable.

**As a reminder, you must be over 65 to make RRIF withdrawals. If you are under the age of 65, the pension income you are eligible to split is further limited (often only eligible in the case of the death of a spouse or partner).*

NOTE: Pension-sharing income does not include:

- Old Age Security benefits
- Canada Pension Plan benefits
- Death benefits
- Retiring allowances
- Excess amounts from an RRIF transferred to an RRSP, another RRIF or annuity
- Specific income as reported on your T4RSP slips
- Amounts distributed from a retirement compensation arrangement on your T4A-RCA slip

Advantages of splitting pension income:

✓ Lower taxable income: If you and your spouse are in different tax brackets at retirement, income-splitting could lower the overall tax bill for your family. This could be very beneficial if you receive income from investments, rental properties, etc., along with government pension benefits.

✓ Pension Income Tax Credit: The federal government and provinces (excluding Quebec) have additional tax credits you can apply for. For example, if you split your pension income with a spouse who is not currently receiving a pension, that spouse can also claim up to 15%of $2,000 in eligible pension income. This Pension Income Tax Credit would translate to a maximum of $300 in federal tax savings.

✓ Ease of set up: To set this up, you just fill out the Joint Election to Split Pension Income form when filing your personal tax returns.

Disadvantages of splitting pension income:

➢ Same tax bracket: This strategy is not helpful if you are in the same tax bracket as there would be no benefit to splitting your pension income.

➢ Restrictions: Certain pension income doesn't qualify for splitting, such as Old Age Security.

Make instalment payments

If you earn income that doesn't have tax withheld on it, such as self-employed income, rental or investment income, or you made a capital gain in the past year, you might have to make instalment payments.

Instalments usually arise if the tax you owe in the previous year is more than $3,000 (before existing instalment payments). By making instalment payments, you're paying your taxes throughout the year, instead of paying a lump sum by the April 30 filing deadline of the following year. That way you're paying your taxes like someone who has taxes withheld from their paycheque.

Here we'll help you determine if you have to pay tax by instalments but we always recommend speaking with a tax specialist if you're uncertain about your individual situation.

How do I know if I have to pay tax by instalments?

The CRA will look at your prior-year tax return and send instalment reminders to you. The reminder is based on prior returns.

Although payments are typically due quarterly, the CRA will only send two instalment reminders:

- February reminder is for the March and June payments
- August reminder is for the September and December payments
- Farmers and fishers have a different schedule, with one instalment payment due on December 31

You can find the amount you owe and the reminders online in your CRA My Account for Individuals or your CRA My Business Account.

Please note, if you've opted to receive an express Notice of Assessment (NOA), instalment reminders will also be electronically sent (i.e., not physically mailed).

Some quick tips:

- Even though the CRA will send you reminders, it's still up to you to remember to pay them – otherwise you'll face interest and penalties. You can find the amount you owe and the reminders online in your CRA My Account as an individual or as a business.
- If your main source of self-employment income is from farming or fishing and you owe more than $3,000 in net tax, you only make one lump sum instalment payment on December 31. You'll receive an instalment reminder in November.
- If the instalment deadline falls on a weekend or holiday, the CRA considers it to be on time if it's received by the next business day.
- You can pay online on CRA My Account, pay through your financial institution or send the CRA a cheque as long as it's postmarked by the instalment deadline. You can also choose to make pre-authorized payments.

Since your tax instalments are determined by the balance you owe on your tax return from the prior year, if your finances change and you end up making more money throughout the year and owing more tax, you'll still have to pay that amount by April 30 of the following year.

If your business is cyclical and your income fluctuates greatly throughout the year, you may still be required to pay your instalments. If that's the case, then it's important to treat instalments as any other financial obligation – budget accordingly to pay the right amount at the right time.

How do I calculate my instalment payments?

There are three methods you can use to calculate your instalment payments.

1. **No-calculation option –** If your income, deductions, and credits are about the same from year to year, the CRA determines the amount of your instalment payments based on the information in your latest assessed tax return.
2. **Prior-year option –** If your 2025 income, deductions and credits will be similar to 2024 but significantly different from 2023, you can determine the instalment payments based on your tax return for 2024.
3. **Current-year option –** This option is best if your 2025 income, deductions and credits will be vastly different from those in 2024 and 2023. In this option, you determine your amount based on your estimated current year net tax owing (2025).

Review your compensation options

If your business in incorporated, you have a few options to consider for your personal compensation. You can pay yourself a salary, dividends, or do a mix of both.

The method you use to pay yourself personally from your corporation has an impact on many different things—and not just your personal income tax owing. While dividends likely create the lowest personal tax liability, they don't allow you to create contribution room in your RRSP, build up CPP or claim WCB if something happens. The form of your personal compensation can affect what you receive from government programs and credits as well as your ability to qualify for loans from lending institutions.

For the purposes of this section, we assume a corporate year-end of December 31.

Paying yourself a business salary

If you pay yourself a salary from your corporation, it's reported as personal income. That means you'll be paying the personal income tax rate on your salary, which is higher than the corporate tax rate. However, the salary is considered a business expense for your corporation and lowers its taxable income.

If you decide to pay yourself a salary, you'll need to register a payroll account with the Canada Revenue Agency (CRA). Each time you pay yourself, you'll need to withhold and remit income taxes to the CRA.

Paying yourself a salary would be a good option if you rely on mandatory retirement contributions. Your RRSP deduction room is also built using your business salary.

Since your business salary is counted as personal income, you also qualify for income tax credits, which include childcare and medical expenses.

This option, however, is best implemented at the start of your fiscal year to make remittance payments smaller and more manageable over a longer period of time.

Paying yourself dividends

Dividends are paid to shareholders of your corporation. Dividends are considered investment income instead of personal income. You might pay slightly less tax on dividends than on a salary, since you receive a dividend tax credit that may help lower your overall tax owing. Since dividends aren't considered an expense to your corporation, they won't lower your corporation's taxable income.

When you want to prepare dividends for your shareholders, you move the cash from your corporate account to the shareholder's personal account. You'll have to prepare and file T5s to the CRA for anyone who receives dividends. You won't need to register for payroll and remit source deductions if you're the sole owner of your corporation.

Paying yourself dividends could be right for you if you don't want forced CPP contributions. Keep in mind dividends don't build RRSP contribution room, so you'll want to have your own retirement plan in place.

How should I pay myself as a business owner?

It depends on your individual business and family situation. Dividends are a more flexible payment option, and you don't have to pay into CPP, so you'll reduce your costs that way. However, you'll need to be careful about contributing to your own retirement savings. And you won't be creating contribution room in your RRSP by issuing yourself dividends.

Also, dividends aren't accepted as salary on loan applications if you're applying for a mortgage or other lines of non-business credit.

There are many other factors like other income sources that can impact whether you should be paying yourself a salary or dividends.

If you're incorporated, you should speak with a tax specialist well in advance of year-end to choose the compensation option that will optimize your return and lower your taxes.

2024 UPDATES TO THE CANADA PENSION PLAN

With recent changes to Canada Pension Plan (CPP) contributions and limits, it's important to keep these updates in mind when deciding how to structure your compensation. The new second earnings ceiling, called the Year's Additional Maximum Pensionable Earnings (YAMPE), along with adjusted contribution rates, could have a big impact on your choices.

If you're leaning toward taking a salary, higher CPP contributions could mean more benefits down the road. But with rising costs, taking dividends might offer better immediate cash flow. Understanding these changes can help you make the best decision for your situation.

You're required to make mandatory payments to the CPP on your income. For 2024, the CRA has established two earnings ceilings: the Year's Maximum Pensionable Earnings (YMPE) at $68,500, and a new second ceiling, the Year's Additional Maximum Pensionable Earnings (YAMPE), at $73,200. The basic exemption amount remains at $3,500.

The CPP contribution structure for 2024 is as follows:

- For earnings up to $68,500 (YMPE): The total contribution rate is 11.9%, split equally between employer and employee (5.95% each).
- For earnings between $68,500 and $73,200 (YAMPE): An additional 8% contribution rate applies, known as CPP2.

If you're a small business owner with net personal income or business income exceeding $3,500, you must pay both the employer and employee portions. For 2024, your maximum CPP contribution could be $4,055.50, consisting of:

- $3,867.50 for earnings up to the YMPE ($68,500)
- $188.00 for earnings between the YMPE and YAMPE ($68,500 to $73,200)

For the base CPP contributions, you can claim a 15% non-refundable tax credit on half and a tax deduction on the other half. All CPP2 contributions are fully tax-deductible.

INCOME SPLITTING

INCOME SPLITTING: If your business is incorporated, you can pay dividends to your spouse and children. This strategy offers great flexibility to an incorporated business since the dividends paid can vary from year to year, as can the recipients receiving them. This decision will be based on how much income you want to distribute to lower your tax bracket.

You must first set up your incorporated business to include your spouse and/or children as shareholders. Note, this doesn't have to be done at inception of the corporation as you can amend shareholders throughout the year – remember to update your minute book to reflect the changes. You are then permitted to distribute dividends between family members to reduce your tax burden.

Note: shareholders do not have to employees to receive dividends. But employees can be shareholders and receive both a salary and dividends through the business.

A word of caution: there are limitations and anti-tax-avoidance rules put in place by the CRA regarding issuing dividends to family members who have not invested or worked in the business.

There are additional income splitting strategies available to Canadian taxpayers, but you should consult with a tax specialist well in advance of your year-end to ensure it's right for your situation.

Click here to book your free consultation

Consider your tax-deductible expenses

If you've kept on top of your receipts and have a good sense of your cash flow, you may want to take advantage of any additional tax-deductible expenses before year-end.

For example, now may be a great time to finally invest in some marketing materials (like brochures or business cards), make a charitable contribution, or even renew that membership in your industry association.

Below are some additional tax-deductible expenses you can consider.

Please note: This list is not exhaustive. There may be additional tax-deductible expenses for which you qualify, but the expenses below represent those that are easiest to implement within a shorter time frame before year-end.

Accounting Fees

Fees for accounting, bookkeeping, tax preparation and finances can be deducted. If you've been thinking of hiring professional help, why not take advantage of this deduction?

Business-Use-of-Home-Expenses

You can deduct expenses for the business use of a workspace in your home. This includes part of your maintenance costs (cleaning materials, utilities, home insurance) along with part of your property taxes and mortgage interest.

To claim this expense and avoid scrutiny of the Canada Revenue Agency (CRA), make sure you've calculated the percentage of your home that's used for your farm business and apply that percentage to the tax deduction.

For example, if you're living in a 1,000-square-foot farmhouse, and your workspace is 100 square feet, you're using 10 per cent of your home for business use. That means you can deduct 10 per cent of your expenses.

Clearing, levelling and draining land

You can deduct expenses associated with clearing trees, roots, stones and brush from your farmland, as well as building an unpaved road and installing land drainage.

Containers and twine

You can deduct expenses for materials you buy to package, contain or ship farm produce or products.

Crop insurance, Revenue Protection Program, and stabilization premiums

This includes premiums to participate in programs such as AgriStability, AgriInvest, AgriInsurance and AgriRecovery.

Custom or contract work (includes machine rentals)

This includes costs related to hiring subcontractors and/or rental equipment used in earning farming income (aerators, dozers, plows, etc.)

A word of caution: you must ensure that the fees you are paying for subcontractor work would not qualify as employee wages as you may later find yourself on the hook for unpaid employment premiums, taxes and may be subject to penalties and interest.

Delivery, freight and express

Costs for delivery and freight related to your farming business are deductible.

Electricity

You can deduct expenses for electricity related to your farm properties.

Feed, supplements, straw and bedding

You can deduct expenses for these items if they were purchased for your farming business.

To claim the business-use-of-home expense and avoid scrutiny of the CRA, make sure you've calculated the percentage of your home that's used for your farm business and apply that percentage to the tax deduction.

Fertilizers and lime

If they were used for your farming business, you can deduct these expenses.

Heating fuel and curing fuel

You can deduct expenses related to heating farm buildings.

Insurance

You can deduct commercial insurance premiums you pay for insurance on farm buildings and qualifying farm equipment. The insurance you pay on your motor vehicle will be claimed under motor vehicle expenses (see part 3 “Review your mileage logbook and vehicle expenses”).

Interest and bank charges

You can deduct interest you incurred on a loan utilized for your farming business or used to acquire property for your farming business.

You can deduct the fee you pay to reduce the interest rate on your loan, along with any penalty a bank charges you to pay off your loan before it is due.

You cannot deduct the principal of loan or mortgage payments, or any money borrowed for personal purposes.

Livestock

You can deduct expenses related to purchasing livestock.

Machinery expenses

This includes expenses related to upkeep of your machinery including repairs, licenses insurance, gasoline, diesel fuels, and oil.

Pesticides

You can deduct the cost of herbicides, insecticides, and fungicides used for your farming business.

Property taxes

This relates to property used in your farming business.

Repairs, licences and insurance (machinery)

You can deduct these costs as incurred for your machinery.

Rent (land, buildings and pasture)

If you rent the land for your farming business, you can expense the costs.

Salaries, wages and benefits

This refers to employees' salaries and benefits.

If you are self-employed or a sole proprietor, you cannot deduct your own salary or benefits. However, if you are an incorporated farm business and pay yourself a salary, you can include it in your tax deductions.

Do not include costs for subcontractor work under this category. They would be included under "Custom or contract work".

Seeds and plants

This relates to seeds and plants used in your farming business.

Small tools

If the tools cost less than $500, you can deduct their full cost. For tools that cost more than $500 you must deduct their cost over a period of years using Capital Cost Allowance.

Veterinary fees, medicine and breeding fees

You can deduct expenses related to medicine for your livestock, along with veterinary and breeding fees.

Time capital gains and losses

Capital gains and losses can be strategically managed for tax planning purposes. 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.

If you only have a capital loss, you can carry it forward indefinitely to offset future capital gains.

Individuals can also make use of the Lifetime Capital Gains Exemption (LCGE). If you have capital gains arising from the disposition of qualified farm or fishing property (QFFP) and meet certain conditions, the exemption could spare you from paying taxes on some or all of it. As of 2024, the LCGE for QFFP is $1,250,000 and will be indexed to inflation for subsequent years.
Note that there are rules around qualified farmland.

What is Qualified Farm or Fishing Property (QFFP)?

QFFP is property owned by you, your spouse or common-law partner, or by a family-farm or family-fishing partnership in which you, your spouse or common-law partner, holds an interest.

QFFP includes:

- Property, such as land and buildings
- A share of the capital stock of a family farm or family fishing corporation you or your spouse or common law partner owns
- An interest in a family farm or family fishing partnership that you or your spouse or common law partner owns
- A property included in Class 14.1* used in the course of carrying on a farming or fishing business, such as milk and egg quotas

Real property or property included in Class 14.1 is qualified farm or fishing property only if it is used to carry on a farming or fishing business in Canada by any of the following:

- ***You, your spouse or common-law partner, or any of your parents or your children***
- ***The beneficiary of a personal trust, or the spouse or common-law partner, parent or child of such a beneficiary***
- ***A family-farm or family-fishing corporation where any of the above persons owns a share of the corporation***
- ***A family-farm or family-fishing partnership where any of the above persons (except a family-farm or family-fishing corporation) owns an interest in the partnership***

Additional Considerations

- The property must have been used principally (more than 50%) in a farming or fishing business.
- For property purchased after June 17, 1987, there are additional requirements regarding gross revenue from farming and active involvement in the business.
- The "principally used" test applies to the entire period of ownership, not just at the time of sale.
- For family farm corporations or partnerships, at least 50% of the fair market value of their assets must be attributable to property used principally in an active farming business for any continuous 24-month period prior to disposition.

It's important to note that these rules can be complex, and the determination of whether a property qualifies for the LCGE is often a question of fact. Always consult with a tax specialist to ensure you meet all the necessary criteria and to optimize your tax planning strategies.

Click here to book your free consultation

Review Depreciation Expense (Capital Cost Allowance)

If you need to purchase a major capital asset like a building, machinery, or equipment for your farming business, consider buying it before the end of your fiscal year. This allows you to claim Capital Cost Allowance (CCA), which can reduce your taxable income.

What is Capital Cost Allowance?

If you acquire a depreciable property or asset for your farming business, such as a building, furniture, or equipment, and it is valued at more than $500, you can deduct its cost over a period of several years. This yearly deduction is called a capital cost allowance (CCA). There are a few rules you need to follow to claim it.

You cannot deduct its full cost when you calculate your net business income for the year in which you acquired the asset or property. It must be deducted over a period of years and are subject to the Class allowances as defined by the CRA (see below).

CCA can only be deducted on assets available for use at the end of your fiscal year. If you purchased an asset but it isn't available for use, you can't claim CCA in that tax year. For example, let's say you buy a combine in the fall, but it hasn't been manufactured yet – it wouldn't be eligible for CCA since it's not available for use yet.

How much CCA can I claim?

It depends on the type of property you own and when you acquired it. The CRA groups fixed assets into different classes, and each class has its own depreciation rate.

For example, if you purchase office furniture or a tool worth more than $500, these expenses fall under CCA Class 8. This class allows for up to 20% of capital cost allowance per year (depreciation expense) which means that if you have a $2,000 expense, you can deduct up to $400 every year in Capital Cost Allowance.

You don't have to claim the maximum amount of CCA in any given year. You can claim the amount you'd like, from zero to the maximum allowed for the year. This is a good opportunity to take stock of your tax position and if it would benefit you to claim CCA.

If you don't have to pay income tax for the year, you may not want to claim CCA since it reduces the balance of the class by the amount of CCA claimed. As a result, the amount of CCA available for you to claim in future years will be reduced. In this case, you could save the CCA for future years when your tax bill is higher.

Alternatively, if you're in the market for depreciable assets, buy them before your fiscal year end to take advantage of the Canadian government's accelerated investment incentive (see next section "Take advantage of tax incentives to make asset purchases")

Half-Year Rule

Traditionally, the Half-Year Rule limited CCA claims to half the normal rate in the year of acquisition. However, the Accelerated Investment Incentive, introduced in 2018, has modified this:

1. **First Year of Acquisition:** The traditional Half-Year Rule has been suspended for most property classes under the Accelerated Investment Incentive. Instead of claiming only half of the normal CCA in the first year, you can now claim up to 1.5 times the normal first-year CCA.
2. **Subsequent Years:** In the years following the acquisition, you can claim the full CCA amount based on the asset's class and depreciation rate as prescribed by the CRA..
3. **Recapture:** If you sell or dispose of the asset before the end of its useful life, you may need to recapture some of the CCA that you previously claimed. This is to account for the depreciation deduction you received but didn't actually use because you disposed of the asset early.
4. **Terminal Loss:** If you sell an asset for less than its undepreciated capital cost (UCC), you can claim a terminal loss. This can help offset income in the year of sale.
5. **Immediate Expensing for CCPCs**: For Canadian-controlled private corporations (CCPCs), there's an option to immediately expense the entire purchase of eligible capital depreciable property in certain classes, for assets acquired after April 19, 2021, and before 2024

It's important to note that not all assets are subject to the Half-Year Rule. Some assets, like certain vehicles, are subject to different CCA rules.

The specific CCA rates and rules for different classes of assets can change over time, so it's essential to seek guidance from a tax specialist to ensure you are accurately tax planning and reporting for your business.

The Half-Year Rule would be suspended for property that uses the accelerated investment incentive or immediate expensing provisions (see next section).

Common CCA Classes

Buildings

- Most commonly fall into Class 1 which allows for up to 4% CCA
- This Class includes the parts that make up the building such plumbing, HVAC, lighting, and electrical wiring
- Note, land is not a depreciable asset so CCA would not apply

Silos

- Class 8, which allows for up to 20% CCA

Furniture, Tools, Equipment

- Class 8, which allows for 20% CCA includes furniture, appliances, and tools costing $500 or more per tool, some fixtures, machinery, outdoor advertising signs, refrigeration equipment, and other equipment you use in the business.
- CRA has special rules for reporting the disposition of the asset and claiming the remaining capital cost allowance if you sell it before fully writing it off.

Tractors, Trailers, Trucks and Other Vehicles

- Vehicles can fall into different classes depending on their value, use or type
  - Class 10 or 10.1 - 30% CCA
  - Class 54 - 30% CCA (Zero-Emission)
  - Class 55 - 40% (Zero-Emission)

Visit the CRA website for a full list of CCA Classes

Always consult with a tax specialist to ensure you are correctly applying Capital Cost Allowance.

Here’s an example* .

Let's assume Maple Leaf Farms Ltd., a CCPC, purchases a new combine harvester for $800,000 in July 2024. The combine is available for use immediately upon purchase.

1. The combine still falls under Class 10 with a CCA rate of 30%.
2. For property normally subject to the half-year rule that becomes available for use between 2024 and 2027, the half-year rule is suspended, but the accelerated rate is reduced.
3. In 2024 and 2025, the first-year enhanced deduction is reduced to 75% of the full accelerated amount.

Calculation:
Base CCA: $800,000 × 30% = $240,000
Enhanced amount: $240,000 × 1.5 = $360,000
2024 reduced amount: $360,000 × 75% = $270,000

So, in 2024, Maple Leaf Farms can claim CCA of $270,000 on this asset.

Tax Implications:
Assuming Maple Leaf Farms has a corporate tax rate of 15% (small business rate):
Tax savings = $270,000 × 15% = $40,500

Important notes:
- The immediate expensing option for CCPCs is no longer available for assets acquired after 2023.
- The AII benefits continue, but at a reduced rate during the phase-out period.
- The total amount of CCA deductible over the life of the asset remains unchanged; only the amount claimed in the first year is affected.

Note: this is a simplified example using a fictional business and purchase. Contact your tax specialist to discuss how you can take advantage of the CCA for your farm business.

What if I want to sell my fixed assets?

If you have depreciable assets to sell, it may be better to wait until the new fiscal year. The delay lets you claim another year of capital cost allowance (CCA) in the current tax year.

However, any gains on the fixed asset will also be included in your income in the following year, and the CCA will be reduced by deducting the proceeds of sale. It's important to note that if the proceeds of disposition exceed the undepreciated capital cost (UCC) of the asset's class, you may have to report a recapture of CCA as income.

Conversely, if you sell the asset for less than its UCC, you may be able to claim a terminal loss. It's best to speak to a tax specialist to strategize on which option is right for you, as the timing of the sale can have significant tax implications.

What if I need to repair my fixed assets?

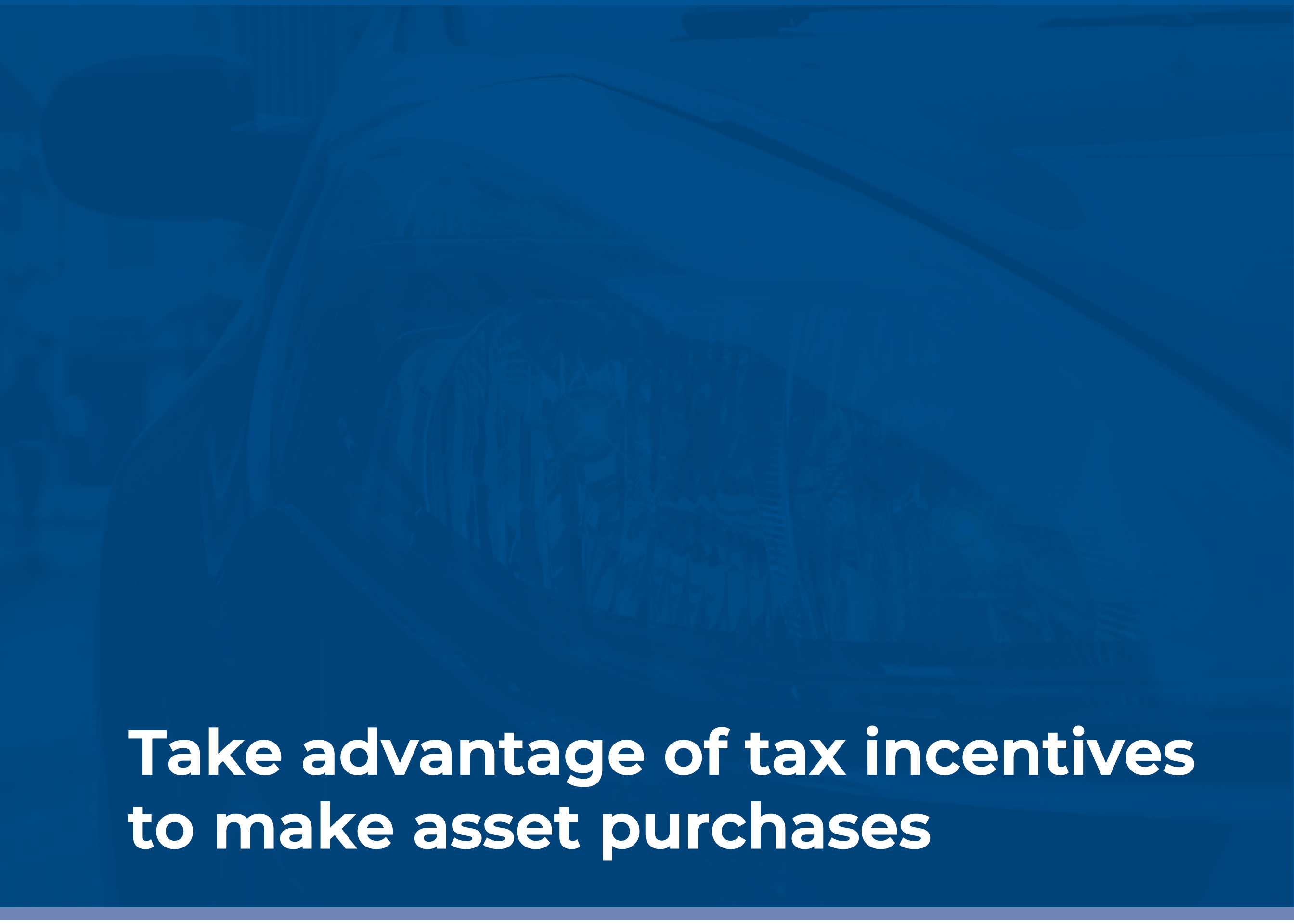
The cost of a repair that gives a lasting benefit or advantage is a capital expense. For example, if you placed vinyl siding on the exterior walls of a wooden property, you are extending the useful life of your property. This will need to be included in your CCA for that fixed asset.

However, routine repairs and maintenance that do not significantly improve the property or extend its useful life are generally considered current expenses and can be deducted in full in the year they are incurred.

When determining whether an expense is capital or current, consider:

- Does it provide a lasting benefit?
- Does it maintain or improve the property?
- Is it a significant cost in the context of the property's value?

If you're unsure about how to classify a particular expense, it's advisable to consult with a tax specialist.



Take advantage of tax incentives to make asset purchases

As we approach the end of 2024, small business owners should be aware of two key tax incentives when purchasing assets for their business. These programs allow for larger deductions in the first year of purchase, potentially offering significant tax benefits.

Accelerated Investment Incentive

The Accelerated Investment Incentive (AII) is a measure that provides enhanced first-year Capital Cost Allowance (CCA) for eligible property. It applies to eligible assets purchased after November 20, 2018, and available for use before 2028.

The two main benefits provided by AII are:

1. You can apply one-a-half-times the prescribed CCA rate in the first year an eligible asset was purchased
2. The half-year rule does not apply in the year of acquisition, effectively allowing a first-year allowance equal to three times the normal first-year deduction.

Important notes:

- AII is currently in its phase-out period (2024-2027). The enhanced deduction will gradually decrease each year until 2028.
- AII does not increase the overall CCA you can deduct - only the allowable amount in the first year of purchase.
- An increased first-year deduction means your subsequent year deductions will be reduced.

Immediate Expensing Property

Immediate expensing rules allow businesses to deduct the full cost of qualifying assets in the year they are acquired, rather than depreciating them over time.

To qualify for immediate expensing, the asset must meet certain criteria set by the CRA.

1. **For Canadian Controlled Private Corporations (CCPCs):**
   - Property must have been acquired on or after April 19, 2021, and became available for use before January 1, 2024.
   - Maximum deduction of $1.5 million per taxation year.
   - Note: This program has now ended for CCPCs as of 2024.
2. **For Canadian resident individuals (unincorporated) or partnerships where all members are individuals:**
   - The eligible property must be purchased on or after January 1, 2022 and become available for use before 2025.
   - This program is still active for the 2024 tax year.

Eligible property includes all assets subject to CCA rules, with exceptions for certain long-lived asset classes (Classes 1 to 6, 14.1, 17, 47, 49, and 51).

Strategic Considerations

1. **Timing of purchases:** Consider the phase-out period of AII when planning major asset acquisitions.
2. **Interaction with other incentives:** Some CCA classes (e.g., Classes 43.1, 43.2, and 53) have full expensing measures that may interact with AII.
3. **Unincorporated farms:** You still have the opportunity to benefit from immediate expensing until the end of 2024.
4. **Incorporated farms:** While immediate expensing has ended, you can still benefit from AII for eligible purchases.
5. **Plan for the future:** Consider how the gradual reduction of AII benefits will impact your tax planning in the coming years.

Example:
A farm purchases a new tractor for $300,000 in December 2024. Under normal CCA rules (Class 10, 30% rate), the first-year deduction would be $45,000. With AII, the farm can claim up to $101,250 in the first year (2.25 times the normal amount due to the suspension of the half-year rule and the enhanced rate, reduced by 25% in 2024).

Accelerated or immediate expensing may not always be the most advantageous option for every business. Depending on your financial situation and long-term plans, you may choose to depreciate assets over time instead.

Consulting with a tax specialist is recommended to determine the best strategy for maximizing tax benefits.

Stabilize farm income with inventory adjustments

One of the biggest tax planning challenges a farmer can face is income fluctuations. The good news is, if your farm uses cash accounting, you can average out these income swings by using two inventory adjustment tools: Optional Inventory Adjustments (OIA) and Mandatory Inventory Adjustments (MIA).

Optional Inventory Adjustments

Cash-based accounting farmers can use Optional Inventory Adjustments (OIA). This allows them to optionally claim an income amount against the year-end inventory they have on hand.

Spread over a two-year tax cycle, OIA allows you to balance out your current tax bill with the future tax you will have to pay when you sell your inventory, and your income rises.

In year one, you claim any amount up to the full Fair Market Value (FMV) of your inventory as income. The FMV is essentially the highest dollar value you could get for your inventory in an open market.

Although you can use OIA to boost your income level, if you keep it within the lowest tax bracket, you will only be taxed at the federal marginal rate (currently 15%).

The following year, or second tax year, the same amount is deducted from a cash-accounting farm's income even if the inventory isn't sold.

Although your income is higher from the sale of your farm inventory in year two, the OIA deduction lowers your income, so you are taxed less.

Depending on the results in year two, you can again decide if you want to add in a new OIA amount for that year. This trend can continue until there is no more closing inventory value.

Benefits of OIA

OIA's main benefit is building up a deduction to offset the higher income level in the year you sell your inventory, but there are some additional advantages.

1. **The OIA is essentially a tax deferral.**
   Consider building up your OIA before you go to sell the farm/retire as that is usually your highest income-earning year. The OIA would then lower your overall tax burden.

2. **OIA can help boost your taxable income in years where you wouldn't otherwise qualify for non-refundable tax credits, such as basic exemption, age exemption, spousal exemption, disability and medical.**
   Many provinces also have income thresholds and other criteria around farm status in order to qualify for certain programs and services, such as grants and fuel benefits.

3. **When you increase your income, you also increase your Registered Retirement Savings Plan (RRSP) contribution limit.**
   Because it is calculated as 18% of your previous year's earned income up to the maximum contribution limit, the more income you earn, the higher your contribution limit will be (up to the yearly maximum).

Mandatory Inventory Adjustments

With MIA a cash-based accounting farmer in a loss position is required by law to add the cost of purchased year-end inventory on hand to their income in order to increase it up to the point where the loss is eliminated.

With MIA, the cost of any purchased inventory on hand – regardless of the actual year of purchase – must be added to farm income up to the point where the loss is eliminated.

Need to learn more about how inventory adjustments can help to stabilize your farming income and pay less tax over time? Download the complete guide to Tax Planning for Farms.

It also includes real world examples to help you understand their application. Click to download.

You work hard for your money. We help you keep it.

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