Technical Information Circulars for AgriStability
How to Report Income and Expense

Contents

Sustainable Canadian Agricultural Partnership

SCIC Saskatchewan Crop Insurance Corporation

Canada

General Information

Participants must report farming income and expense to Saskatchewan Crop Insurance Corporation (SCIC) using the same method of accounting (cash or accrual) used when reporting to Canada Revenue Agency (CRA).

Income and Expense:

Allowable income for AgriStability is farming income directly related to the primary production of agricultural commodities the farm/ranch produces or raises within Canada.

Allowable expense for AgriStability is farming expense directly related to the primary production of agriculture commodities the farm/ranch produces or raises within Canada.

To be equitable for all producers enrolled in the AgriStability Program, some income and expense are deemed non-allowable because they can significantly vary based on the farm type and the management practices used. To ensure fairness in delivering the AgriStability Program, consistency is needed regarding the allowable income and expense.

For example, the cost directly related to the maintenance of machinery varies significantly between each farm operation. Machinery maintenance costs are non-allowable for AgriStability as they are highly discretionary depending on the approach used by the farm business. To ensure fairness of the Program, no farm should have an advantage in accessing benefits from AgriStability through the approach they use for machinery maintenance.

Another example of a non-allowable expense is land purchases or land rent. While SCIC recognizes land is needed in agriculture production, the impact land management decisions could have on the AgriStability Program are significant and can vary drastically depending on the management decisions made by each farm operator. To ensure fairness of the Program no farm should have an advantage in accessing benefits from AgriStability through the approach they use for land acquisition and use.

Income and expense related to the following activities are considered non-allowable for the AgriStability Program:

- Income and expense related to aquaculture.
- Sales and purchases related to peat moss operations.
- Trees produced for use in reforestation.
- Income and expense related to operation of a wild game farm.

- Income and expense related to resale of purchased commodities and inputs (fertilizer, chemical, fuel) not intended for operation use.
- Income and expense related to internal transfers of produced commodities and/or purchased inputs between related parties in a whole farm operation.
- Income and expense related to processing of commodities not produced on the farm. (Changing the state of the commodity. For example, milk to cheese, strawberries to jam, beeswax to candles, beef to beef jerky, grain to flour.)
- Farming activities outside of Canada.
- SCIC may adjust or consider non-allowable, any income or expense not substantiated by a verifiable explanation or supporting documentation.

Allowable Income	Allowable Expense
• Agricultural commodity sales • Commodity future transactions (hedging gains / net) • Government funded insurance proceeds • Government funded program payments related to farm production and allowable expenses • Insurance proceeds or other proceeds for allowable income and expense items (not covered by producer's private insurance) • Resales, rebates, GST/HST of allowable expenses used by producer • Wildlife damage compensation payments **2019 program year and prior** ▪ Private insurance proceeds (crop, production, or price) ▪ Insurance proceeds or other proceeds for allowable income and expense items (covered by producer's private insurance)	▪ Arm's Length Salaries ▪ Commodity purchases ▪ Commission and levies ▪ Commodity future transactions (Hedging losses / net) ▪ Containers and twine ▪ Custom feeding expenses ▪ Electricity ▪ Fertilizer and soil supplements ▪ Freight and shipping ▪ Heating fuel ▪ Insurance premiums - Government funded (crop, production, or price) ▪ Insurance premiums – Privately funded (crop, production, or price) ▪ Machinery (gasoline, diesel fuel, oil) ▪ Minerals and salts ▪ Prepared feed (purchased and used by producer) ▪ Point of sale adjustments ▪ Storage and drying ▪ Veterinary fees, medicine, breeding fees

Non-Allowable Income	Non-Allowable Expense
▪ Agricultural contract work ▪ Business risk management and disaster assistance payments (see Commodity Code Guide for list non-allowable program payments) ▪ Commodity future transactions gains related to speculation or trades on non-produced/raised commodities ▪ Gravel ▪ Interest ▪ Land Rental ▪ Lease ▪ Machinery rental ▪ Mandatory inventory adjustments – current year ▪ Optional inventory adjustments – current year ▪ Other program payments ▪ Patronage dividends ▪ Resale, rebates, GST/HST for non-allowable expenses ▪ Resales of commodities purchased for resales ▪ Trucking	▪ Agricultural contract work ▪ Advertising and marketing costs ▪ Building and fence repairs ▪ Commodity future transactions loss related to speculation or trades on non-produced/raised commodities ▪ Gravel ▪ Insurance premiums (other) ▪ Interest (real estate, mortgage, other) ▪ Land clearing and draining ▪ Licenses/permits ▪ Legal and accounting fees ▪ Machinery lease/rental ▪ Membership/subscriptions ▪ Motor vehicle expenses ▪ Motor vehicle interest and leasing cost ▪ Non-arm's length salaries ▪ Office expenses ▪ Property taxes

2020 program year and future (Program year only) ▪ Private insurance proceeds (crop, production, or price) ▪ Insurance proceeds or other proceeds for allowable income and expense items (covered by producer's private insurance)	▪ Purchases commodities for resale ▪ Quota rental (tobacco, dairy, etc.) ▪ Rent (land, buildings, pastures) ▪ Small tools ▪ Soil testing ▪ Telephone ▪ Allowance on eligible capital property ▪ Capital cost allowance ▪ Mandatory inventory adjustments – prior year ▪ Optional inventory adjustments – prior year

Agricultural Contract Work and Rental

Agricultural contract work/rental income and rental expense are deemed non-allowable for AgriStability. Portions of the contract work can be considered allowable if the invoice itemizes all the components of the work. With an itemized invoice, it can be better determined which aspects of the invoice are allowable and which aspects are non-allowable, based on the AgriStability guidelines.

Please note, expense for the trucking of eligible commodities (grain, livestock, etc.) to market or eligible inputs (fertilizer, chemical, seed, etc.) to the farm are allowable. Those trucking expenses are to be reported under code 9801 freight and shipping.

Contract/custom work includes: agrologist, agronomist, custom seeding, custom spraying, custom harvesting, corral cleaning, seed cleaning, snow plowing, gravel hauling, contract welding, oilfield services, non-agricultural trucking, land clearing, logging, building, and construction, etc.

Contract/Custom Vendor:

For AgriStability, the income and expense related to completing contract/custom work for others is deemed non-allowable for the Program because it does not directly contribute to the production of the commodities raised or produced on your farm.

If you are completing contract/custom work and do not report the related expenses separate from the regular farming activity on the tax information provided to the CRA, SCIC will deduct an amount equal to 30 per cent of the reported contract work income from your allowable expenses. If the 30 per cent ratio does not reflect the ratio on your farm, you can request SCIC use a different expense ratio. SCIC may request supporting documentation to substantiate your expense ratio.

If you are completing contract/custom work and report the expenses related to the contract/custom work activity as non-allowable expenses on the tax information provide to the CRA, the income from this work is to be reported as other income. SCIC may request supporting documentation to substantiate how the expenses are reported.

If there is a discrepancy in the method used to report income and expense in the program year and reference period, the reference period reporting will be adjusted to reflect the method used in the program year. This ensures an accurate comparison between your program year and reference margins.

Hiring contract/custom work vendors:

If the custom/contract work vendor itemizes the expense on the invoice by differentiating between allowable and non-allowable expenses, the allowable portion of expenses may be reported separately on your income tax return. Those expenses may include arm's length salary, fertilizer, chemical, seed, fuel, etc. The non-allowable portion of the invoice is to be reported under contract work expense.

Supporting documentation such as vendor's invoices or other documentation may be requested to verify the allowable and non-allowable expenses of the contract/custom work.

If there is a discrepancy in the method used to report these expenses in the program year and reference period, the reference period reporting will be adjusted to reflect the method used in the program year. This ensures an accurate comparison between your program year and reference margins.

Commodity Futures Transactions (Hedging)

The income and expense related to hedging transactions are considered allowable for the AgriStability Program; however, there are guidelines limiting what hedging activities will be allowed. For example, SCIC will not accept gains and/or losses due to speculation.

A futures market hedge is defined as an equal but opposite position to the farmer's position in the cash market. The purpose of a hedge is to provide protection from price declines if the producer is selling a commodity, or from price increases if the producer is buying a commodity.

For example: A wheat producer with stored wheat may take a short futures position, since they are long in the cash market, for a volume of wheat no greater than what is in storage. This short hedge would ensure a minimum price the producer would receive for their stored wheat.

In practice, hedging can be more sophisticated and complex; however, one aspect of hedging always present regardless of how complex the strategy, is a hedge is intended to offset the risk in the cash market. If no cash market position is held, there is no risk to offset. Futures market transactions not meeting the definition of a hedge are considered speculation for the purposes of AgriStability.

Income and expense from futures market transactions are allowable as part of a hedging strategy providing future transactions were undertaken on:

- Produced/raised commodities on-hand, not already locked into a fixed price contract and the volume of the transaction does not exceed current on-hand inventory.
- Livestock raised off farm, but the producer has retained ownership and only up to the amount they own. There must be an appreciable contribution to the growth and maturity of the livestock (see custom feeding).
- Commodities the farm can reasonably produce, and expected production is not locked into a fixed price contract. SCIC will deem volume of futures transactions exceeding historical production average of the commodity as non-allowable speculation activity.
  For example: A producer's five-year historical average production on canola is 40 bushels per acre. The producer takes a future position in canola market with expected production of 60 bushels per acre. SCIC considers the gain/loss on the future transaction volume equal to 40 bushels per acre as allowable. The gain/loss associated on the volume exceeding 40 bushels per acre is deemed as non-allowable speculation.
- Commodities used to feed a producer's owned livestock only for the volume reasonable for operational size.
- As a proxy hedging strategy, where no direct market is available, a producer uses a highly correlated market to hedge risk for the commodity.
  For example: A bison feeder producer is hedging risk using the cattle feeder market, as there is no actively traded bison market.
- Hedging foreign market currency relevant to the operation's international sales, is allowable.

SCIC deems income and expense from the following future market transactions as non-allowable speculation activity when any future transactions are undertaken on:

- The volume which exceeds on hand inventory and/or historical average produced for a commodity by the operation.
- Commodities not produced/raised by the operation.
- Commodities that have been already sold on the cash market.
- Commodities purchased for resale.

- As a cross hedging strategy, where there is an established market for the commodity, but a producer uses a highly correlated market with similar price trends to hedge a risk to take advantage of the greater liquidity (market movement) within that market.
  For example: A producer has canola and is hedging risk using US soybean market instead of using the established Canola market.
- Foreign market currency where the operation does not directly market to.

Please note, when an operation is engaged in hedging activity, SCIC encourages reporting hedging gains and losses as a line item on your taxes separate from commodity sales and/or purchases. In addition, when submitting program year application, producers are encouraged to submit an Additional Information form providing a breakdown of which line items relate to commodity sales and/or purchases from allowable hedging activity. In future program years, the expectation is the producer continues to report allowable hedging gain and losses as allowable income and/or expense.

All producers reporting futures market transactions may be required to submit the following for any futures market gains and losses to be considered allowable:

- written summary of producer's futures market strategy.
- brokerage statements showing the futures transactions for the years in question.

Crop or Forage Share

For the AgriStability Program, a crop/forage share is a joint venture agreement between a tenant and landlord. The tenant's and landlord's share of the allowable expense reported to CRA must be reasonable for their share of the allowable income.

Please note, both parties do not have to be enrolled in the AgriStability Program to accept a crop/forage share as part of the benefit calculation.

For the parties enrolled in AgriStability, a copy of the written crop share agreement documenting the shared income and expense items may be requested by SCIC.

Tenant:

A tenant is the person/entity who leases or rents land from the landlord.

When a tenant has a crop/forage share agreement, which is a joint venture, they are to report the income and expense on their Income tax and AgriStability as follows:

- For expense, the tenant will report their percentage share of input costs (seed, fertilizer, chemical, insurance, salaries & fuel) and marketing costs (point of sales, commission & levies, freight & shipping, storage & drying) related to the crop/forage production in the share agreement.

- For income, the tenant will report their percentage share of commodity sales and insurance income related to the crop/forage production in the share agreement.

In cases when a tenant gives a landlord a share of the crop or forage sales instead of paying the landlord cash for land use, it is considered a rental agreement for AgriStability. The commodity income given to the landlord is reported by the tenant on their income tax as commodity income with a counterbalancing land rental expense. The tenant will report all the crop acres, production and inventory to AgriStability.

Landlord:

A landlord is the person/entity who leases or rents land to a tenant.

When a landlord has a crop/forage share agreement which is a joint venture, they are to report the income and expense on their Income tax and AgriStability as follows:

- For expenses, the landlord will report their percentage share of input costs (seed, fertilizer, chemical, insurance, salaries & fuel) and marketing costs (point of sales, commission & levies, freight & shipping, storage & drying) related to the crop/forage production in the share agreement.
- For income, the landlord will report their percentage share of commodities and insurance income related to the crop/forage production in the share agreement.

In cases when a tenant gives a landlord a share of the crop or forage sales instead of paying the landlord cash for land use, it is considered a rental agreement for AgriStability. If this is the only agriculture income for the landlord, they are not eligible for the AgriStability Program. The commodity income given to or sold under the landlord's name is to be reported on their Income tax as rental income.

The following is an example crop share joint venture between a tenant and landlord:

The tenant and landlord enter into a 75/25 crop share agreement in the program year on 1,000 acres of wheat, producing 1,250 tonnes. The Joint venture sold 1,000 tonnes before the program year end, leaving 250 tonnes of carryover inventory.

The Joint Venture generated the following income and expenses related to crop share agreement:			
Income		**Expense**	
Wheat sales	$345,000	Wheat seed	$20,000
		Fertilizer	$50,000
		Herbicide	$36,000
		Fuel	$8,000

The Tenant will report the following for Income tax and AgriStability:			
Income tax		**AgriStability**	
Income		**Acres**	750 acres = (1,000 acres x 75%)
Wheat	$258,750 = ($345,000 x 75%)		
Expense		**Production**	937.5 tonnes = (1,250 tonnes x 75%)
Wheat seed	$15,000 = ($20,000 x 75%)		187.5 tonnes = (250 tonnes x 75%)

Fertilizer	$37,500 = ($50,000 x 75%)	**Ending Inventory**	
Herbicide	$27,000 = ($36,000 x 75%)		
Fuel	$6,000 = ($8,000 x 75%)		

The Landlord will report the following for Income tax and AgriStability:			
Income tax		**AgriStability**	
Income		**Acres**	250 acres = (1,000 acres x 25%)
Wheat	$86,250 = ($345,000 x 25%)		
Expense		**Production**	312.5 tonnes = (1,250 tonnes x 25%)
Wheat seed	$5,000 = ($20,000 x 25%)		
Fertilizer	$12,500 = ($50,000 x 25%)	**Ending Inventory**	62.5 tonnes = (250 tonnes x 25%)
Herbicide	$9,000 = ($36,000 x 25%)		
Fuel	$2,000= ($8,000 x 25%)		

Livestock Share/Joint Venture

For the AgriStability Program, a livestock share is a joint venture agreement between two or more producers. Each producer must report their percentage share of the income and expense based on the livestock share agreement. A copy of the written livestock joint venture agreement documenting the shared income and expense items may be requested by SCIC.

For income, each producer will report their percentage share of the commodities and insurance income related to the livestock production in the livestock joint venture agreement.

For expense, each producer will report their percentage share of input costs (livestock purchases, vet fees), feed costs (forage, mineral & salts, prepared feed) and marketing costs (commission & levies, freight & shipping) related to the livestock's growth and maturity in the livestock joint venture agreement.

For income and expense from a livestock share to be considered allowable, the operation must have made an appreciable contribution to the growth and maturity of the livestock.

In the case of cattle, an appreciable contribution will have been made if the animals are fed for at least 60 days or gain an average of at least 90 kilograms (200 lbs.).

Operations where the income and expense are non-allowable are those that have not contributed to the growth and maturity of the livestock such as:

1. Acting as an agent or broker for the sale of livestock; or
2. Buying livestock for short-term resale; and/or
3. Assembling and preparing livestock for shipment.

In cases where the producer reports their share of the commodity income and expense, but one producer has all the on-hand inventory to feed the livestock, SCIC may combine the farming operations as part of a whole farm operation for the AgriStability Program.

The following is an example how producers should report a livestock share joint venture:

John Smith and Jane Doe enter a 50/50 livestock share agreement in the program year for feeder steers which are being custom fed. The following is activity for the joint venture in the program year:

- *Purchase 500 head of feeder steers under 500 lb. throughout year. All animals were fed for more than 60 days.*
- *Sold 300 head of feeder steers averaging 1,000 lb. each.*
- *Retained 200 head of feeder steers averaging 920 lbs. each.*
- *Cattle sales of $495,000.*
- *Cattle purchase of $525,000.*
- *Custom Feeding expense of $54,000.*
- *Trucking expense of $5,000.*
- *Commission and Levies of $500.*

John Smith and Jane Doe will each report the following for Income tax and AgriStability:			
Income tax		**AgriStability**	
Income			
Cattle	$247,500 = ($495,000 x 50%)	**Ending Inventory**	100 head = (200 head x 50%) for code 8056 Beef, Steers, Feeder 901-1000 lb.
Expense			
Cattle	$262.500 = ($525,000 x $50%)	**Livestock Productive Capacity**	250 head = (500 head x 50%) for code 106 Finished Cattle (fed over 901 lb.)
Custom Feeding	$27,000 = ($54,000 x 50%)		
Trucking	$2,500 = ($5,000 x 50%)		
Commission & Levies	$250 = ($500 x 50%)		

Livestock Lease Agreements

For Livestock Lease Agreements, livestock owner(s) maintain ownership of the breeding herd and lease their herd to another producer who maintains animals for an agreed upon percentage share of the livestock crop.

The following is an example how producers should report livestock lease agreements:

John Smith is the owner of 100 beef breeding cows. John enters into a livestock lease agreement with Jane Doe (lessee) in the program year, John will receive a 25 per cent share of the calf crop. Jane will receive a 75 per cent share of the calf crop. Jane will manage John's breeding cows throughout the program year and will use her own forage inventory to maintain the breeding herd.

In the program year, all the leased cows were bred at the start of the year, there were 100 live births. Based on Jane's advice, John culls ten breeding cows and sells them for total of $11,000. John purchases ten replacement heifers for total of $13,000 to replace the culled animals. The replacement heifers are bred by the end of the program year.

Jane sells 60 calves averaging 550 lb. each for total value of $60,000. There are 40 head of feeder heifers, averaging 550 lbs. remaining in ending inventory. Jane acquires $2,500 of mineral and salt cost to maintain the herd throughout the year.

Jane Doe will report the following for Income tax and AgriStability		
Income tax		**AgriStability**
Income		**Ending Inventory**
Cattle	$45,000 ($60,000 x 75%)	Code 8134 Beef, Breeding Females, Leased of 100 head Code 8040 Beef, Heifer, Feeder, 501-600 lbs. of 30 head = (40 head x 75%)
Expense		**Livestock Productive Capacity**
Mineral & salts	$2,500	Code 104 Cattle (# of females that birthed) of 75 head = (100 head x 75%)

John Smith will report the following for Income tax and AgriStability		
Income tax		**AgriStability**
Income		**Ending Inventory**
Cattle, calves	$15,000 ($60,000 x 25%)	Code 8002 Beef, Breeding Cows of 90 head
Cattle, cows	$11,000	Code 8062 Beef, Replacement Heifers (bred) of 10 head
Expense		Code 8036 Beef, Heifer, Feeder, 501-600 lbs. of 10 head = (40 head x 25%)
Cattle, cows	$13,000	**Livestock Productive Capacity**
		Code 104 Cattle (# of females that birthed) of 25 head = (100 head x 25%)

Custom Feeding

For income and expense from a feeding operation to be considered allowable, the operation must have made an appreciable contribution to the growth and maturity of the livestock.

In the case of cattle, an appreciable contribution will have been made if the animals are fed for at least 60 days or gain an average of at least 90 kilograms (200 lbs.).

Operations are not considered to have contributed to the growth and maturity of the livestock and their income and expense are non- allowable, if they are:

1. acting as an agent or broker for the sale of livestock; or
2. buying livestock for short-term resale; and/or
3. assembling and preparing livestock for shipment.

Income and expense amounts reported as custom feeding can be itemized. If they are itemized, they can then be broken out into allowable income and expense items.

For example: if producer received income based on feed plus yardage charges, the income directly related to the feeding of the livestock would be considered allowable; however, the yardage portion of the income is not allowable as it represents the capital costs of the custom feeding operation.

For custom feeding income and expense which are not itemized (including the yardage adjustment), an amount equal to five per cent of reported custom feeding income or expense is deducted. If the five per cent ratio does not reflect the ratio on the producer's farm, the producer can request SCIC use a different yardage ratio. SCIC may request supporting documentation to substantiate the producer yardage ratio.

Custom Feeding Operator:

A custom feeding operator manages the health and maturity of another producer's livestock.

The custom feeding operator has two options when reporting income for custom feeding:

1. The custom feeding operator invoices feed separate from yardage to livestock owners. Record income received for the value of the feed, fed to the livestock using commodity codes 243 - Custom feedlot operator income (itemized invoices) or 046 - Prepared feed and protein supplement. Record income received for the yardage using line code 9600 - Other (specify) income.
2. The custom feeding operator does not report yardage separate from feed on invoice to livestock owners. Record the income under commodity codes 246 - Custom feedlot operator income (non-itemized invoices) or code 576 - Other custom feeding income.

The custom feeding operator is to report expense related to custom feeding livestock activity under the respective commodity codes: Purchased forage under code 264 - Forage, prepared feed under code 046 - Prepared feed and protein supplement, and feed barley under code 003 - Barley.

For the AgriStability Program, the custom feeding operator will report livestock productive units under respective custom fed codes. The livestock productive units are calculated by the number of head multiplied by the number of feed days.

Livestock Owner:

A livestock owner retains ownership of the animals being custom fed and makes management decisions on how long to feed, keep or sell animals.

The livestock owner has two options when reporting expense for custom feeding:

1. The invoice received for custom feeding is separated for feed and yardage. Record the value of custom feed expense under commodity code 577 - Livestock owners custom feeding expense (itemized) and non-allowable yardage charged under line code 9896 - Other (specify) expense.
2. The invoice received for custom feeding does not report yardage separately from feed. Record the entire expense under commodity code 573 - Other custom feeding expense (non-itemized).

For the AgriStability Program, the producer will report livestock productive units under the respective livestock codes. The productive capacity units for livestock owners are based on the number of head fed in program year.

The following is an example how producers should report custom feeding:

John Smith (livestock owner) has 1,500 head of beef feeder cattle being custom fed by Jane Doe (custom feeding operator). John has his animals fed for 65 days by Jane. The beef feeder cattle reach an average weight of 950 lbs. in the program year.

Jane charges John $2.50 per head per day for custom feeding. She does not itemize her invoice to show the feed and yardage portion of the fee.

Jane Doe (custom feeding operator) will report the following for Income tax and AgriStability for the custom feeding:		
Income tax		**AgriStability**
Income		**Livestock Productive Capacity**
Code 246 Custom feedlot operator income (non-itemized invoices)	$243,750 = (1,500 head x $2.50/head/day x 65 days)	Code 141 Custom fed cattle of 97,500 feed days = (1,500 head x 65 days)

John Smith (livestock owner) will report the following for Income tax and AgriStability for the custom feeding:		
Income tax		**AgriStability**
Expense		**Livestock Productive Capacity**
Code 573 – Other custom feeding expense (non-itemized)	$243,750 = (1,500 head x $2.50/head/day x 65 days)	Code 106 Finished Cattle (fed over 901 lbs.) of 1,500 head

Custom Grazing versus Pasture Rent

For the income and expense from a custom grazing to be considered allowable, the producer may be required to provide assurance the transaction is custom grazing and not pasture rent. In a custom grazing operation, the operator actively manages the forage resources of the land base in contrast to renting out pastureland to a livestock owner.

To verify reported custom grazing income or expense, SCIC may require a written agreement demonstrating:

- the custom grazing operator assumed responsibility for the feeding, health and/or safety of the livestock; and
- the custom grazing operator charged fees on a weight gain or on a daily per head basis; and
- the expense claimed reasonably approximates the value of the feed consumed.

For custom grazing operator to report Livestock Productive Capacity units, they must have made an appreciable contribution to the growth and maturity of the livestock.

Please note, pasture rent is a non-allowable income/expense for AgriStability.

Custom Grazing Operator:

Unlike custom-feeding operations, yardage fees are not assumed to be included in custom grazing income. The custom grazing operator reports income earned under commodity code 243 - Custom feedlot operator income (itemized invoices).

The custom grazing operator will report livestock productive units under respective custom fed codes. The livestock productive units are calculated by number of head x number of fed days. Please identify as the custom grazing operator in the additional information portion of the program forms or in E-note on AgConnect.

Each custom grazing operation will be reviewed each year on a case-by-case basis.

Livestock Owner:

The livestock owner with livestock being custom grazed, will report the expense incurred under commodity code 577 - Livestock owners custom feeding expense (itemized).

For the AgriStability Program, the livestock owner will report livestock productive units under the respective livestock codes. The productive capacity units for livestock owners are based on the number of head fed in the program year.

The following is an example how producers should report custom grazing:

John Smith (livestock owner) has 350 head of beef feeder cattle being custom grazed by Jane Doe (custom gazing operator). John has his animals fed for 90 days by Jane. The beef feeder cattle reach average weight of 950 lbs. in the program year.

Jane Doe charges John $1.10 per head per day for custom grazing.

Jane Doe (custom grazing operator) will report the following for Income tax and AgriStability for the custom grazing:		
Income tax		**AgriStability**
Income		**Livestock Productive Capacity**
Code 243 Custom feedlot operator income (itemized invoices)	$34,650 = (350 head x $1.10/head/day x 90 days)	Code 141 Custom fed cattle of 31,500 feed days = (350 head x 90 days)

John Smith (livestock owner) will report the following for Income tax and AgriStability for the custom grazing:		
Income tax		**AgriStability**
Expense		**Livestock Productive Capacity**
Code 577 – Other custom feeding expense (itemized)	$34,650 = (350 head x $1.10/head/day x 90 days)	Code 106 Finished Cattle (fed over 901 lbs) of 350 head

Processing

Processing is defined as changing the state of the commodity (e.g. milk to cheese, strawberries to jam, beeswax to candles, beef to beef jerky, grain to flour) or adding value to a commodity without changing its state (alfalfa to alfalfa pellets).

For the AgriStability Program, income from processing is allowable if the following conditions have been met:

- the commodities processed were produced by the farming operation; and
- the income and expense were reported to the CRA as farming income or loss.

Resales

Resales are defined as the buying and selling of commodities or purchase inputs, without the direct intention of using them in the farming operation.

For example, buying wheat seed and reselling it without the process of planting and growing the commodity.

Or purchasing commodities for value added processing such as turning grain into flour. The income and expense associated with resales are non-allowable for the AgriStability Program. Purchases are to be reported as code 9827 - Purchases of commodities resold. The income is to be reported under code 9612 - Resales of commodities purchased.

Farming Activities Outside Canada

Income and expense generated from farming activities outside Canada are non-allowable. Income from commodities taken to a finished or marketable state within Canada and subsequently sold outside Canada, are allowable.

If a commodity is produced in Canada and shipped outside Canada for further production, the income and expense generated once the commodity has left Canada is non-allowable.

For example: A producer ships weaner hogs to the US for finishing and sale. Any income or expense generated from the additional production or finishing of these hogs in the US is non-allowable. In this case, the producer would include the fair market value of the weaner hogs as they left Canada as allowable income for AgriStability.

It is possible the commodity may return to Canada for further production or sale, in which case, the income and expense generated once the commodity re-enters Canada is allowable.

For example: A producer ships weaner hogs to the US for finishing. Any income or expense generated from the additional production or finishing of these hogs within the US is non-allowable. In this case, the producer would include the fair market value of the weaner hogs as they left Canada as allowable income for AgriStability. If the hogs re-enter Canada, the producer would include the fair market value of the hogs as they enter Canada as allowable expense/purchase for AgriStability. Any income from the sale of the hogs after they had been in Canada would be allowable income.

Payment in Kind

A payment in kind occurs when a producer exchanges goods or services instead of money.

In the event a producer exchanges a commodity they produced or raised for services provided; the fair market value of the commodity given in exchange for the service is to be reported as commodity income and expense.

Examples of an exchange of commodities for service:

- *A producer owes a neighbour $10,000 for custom spraying on crop acres. In lieu of cash, the producer pays the neighbour by giving a fair market value of $10,000 of wheat seed inventory. The producer will add $10,000 to wheat income and $10,000 to custom work expense on their tax statement. The producer's wheat inventory will be reduced by the amount given to the neighbour.*
- *A producer needs wheat seed for the current production cycle. In lieu of cash for wheat seed, the producer exchanges crop spraying service equal to fair market value of $10,000 of wheat seed. The producer will add $10,000 agricultural contract work income and $10,000 to wheat seed expense on their tax statement.*

Gifts

In the event a producer gifts a commodity produced or raised which would have been sold, the fair market value of the commodity in the month it is gifted is to be reported as income.

For example: A producer gifts 100 tonnes of oat inventory to their child in program year. The fair market value for oats is $200 per tonne. The producer will include $20,000 (100t x $200/t) for the inventory gifted in their commodity oat income on their taxes.

Once a producer gifts crop or forage inventory to another person, they cannot deduct any more cost to sell or transport the commodity.

The person who received crop or forage inventory as a gift and then sells it on the open market, report the income under code 9600 - Other income to Income tax. The person who received the gift has not contributed to the growth of the crop or forage commodity received. As a result, the income is non-allowable for AgriStability.

Once a producer gifts livestock to another person, they cannot deduct any further cost for raising or maintaining them.

For example: A producer gifts 10 head of beef breeding cows to their child in program year. The fair market value for a breeding cow is $1,800 per/head. The producer will include $18,000 (10 head x $1,800/head) for the inventory gifted as cattle income on their taxes. The child assumes responsibility of the animals and will report all cost to maintain the animals.

A child, who receives livestock inventory as a gift from a parent and contributes to the growth and maturity of the animals for a minimum 60 days, is to report the fair market value of the animals at the time of exchange as a livestock expense on their taxes. The income received from selling of gifted livestock is to be reported under respective livestock commodity income code on their taxes. If there is remaining livestock inventory at fiscal year-end, it is reported and valued in the weight class the animals have reached for Inventory adjustment on taxes and AgriStability.

Please note, if the child uses the parent's forage inventory or prepared feed to maintain the gifted livestock in a program year, SCIC will combine the child's tax and inventory to process the parent's AgriStability application. The child does not have to be a participant in the AgriStability Program.

Definition of Child:

- your natural child, your adopted child, or your spouse's or common-law partner's child.
- you grandchild or great-grandchild.
- your child's spouse or common-law partner.
- another person who is wholly dependent on you for support and who is, or was immediately before the age of 19, in your custody and under your control.

If the person who received the livestock inventory as a gift does not contribute to maintenance or growth of the animals, the income from the sale of the animals is to be reported under code 9600 - Other on their taxes. The income and expense are non-allowable for AgriStability because there is no contribution to the livestock growth and maturity.

Labour Expense

Arm's length salaries (those paid to parties who are not a related person) are considered allowable under the AgriStability Program. Any salaries disproportionately high in the Program year relative to the reference period may be adjusted or deemed non-allowable unless a verifiable explanation for the expense is provided.

Non-arm's length salaries (those paid to parties who are a related person, including management fees paid to the shareholders of a corporation) are a non-allowable expense for AgriStability.

Trees and Other Non-Edible Horticulture

Allowable Items: Allowable tree production (excluding the non-allowable items listed below) must be generated through farming activity to be allowable under AgriStability. Farming activity includes the planting, nurturing, and harvesting of trees, with significant attention paid to managing the growth, health, and quality of trees. Activities can involve the regular seeding and harvesting of trees, shrubs, herbaceous perennials, or annuals, including ornamental, fruit, and Christmas trees. Operations must incur normal input and harvesting costs, and the crop must be considered an agricultural commodity. The income and expense associated with these commodities are allowable and should be included as inventory on an AgriStability application.

Non-Allowable Items: Income, expense, and inventories related to the production and/or harvesting of trees for use as the following are non-allowable under AgriStability and will not be included in the program margin calculations, regardless of the activities used to produce them:

- firewood
- construction material
- poles or posts
- fibre, pulp and paper
- trees and seedlings destined for use in reforestation

Other Livestock & Activities

Horses:

The income and expense related to the following horse related activities are allowable for AgriStability:

- the breeding of horses for sale
- horse purchased for meat
- sale of pregnant mare's urine

Hunt Farm:

Income and expense from the sales and purchases of domesticated livestock in the operation of a hunt farm (where permitted by law) are allowable excluding amounts related to any ancillary services (example: food, lodging, hospitality, etc.).

Livestock used for Rodeos:
Income and expense incurred in supplying stock to rodeos is considered rental income and expense and is non-allowable.

Prize Money:
Prize money from the showing of livestock in agricultural events such as fairs or expositions is considered agricultural and is allowable income.

Training, Boarding, or Money from Racing:
Income from training horses, boarding or prize money and purses from racing horses or other livestock are considered non-agricultural and non-allowable for AgriStability. This type of income should be reported separate from farming income.

Wild Game Reserve:
Income and expense related to the operation of a wild game reserve, which keeps wild animals for the purpose of viewing or penned hunt, are considered non-allowable for AgriStability.