Tax Planning Strategies

Year-end for many farm operations and many farmers means scrambling to find ways to reduce or defer tax bills.

• Are you continually deferring grain or livestock cheques to the new calendar year because your taxable income is too high?
• Do you buy inventory, such as chemicals, seed or fuel to raise your expenses and lower your tax bill?
• Do you ever buy new equipment to avoid lower your taxes?
• Do you panic in late November and ask your accountant for last-minute tips on reducing your taxes?

Many farmers may answer “yes” to one or two of these questions and many of you might appreciate some help with your tax planning strategies.

Commodity Marketing Plans

If you currently sell grain or livestock as the bills and other financial obligations come due, you could benefit greatly from a marketing plan. Producers who don’t have a solid plan can be forced to sell at lower prices. Others put off paying bills hoping to get a few extra cents per bushel, when the interest on the bills accumulates and their credit rating drops.

If you can’t manage your cash flow, it may be worthwhile hiring a consultant to help you plan effective marketing. A marketing plan allows you to set your selling prices rather than taking the price available on the day you need to sell. This can also level out the income earnings because you are more likely to hit the averages in the market throughout the year, instead of hitting all the highs or lows. A well-executed marketing plan needs ongoing monitoring, so you can make changes based on current economic conditions.

Incorporation

Farmers who incorporate their operations may find significant tax savings because the business is taxed at a lower rate than personal income. Individual shareholders of the corporation report dividend income or income earned from share redemption on their personal tax returns. The corporation will typically assume ownership of the inventory, machinery and equipment from the sole proprietor entity. The incorporated business owner can choose the fiscal year end that is best suited to the operation. It can be December 31 or any other time during the year that provides the best financial results for you. Discuss incorporation with your accountant to make sure it will benefit your operation. Incorporation can also be used as an effective part succession plans.

Manitoba

Long term planning

It's a good idea to meet with a tax accountant if you are planning to retire in the next five years. It can help ensure you and your operations minimize taxes. This is particularly important if the farm is going to be sold. The sale of land will generate a large amount of capital that carry you through many years of retirement. Tax specialists can help you shelter taxes as much as possible and reduce the amount you must pay. If your succession plan involves selling land to the next generation to fund your retirement, then capital gains exceptions will be important. This exception allows for $1,000,000 per person before taxes are calculated on the sale. It is important to discuss any potential land sales with your accountant to get advice on how to minimize the amount of your income tax.

Other Options

Simple things, like changing or setting loan payments to match periods of strong cash flow can be used as an overall strategy to manage income. This can reduce the panic selling that can sometimes happen when loan payments or bills need to be paid by a certain date. It is a good idea to review your operating line of credit on an annual basis to make sure that the size is still sufficient for your operation. If you find it tight, it may be worth a discussion with your lender to see about a possible increase to provide some more room. Cash advances may also be a tool that can be used to reduce interest costs by allowing you more time to market your grain.

If you can contribute the maximum to your RRSPs, you can reduce your taxable income and the amount of income tax. You can also contribute on an annual basis to a Tax-Free Savings Account (TFSA) and the funds can be withdrawn at any time. To determine your contribution limits for RRSPs or TFSA, refer to your latest Notice of Assessment. It's a good idea to visit your accountant in early in the year, to plan a strategy to reduce the amount you may need to pay.

For information on your business and your taxes, talk to your accountant, financial planner, or contact us:

- Farm Management Specialists
- Email us at mbfarmbusiness@gov.mb.ca
- Toll free at 1-844-769-6224