

Ministry of Agriculture
BRIEFING NOTE FOR MINISTER FOR INFORMATION

Ref: 188155

Date: April 18, 2018

Title: Potential Tax Exemption relief options for the agriculture and food sector due to rising costs.

Issue: Rising production costs and increasing provincial regulatory impacts and options for the B.C. agriculture and food sector.

Background: Rising production costs combined with recent provincial policies including increasing minimum wage, the increasing carbon tax, and the increased costs of energy, may negatively impact the B.C. agriculture and food competitiveness of the sector.

On April 1, 2018, the Provincial Carbon Tax in B.C. was raised by \$5/tonne per year, to \$35/tonne. The impact of the carbon tax on the sector is currently mitigated by the Greenhouse Carbon Tax Relief Grant Program (GCTRGP) which addresses the B.C. Greenhouse industry's competitive disadvantage relative to other jurisdictions (e.g., U.S. and Mexico) arising from the B.C. Carbon Tax. The horticulture, poultry and mushroom industries are the highest energy users given the requirements for heating in the industry and therefore will be the most impacted by increases to the B.C. Carbon Tax.

British Columbia has also announced the minimum wage will increase fairly rapidly from the current rate of \$11.35 per hour to \$12.65 on June 1, 2018, to reach \$15.20 by June, 2021. This increase in minimum wage presents a significant challenge for the agriculture and food sector, particularly commodities that are hand harvested.

The Canadian Agricultural Outlook, produced by Agriculture and Agri-Food Canada, identified the following as the top costs for the sector for 2017/18:

- Labour in the form of higher cash wages (up \$23 million or 3.4%);
- Machinery fuel and repair expenses (up \$13 million or 5.9%);
- Interest costs (up \$8 million or 4.1%); and,
- For those sectors that require it, a significant increase in commercial feed costs is driven by increased dairy and poultry feed use.

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Appendix 3 describes the major tax benefits currently available for farmers including the categories of property tax, consumption tax, and income tax.

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Appendix 1 – Cross-jurisdictional Scan of Tax Exemptions for Farmers across Canada

A quick cross-jurisdictional scan discovered that the majority of provincial tax exemptions are for fuel tax and/or farm fuel benefits. Saskatchewan provides farmers with additional tax exemptions described below.

Additional tax exemptions in Saskatchewan		
Province	Initiative	Details
Saskatchewan	Insurance premiums	<ul style="list-style-type: none"> The Saskatchewan government exempts the PST on agriculture premiums (announced February 26, 2018). The exemption covers agriculture, which includes crop, livestock and hail insurance premiums The exemption is retroactive to August 1, 2017, the date PST was applied to insurance.
	Farm supplies and equipment	<ul style="list-style-type: none"> Farmers are exempt from PST when purchasing certain farm supplies and equipment. Some purchases are automatically exempt, while others require the farmer to certify that the goods purchased will be used solely in the operation of their farm.

The below table provides a summary of these exemptions found in Alberta, Saskatchewan, Manitoba, Ontario and Newfoundland and Labrador. This can be used to compare to B.C.'s fuel tax exemptions.

Comparison of provincial fuel tax and/or farm fuel benefits		
Province	Initiative	Details
Alberta	Alberta Farm Fuel Benefits (AFFB)	<ul style="list-style-type: none"> The AFFB allows eligible producers to receive a 9-cent-per-litre provincial fuel tax exemption on the purchase of dyed gasoline and diesel. Eligible Alberta producers are fully exempt from the provincial tax on propane and aviation fuel used for farming purposes.
British Columbia	Fuel Tax	<ul style="list-style-type: none"> Persons who qualify as farmers do not pay motor fuel tax on coloured fuel that is used in tractors and other farm machinery used off-highway, a tractor when used on highway for a farm purpose and a farm truck when used in the operation of a farm (exempt at point of sale in certain circumstances or eligible for refund). Farmers are eligible for a refund of motor fuel tax paid for clear fuel used in a farm truck while operating internationally for a farm purpose (e.g. travel to the United States to deliver

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Province	Initiative	Details
		farm product to a customer).
Saskatchewan	Fuel tax	<ul style="list-style-type: none"> • Holders of a valid fuel tax exemption permit may purchase tax reduced marked diesel fuel for use in their farming, commercial fishing, trapping or logging activities. • Effective April 1, 2017, the partial Fuel Tax exemption for bulk purchases of gasoline is eliminated. Fuel Tax Exemption Permit holders are required to pay the full fuel tax on gasoline purchases.
Manitoba	Carbon tax	<ul style="list-style-type: none"> • Manitoba's \$25 per tonne carbon tax does not apply to farm fuel.
Ontario	Fuel tax	<ul style="list-style-type: none"> • Coloured diesel in unplated farm equipment is exempt from the Provincial Fuel tax. Farmers are also eligible for a rebate of HST paid on this fuel.
Newfoundland and Labrador	Fuel tax	<ul style="list-style-type: none"> • Under the Gasoline Tax Act fuel used by a farmer in qualifying equipment for farming purposes is exempted from the Gasoline Tax.

Appendix 2 – Greenhouse Carbon Tax Relief Grant Program

On April 1, 2018, the Provincial Carbon Tax in B.C. was raised by \$5/tonne per year, to \$35/tonne creating a caseload type of fiscal pressure on the Ministry of Agriculture's Greenhouse Carbon Tax Relief Grant Program. The greenhouse industry has raised concerns about whether the program will continue to reimburse their fuel costs at current levels.

The GCTGRP currently provides eligible B.C. commercial greenhouse operators with a grant of 80 per cent of the carbon tax paid (in the previous calendar year) on natural gas and propane used for heating and carbon dioxide production and benefits over 170 B.C. commercial greenhouse vegetable, floriculture, wholesale landscape nurseries and forest seedling operations. B.C. greenhouse vegetables and floriculture are a significant component of the agricultural sector and were responsible for \$600 M of provincial agricultural farm cash receipts in 2016. The B.C. commercial greenhouse industry is considered a high energy consumption, trade exposed sector.

The Greenhouse Carbon Tax Relief Grant Program (GCTRGP) is an important mechanism for addressing the B.C. Greenhouse industry's competitive disadvantage relative to other jurisdictions (e.g., U.S. and Mexico) arising from the B.C. Carbon Tax. Without this support, prices for BC products will rise and BC fruit and vegetables, flowers and nursery stock will lose market share to foreign imports domestically and be less competitive internationally. Relief grants are based on the previous calendar year's fuel use and are expensed in the May of the subsequent calendar year. The Ministry of Agriculture's base budget currently includes \$7.555M annually for the GCTRGP.

The B.C. government has committed to raise the carbon tax by \$5 per year over the next five years, with the first increase of \$5.0/tonne effective April 1, 2018. To address this increase the GCTRGP budget would need to increase by \$1.04M to continue to reimburse greenhouse growers at the same level for their 2018 expenditures assuming average weather conditions. While rebates for 2018 expenditures are paid out of the 2019/20 fiscal year budget, since its inception the program has confirmed annual program details with producers in the December of the calendar year (i.e., December 2018) as this is the year being covered. Producers then submit their applications from January to March. Not surprisingly greenhouse producers are looking for confirmation now whether their 2018 carbon tax fuel costs are going to be covered at the 80% rebate level. Table 1 immediately below shows the program pressures assuming a \$5 per year carbon tax increase until 2021. Without additional program dollars the coverage rate for the relief grant will drop to 69% for 2018.

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The following assumptions were made in calculating the above forecast:

- The amount of fuel (GJ) used by producers will be constant at the 2016 level.
- Producers will be reimbursed using the price per GJ for the year the fuel was used (e.g. fuel used in 2017 will be reimbursed at 2017 rates even though the expenditure occurs in 2018/19, as illustrated by the following table)

Summary Points:

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Appendix 3 – Key BC Major Tax Benefits for Farmers

PROPERTY TAX

There are a number of property tax benefits for farmers:

1. Land

- Land classified as farm is valued using prescribed rates. The assessed value is generally considerably lower than it would be in a property class where land is assessed at market value.
- 50 per cent of the assessed value of land classified as a farm is exempt from school taxes. If the land is not in farm class but is in the ALR and is used for a farm purpose, 50 per cent of the assessed value of land is exempt from school taxes.
- The Province has a provincial farm land school tax credit that reduces the school property tax on land classified as farm 50 per cent. This applies in addition to the above reductions.

2. Farm Outbuildings

- Farm outbuildings are exempt from the rural area property tax.
- They are taxable for other property taxes but receive a maximum cumulative exemption on their value for other property taxes (e.g. if all of a farmer's outbuildings were assessed at \$150,000, they would be taxed as if they were assessed at \$100,000).

3. Farm Dwellings

- Farm dwellings are exempt from the rural area property tax.
- Farm dwellings are taxable for other property taxes.

4. Property Transfer Tax

- Transfers of family farms, including family farm corporations are exempt when the transfers meet certain requirements.

CONSUMPTION TAX

1. Motor Fuel Tax

- Persons who qualify as farmers do not pay motor fuel tax on coloured fuel that is used in tractors and other farm machinery used off-highway, a tractor when used on highway for a farm purpose and a farm truck when used in the operation of a farm (exempt at point of sale in certain circumstances or eligible for refund).

- Farmers are eligible for a refund of motor fuel tax paid for clear fuel used in a farm truck while operating internationally for a farm purpose (e.g. travel to the United States to deliver farm product to a customer).

2. Sales Tax

- Under the provincial sales tax (PST) bona fide farmers could purchase or lease over 300 items exempt from tax.

INCOME TAX

- Rollover provisions – rollover provisions allow farm families to transfer eligible farm property to a child without having to pay tax on any capital gains realized on the property. The tax is postponed until the property is sold by the child.
- Capital gains exemption – farmers can claim a lifetime capital gains exemption in respect of qualified farm property. (Note: There is a similar capital gains exemption is available to small business owners in respect of qualified small business shares.)
- Farmers have additional flexibility relative to other businesses in that they may choose to report income for tax purposes on a cash or accrual basis, whichever they prefer; other businesses generally report income on an accrual basis.