Agricultural Producers Association of Saskatchewan (APAS)
Submission to Finance Canada

Cash Ticket Deferrals

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Introduction

The Agricultural Producers Association of Saskatchewan (APAS) is the province's general farm organization. As the united voice of thousands of agricultural producers in Saskatchewan, APAS strives to represent the views of a wide variety of agricultural stakeholders in order to form comprehensive policies that can benefit all sectors of society.

APAS is participating in this consultation to ensure cash ticket deferrals remain available to producers as a highly-valued income management tool. We note that income deferral opportunities in the Act are not unique to grain and oilseeds farmers. The RRSP program is a tax deferral mechanism, and the Income Tax Act also provides incorporated businesses a range of other non-qualifying deferral allowances. Because a significant proportion of farm operations continue to operate under a sole proprietorship, the elimination of cash ticket deferrals will further reduce income averaging opportunities for a sector of the economy prone to volatility.

The public policy rationale for cash ticket deferrals remains very strong. The comments herein are intended to clarify the benefits of cash purchase tickets, and the role they play as an important financial planning and management tool for Saskatchewan producers.

Recommendations

- That cash ticket deferrals be maintained for the eligible grains currently listed in Canada's *Income Tax Act*.

- That the list of commodities eligible for deferrals be expanded to include crops not currently listed in the Act, as well as other agricultural commodities such as livestock.

Discussion

An important income management tool

Cash ticket deferrals allow producers to manage their reportable income in an industry prone to price and production uncertainties. Agriculture is a capital-intensive enterprise, and the economic returns on investment are difficult to predict because of market, weather, and other risk factors outside the control of producers. Unlike other commodity industries, agricultural marketing strategies and financial plans often remain unclear until final crop yield, quality and prices are known at the end of the growing season. Balancing reportable income and expenses over multiple years is one way for producers to manage their business accounts in the context of this uncertainty.

Cash ticket deferrals are a widely-used and longstanding business practice in the farm community. Farm operations have developed financial planning and marketing strategies around the current and future availability of cash ticket deferrals. The elimination of this income management tool will disrupt long-term financial management plans, and impose excessive tax burden on operations which have accumulated deferred income.

Given the potential for these and other financial complications, the proposed elimination of deferral allowances in the *Income Tax Act* conflicts with the federal government's broader commitment to economic stability for the sector. For decades, successive governments have acknowledged that a stable farm economy is in the interest of all Canadians. Agricultural need a stable foundation from which to invest and grow their farms.

A recent report from the Advisory Council on Economic Growth highlights the growth potential of primary agriculture, recommending the Government of Canada take steps to increase agricultural exports by $30 billion and move Canada from 5th to 2nd largest agricultural exporter in the world. Income stability is critical to facilitating the level of investment needed to achieve these growth targets. Deferral allowances in the *Income Tax Act* are a key component within a broader range of government programs and policies needed to support income stability in the sector.

Supply-chain and marketing considerations

APAS is concerned that the elimination of cash ticket deferrals will have ancillary marketing and supply-chain implications that were not fully considered as part of the review process. Canada has a "just in time" supply chain for grain exports that requires a degree of marketing and delivery flexibility on the part of producers. Compared to other grain exporting nations, Canada's grain handling and transportation system is noted for its lack of commercial storage and rail capacity relative to the amount of grain produced annually on the Prairies. The system depends on consistent producer deliveries over the year to operate efficiently and meet export demand.

By reducing the influence of tax consideration on producers' delivery decisions, cash ticket deferrals help keep this "just-in-time" system fluid. Lacking the option to defer income, producers may choose to postpone physical delivery of grain into the following year or forego marketing opportunities because of tax reasons. Disruptions to delivery schedules and constrained marketing opportunities will reduce supply chain efficiency and prevent producers from obtaining the best prices for their grain.

Improving the efficiency and transportation capacity of the supply chain is currently a shared priority of producers, grain exporters and the federal government. The proposed elimination of cash ticket deferrals conflicts with the government's commitment to ensuring Canada remains a competitive and reliable supplier of grains and oilseeds products for export.

Expansion of deferrals to other eligible commodities

Cash ticket deferrals and other income averaging tools are a cost-effective form of agricultural income stabilization. Since deferrals delay, as opposed to alleviate, future tax obligations, cash ticket deferrals provide a highly-valued income management tool at minimal cost to government. As part of this review, APAS recommends that Finance Canada expand the scope of cash ticket deferrals to other grain products and agricultural commodities including livestock.

At the 2014 APAS Annual Meeting, Representatives passed a resolution confirming support for the expansion of cash ticket deferrals to the sale of livestock. Over the last five years, Canadian beef markets have exhibited similar, if not greater, price volatility as grain markets. In 2014, beef prices rose sharply, followed by a rapid price decline over the following two years. In some instances, livestock producers would have reported a 40% increase in income for the 2014 tax year, followed by a net losses or marginal profits in 2015 and 2016.

This level of income volatility discourages investment in the sector. If the federal government is committed to increasing productivity and innovation in agriculture, then income stability must continue to be a central objective of federal agricultural policy. In support of this objective, APAS requests that cash ticket deferral allowances in the *Income Tax Act* be expanded to crop types not currently listed in the Act, in addition to other agricultural commodities such as livestock.

Conclusion

Deferring sales of eligible commodities is a longstanding business practice for Saskatchewan producers. These allowances in the Income Tax Act serve as an effective income management tool and are consistent with the federal government's commitment to economic stability in the agricultural sector. Cash ticket deferrals provide producers with marketing and delivery flexibility that meets the needs of Canada's "just in time" grain handling and transportation system. The elimination of cash ticket deferrals will constrain marketing opportunities for producers and reduce supply-chain efficiencies. Cash ticket deferrals are a cost-effective and highly valued income management tool that should retained in legislation and expanded to include other crops not currently listed in the Act and other agricultural commodities, such as livestock.