Farming Income and the AgriStability and AgriInvest Programs Guide
Joint Forms and Guide

2007

For AgriStability and AgrilInvest participants in Alberta, Ontario, and Prince Edward Island
**What’s New for 2007?**

**Lifetime capital gains exemption (LCGE)** – For dispositions of qualified farm property made after March 18, 2007, the 2007 federal budget proposes to increase the LCGE from $500,000 to $750,000.

**Investment tax credit for child care spaces** – Under proposed legislation, employers carrying on a business in Canada, other than a child care service business, would be allowed to add in computing their investment tax credit, a non-refundable amount equal to the lesser of $10,000 or 25% of the eligible expenditure incurred after March 18, 2007 for the creation of each new child care facility operated for the benefit of the children of the employees.

The Federal Budget of March 19, 2007, proposes changes to certain rates for capital cost allowance to reflect the useful life of certain assets.

**Non-residential buildings** – The Budget proposes to increase the rate to 10% for eligible non-residential buildings acquired by a taxpayer after March 18, 2007, used for manufacturing or processing in Canada of goods for sale or lease, and to increase the CCA rate for other non-residential buildings to 6%. To be eligible for one of the additional allowances, a building will have to be placed in a separate class. For more information see “Class 1 (4%)” on page 45.

**Capital cost allowance for computers** – The 2007 federal budget proposes to increase the CCA rate for computer equipment and systems software currently described in Class 45, to 55%. The CCA rate of 55% will apply to assets acquired after March 18, 2007.

**My Business Account** – This new online service provides convenient and secure access to a growing range of personalized business account information and services. Starting in October 2007, My Business Account allows you to authorize your representatives online, including your employees, and view account transactions. Visit www.cra.gc.ca/mybusinessaccount to find out more.

**Represent a client** – Starting in October 2007, authorized representatives will be able to view account information and transact online on behalf of their business clients through the Represent a client service. Business owners can authorize their representatives through My Business Account, or with the new RC59 Business Consent Form. For more information, visit www.cra.gc.ca/representatives.

**What’s New for Farm Income Programs?**

**Growing Forward – A Vision for Canadian Agriculture**

In 2007, federal, provincial, and territorial Ministers of agriculture agreed to Growing Forward – a bold market-driven vision for Canada’s agriculture, agri-food and agri-based products industry in every region of the country. As part of Growing Forward, a new suite of business risk management programs is now available. These new programs replace the former Canadian Agricultural Income Stabilization (CAIS) program and are designed to be more responsive, predictable and bankable.

The new suite includes:

- **AgriInvest** – savings accounts for producers that provide flexible coverage for small income declines and support investments that help mitigate risks or improve market income. Benefits are calculated on the basis of Allowable Net Sales (ANS).

- **AgriStability** – a margin-based program that provides income support when a producer experiences larger income losses. Payments are based on a decline in your farm’s current year margin compared to an average historical margin.

- **AgriInsurance** – includes existing crop insurance, production insurance and other products and will expand to include other commodities.

- **AgriRecovery** – a disaster relief framework to provide rapid assistance when small and medium sized disasters hit producers, to fill gaps not covered by existing government programming.

This guide explains how to complete the enclosed AgriStability and AgriInvest form. You can choose to participate in AgriInvest only, AgriStability only, or both programs together, depending on the business risk management needs of your farm.

With the implementation of the new AgriInvest program, important changes have been made to the way producers report their income and expenses. To ensure your program benefits are calculated correctly, please carefully review the new instructions in the Income and Expense sections of this guide.

The information contained in this guide is accurate at the time of printing, but may be subject to change. This guide is intended to assist participants in completing the 2007 forms T1163 (Statement A) and 1164 (Statement B), and does not contain all program rules and requirements. Payment calculations will be based on program rules that are in effect at the time your application is processed. Because some new program authorities may not be in place at the time you submit your application, it is possible that you may initially receive a 2007 payment that does not match the payment allowed under the program authorities, once they are finalized. This means you may receive more or less money than you are entitled to for 2007. Any underpayments will be paid to you, and any overpayments will be payable by you.
This guide contains important new information and instructions on how to apply for the AgriStability and AgriInvest programs. Many instructions have changed from previous years. To ensure your application forms are filled out correctly and benefits are calculated correctly, it is important that you carefully review the information in this guide.

This guide contains general information only and is not intended to be a substitute for legislation. Where a discrepancy exists between the information in this guide and the program authorities (the Implementation Agreement and related Program Guidelines) the program authorities will take precedence in all cases.

Is this guide for you?

This guide is for you if:

■ you want to participate in the AgriStability and/or AgriInvest programs for 2007 and you farm in Alberta, Ontario or Prince Edward Island; and

■ you earned income as a self-employed farmer or partner of a farm partnership, or by renting land under a crop share arrangement;

■ you are neither a trust, a non-resident, a corporation, nor a status Indian farming on a reserve. If you are one of these, contact the office that administers the AgriStability program for your province. You will find the addresses and telephone numbers on this page.

How to get more information about AgriStability and AgriInvest

If you have questions about your participation in AgriStability:

■ contact your provincial administration at one of the numbers listed on this page. In Alberta, Ontario and Prince Edward Island, AgriStability is delivered by provincial administrations.

If you have questions about your participation in the AgriInvest program:

■ contact the federal Administration at 1-866-367-8506. AgriInvest will be delivered by the federal Administration in all provinces (except Quebec).

If you want to request copies of AgriStability and AgriInvest forms and guides:

■ contact your provincial administration at one of the numbers listed below.

Provincial Administration Contact Information

■ For Alberta, contact:
  Agriculture Financial Services Corporation
  5718-56th Avenue
  Lacombe AB T4L 1B1
  Telephone: 1-877-744-7900
  Fax: 403-782-8348
  Web site: www.afsc.ca
  Email: AgriStability@AFSC.ca

■ For Prince Edward Island, contact:
  P.E.I. Agricultural Insurance Corporation
  P.O. Box 2000
  Charlottetown PE C1A 7N8
  Telephone: 902-368-4842
  Fax: 902-368-4857

■ For Ontario, contact:
  Agricorp
  1 Stone Rd., 4th floor
  Guelph ON N1G 4Y2
  Telephone: 1-877-838-5144
  Fax: 519-826-4334
  Email: contact@agricorp.com
  Web site: www.agricorp.com

Federal Administration Contact Information

Program Administration
P.O. Box 3200
Winnipeg MB R3C 5R7
Telephone: 1-866-367-8506

You can access the AgriInvest program Web site at www.agr.gc.ca/agriinvest.

Do not use Form T1163 (Statement A) if:

■ your farming operation is in a province other than those listed above.

■ you farm in British Columbia, Saskatchewan, Manitoba, New Brunswick, Nova Scotia, Newfoundland and Labrador, or the Yukon, you will need to complete Form T1273 to participate in the AgriStability and/or AgriInvest programs. Contact the federal Administration at 1-866-367-8506 to obtain the forms you will need.

■ you farm in the province of Quebec do not use Form T1163 (Statement A). Instead, you must file Form T2042. For more information, contact the Quebec Administration at the address listed below.

La Financière agricole du Québec
Téléphone: 1-800-749-3646
Web site: www.fadq.qc.ca

■ you do not want to participate in the AgriStability or AgriInvest programs.

In this case, request a copy of Guide RC4003, Farming Income from CRA and file Form T2042, Statement of Farming Activities. If you have participated in the CAIS program previously, contact the Administration for information on
skipping a year of participation, or opting out of the program.

Penalties
Include all your income when you calculate it for tax purposes. If you fail to report all your income, you may be subject to a penalty of 10% of the amount you failed to report after your first omission.

A different penalty may apply if you knowingly, or under circumstances amounting to gross negligence, participate in the making of a false statement or omission in your income tax return. In such a case, the penalty is 50% of the tax related to the omission or false statement (minimum $100).

Forms and publications
You will find the following forms in the middle of this guide:
- T1163, Statement A – AgriStability and AgriInvest Programs Information and Statement of Farming Activities for Individuals
- T1164, Statement B – AgriStability and AgriInvest Programs Information and Statement of Farming Activities for Additional Farming Operations
- T1175, Farming – Calculation of Capital Cost Allowance (CCA) and Business-use-of-home Expenses

Where to mail your forms
Discard the envelope that came with your income tax return. Use the envelope in the middle of this guide to send your income tax return and Form T1163 (Statement A), Form T1164, and Form T1175 to the Winnipeg Tax Centre. This is the only place where these forms are processed.

Do not attach correspondence intended for the AgriStability program or the completed supplemental AgriStability program form to your income tax return. Mail them separately to your provincial administration at one of the addresses provided on page 3.

Throughout the guide, we refer to other forms and publications. If you need any of these, visit our Web site at www.cra.gc.ca/forms. You may want to bookmark this address for easier access to our site later. You can also order forms and publications by calling us at 1-800-959-2221.

Do you need more information?
This guide uses plain language to explain the most common tax situations. If you need more information about reporting farm income for tax purposes, call us at 1-800-959-5525.

Teletypewriter users
If you use a teletypewriter, you can call our toll-free, bilingual enquiry service at 1-800-665-0354.

Electronic mailing lists
We can notify you at once about new information on payroll, electronic filing for businesses, and more. To subscribe, free of charge, visit our Web site at www.cra.gc.ca/lists.
If you have a visual impairment, you can get our publications and your personalized correspondence in braille, large print, or etext (CD or diskette), or on audio cassette or MP3. For details, visit our Web site at www.cra.gc.ca/alternate or call 1-800-959-2221.

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What is farming income?

Farming income includes income you earned from the following activities:

- soil tilling
- livestock raising or showing
- racehorse maintenance
- poultry raising
- dairy farming
- fur farming
- tree farming
- fruit growing
- beekeeping
- cultivating crops in water or hydroponics
- Christmas tree growing
- operating a wild-game reserve
- operating a chicken hatchery
- operating a feedlot

In certain circumstances, you may also earn farming income from:

- raising fish
- market gardening
- operating a nursery or greenhouse
- operating a maple sugar bush (includes the activity of maple sap transformation into maple products if this activity is considered incidental to the basic activities of a maple sugar bush, such as the extraction and the collection of maple sap, which are farming activities)

**Note**

Not all commodities that meet the definition of a farm product for income tax purposes are allowable for AgriStability and AgriInvest purposes. Income derived from woodlots, trees sold for reforestation, aquaculture, peat moss, and income generated by wild game reserves are not allowable for AgriStability and AgriInvest purposes.

Farming income does not include income you earned from working as an employee in a farming business, or from trapping.

You were asking...

Q. When does a farming business start? Can I deduct the costs I incur before and during the start of my farming business?

A. We look at each case on its own merits. Generally, we consider that a farming business starts whenever you begin some significant activity that is a regular part of the business, or that is necessary to get the business going.

For example, suppose you decide to buy enough poultry for resale to start your farming business. We would consider this to be the starting point of your business. You can usually deduct all of the expenses you have incurred up to that point to earn farming income. You could still deduct the expenses if, despite all your efforts, your business wound up. On the other hand, if you review several different types of farming activities in the hope of going into a farming business of some kind, we would not consider that your business has begun. In this case, you cannot deduct any of the costs you have incurred.

For more details about the start of a business, see Interpretation Bulletin IT-364, Commencement of Business Operations.

The law allows Statistics Canada to access business information collected by the Canada Revenue Agency (CRA). Statistics Canada can now share with provincial statistical agencies, for research and analysis purposes only, data concerning business activities carried out in the respective province.

### How do you report your farming income?

You can earn farming income as a self-employed farmer or as a partner of a farm partnership. Most of the rules that apply to self-employed farmers also apply to partners. However, if you are a partner, you should read “Reporting partnership income” on page 10.

You report your farming income on a fiscal-period basis. A fiscal period is the time covered from the day your farming business starts its business year to the day your farming business ends its business year. For an existing business, the fiscal period is usually 12 months. A fiscal period cannot be longer than 12 months. However, it can be shorter than 12 months in some cases, such as when a new business starts or when a business stops.

Self-employed individuals generally have to use a December 31 year-end. If you are an eligible individual, you may be able to use an alternative method of reporting your business income that allows you to keep a fiscal period that does not end on December 31. To determine if you are eligible to have a fiscal year-end that is not December 31, see Guide RC4015, Reconciliation of Business Income for Tax Purposes, which includes Form T1139, Reconciliation of 2007 Business Income for Tax Purposes. It explains how to calculate the amount of farming income to report on your 2007 income tax return, and it also tells you if you have to file Form T1139 for 2007. In most cases, if you filed one for 2006, you will have to do so again for 2007.

### Reporting methods

For tax purposes, you can report your farming income using the cash method or the accrual method of accounting.

When you use the cash method, you:

- report income in the fiscal period you receive it; and
- deduct expenses in the fiscal period you pay them.
For special rules on prepaid expenses, see “Prepaid expenses” on page 24.

If you use the cash method and receive a post-dated cheque as security for a debt, include the amount in income when the cheque is payable.

If you receive a post-dated cheque as an absolute payment for a debt, include the amount in income when you get the cheque. If the bank does not honour the cheque, you can adjust your income then.

Note
The above post-dated cheque rules apply to income-producing transactions such as the sale of grain. They do not apply to transactions involving capital property such as the sale of a tractor.

When you use the cash method, do not include inventory when you calculate your income. However, there are two exceptions to this rule. For details, see “Line 9941 – Optional inventory adjustment – current year” and “Line 9942 – Mandatory inventory adjustment – current year” on page 36.

For more details on the cash method for farming income, see Interpretation Bulletin IT-433, Farming or Fishing – Use of Cash Method.

When you use the accrual method, you:
■ report income in the fiscal period you earn it, no matter when you receive it; and
■ deduct expenses in the fiscal period you incur them, whether or not you pay them in that period.

When you calculate your income using the accrual method, the value of all inventories, such as livestock, crops, feed, and fertilizer, will form part of the calculation. Make a list of your inventory and count it at the end of your fiscal period. Keep this list as part of your business records.

You can use one of the following three methods to value your inventory:
■ value all inventory at its fair market value (see page 41 for the definition of fair market value);
■ value individual items at cost or fair market value, whichever is lower (when you cannot easily tell one item from another, you can value the items as a group); or
■ value livestock according to the unit price. For this method, complete Form T2034, Election to Establish Inventory Unit Prices for Animals.

Use the same method you used in past years to value your inventory. The value of your inventory at the start of your 2007 fiscal period is the same as the value at the end of your 2006 fiscal period. If this is your first year of business, you will not have an opening inventory at the start of your fiscal period.

For more details, see Interpretation Bulletin IT-473, Inventory Valuation.

Changing your method of reporting income
If you decide to change your method of reporting income from the accrual method to the cash method, use the cash method when you file your income tax return. Make sure you include a statement that shows each adjustment you had to make to your income and expenses because of the difference in methods.

If you decide to change from the cash method to the accrual method, you have to ask the Director of your tax services office for approval, in writing, before the deadline for filing your income tax return. In your letter, explain why you want to change methods.

Because there is a difference between the cash and accrual methods, the first time you complete your income tax return using the accrual method, file a statement showing each adjustment you had to make to your income and expenses.

For information on how to report income and expenses for both the AgriStability and AgriInvest programs, and tax purposes, see “Method of accounting” on page 15.

Business records
Keep a record of your daily income and expenses. We do not issue record books or suggest any particular type of book or set of books. There are many record books and bookkeeping systems available. For example, you can use a book that has columns and separate pages for income and expenses. Some provincial departments of agriculture provide bookkeeping records you can use.

Keep your books, along with your receipts, duplicate deposit slips, bank statements, and cancelled cheques. Keep separate records for each business you run. If you keep computerized records, make sure they are clear and easy to read.

Note
Do not send your records with your income tax return. However, you must keep them in case we ask to see them. If you do not keep the necessary information and you do not have any other proof, we may have to determine your income using other methods. We may also have to reduce the expenses you deducted.

Income records
Keep track of the gross income your farming business earns. Gross income is your total income before you deduct expenses. Your income records should show the date, amount, and source of the income. Record the income whether you received cash, property, or services.

You must be able to support all income entries with original documents. Original documents include such things as sales invoices, cash-register tapes, receipts, cash purchase tickets from the sale of grain, and cheque stubs from marketing boards.
Expense records
Always get receipts, invoices, or other vouchers when you buy goods or services. The receipts have to show:

■ the date of the purchase;
■ the name and address of the seller or supplier;
■ the name and address of the purchaser; and
■ a full description of the goods or services.

Keep a record of the properties you bought. This record should show who sold you the property, the cost, and the date you bought it. It will also help you calculate your capital cost allowance (CCA). Chapter 4 explains how to calculate CCA.

If you sell or trade a property, keep a record showing the date you sold or traded it and the amount you got from the sale or trade-in.

Time limits for keeping records
Depending on the situation, keep your books, records, and related vouchers for the following lengths of time:

■ if you file your income tax return on time, a minimum of six years after the end of the tax year to which they relate;
■ if you file your income tax return late, six years from the date you file that return; or
■ if you file an objection or appeal, until either the issue is settled and the time for filing any further appeal expires, or the six-year period mentioned above has expired, whichever is later.

These retention periods do not apply to certain records. For more details, see Information Circular IC78-10, Books and Records Retention/Destruction.

If you want to destroy your books and records and related vouchers before the minimum six-year period is over, you must first get written permission from the director of your tax services office. To do this, either use Form T137, Request for Destruction of Records, or prepare your own written request.

For more information on keeping records, see Guide RC4409, Keeping Records, or visit www.cra.gc.ca/records.

Instalment payments
As a self-employed farmer, you may have to pay an annual instalment by December 31, 2008. If our records show that you may have to pay your tax by instalments, we will send you an Instalment Reminder in late November, showing the amount we suggest you pay.

For more information about instalment payments or instalment interest charges, get Pamphlet P110, Paying Your Income Tax by Instalments.

Important Dates to remember
February 28, 2008 – If you have employees, file your 2007 T4 Summary and T4A Summary forms. Also, give your employees their copies of the T4 and T4A slips.

March 31, 2008 – Most farm partnerships will file a partnership information return by March 31, 2008. However, there are exceptions. For details, see T4068, Guide for the T5013 Partnership Information Return, and Information Circular IC89-5, Partnership Information Return, and its Special Release.

April 30, 2008 – Payment of any balance owing is due. You will have to file your 2007 income tax return by April 30, 2008, if the expenditures of your 2007 farming business are primarily connected with tax shelters.

June 15, 2008 – If you have farming business income or if you are the spouse or common-law partner of someone who does, you have until June 15, 2008, to file your 2007 income tax return, unless the expenditures of the business are primarily connected with tax shelters. However, you have to pay any balance owing by April 30, 2008, to avoid interest charges.

June 30, 2008 – Initial deadline to submit your AgriStability application to the Winnipeg Tax Centre if you are applying from Ontario or Prince Edward Island. Forms will be accepted after this date until September 30, 2008. However, any benefit you are entitled to will be reduced by $500 for each month (or each part of the month) late. The maximum penalty is $1500/Program Year.

September 30, 2008 – Final deadline (with penalty) to submit your AgriStability application to the Winnipeg Tax Centre if you are applying from Ontario or Prince Edward Island.

Initial (non-penalty) deadline to submit your AgriStability application to the Winnipeg Tax Centre if you are applying from Alberta.

Initial (non-penalty) deadline to submit your AgriInvest application to the Winnipeg Tax Centre for all provinces. See “Important Information for AgriInvest and AgriStability” on page 10 for more information.

December 31, 2008 – Pay your 2008 instalment for income tax and Canada Pension Plan contributions.

Final (with penalty) deadline to submit your AgriStability application to the Winnipeg Tax Centre if you are applying from Alberta.

Final (with penalty) deadline to submit your AgriInvest application to the Winnipeg Tax Centre for all provinces. See “Important Information for AgriStability and AgriInvest” on page 10 for more information.

Note
If any of the dates mentioned above fall on a Saturday, Sunday, or statutory holiday, you have until the next business day to file your returns or make your payment.
Important Information for AgriStability and AgrilInvest

To participate in AgrilInvest, you must submit Form T1163 (Statement A) to the Winnipeg Tax Centre by September 30, 2008. Late filed AgrilInvest applications will be accepted until December 31, 2008. However, your Allowable Net Sales (ANS) will be reduced by 5% for each month (or part of a month) your application is received after the initial deadline of September 30, 2008. For AgrilInvest purposes, applications will not be accepted after December 31, 2008.

To participate in AgriStability, you must submit Form T1163 (Statement A) to the Winnipeg Tax Centre by the deadline established in your province. You must also submit supplementary information to your provincial administration. Refer to “Important Dates to Remember” on page 9, or contact your provincial administration at one of the numbers on page 3 to determine the forms and deadlines that apply to you.

If you received an Interim Payment for the 2007 program year, you must meet all of the above deadlines, or you will have to pay back the Interim Payment.

It is your responsibility, even if a third party completes an application on your behalf, to ensure that your application is complete and has been sent to the Winnipeg Tax Centre (postmarked, faxed or e-filed) prior to the application deadline.

Goods and services tax/harmonized sales tax (GST/HST) registration

If your total gross revenue from your GST/HST taxable sales (those taxed at the rates of 0%, 6%, and 14%) is more than $30,000 in a calendar quarter or in four consecutive calendar quarters, you have to register for GST/HST.

If your gross revenue is equal to or less than $30,000, you do not have to register, but you may do so voluntarily. It may benefit you to register because GST/HST registrants are able to claim input tax credits.

Note
Nova Scotia, New Brunswick, and Newfoundland and Labrador harmonized the GST with their provincial sales tax to create the HST.

The HST rate in these provinces is 14% (15% before July 1, 2006), and the GST rate in the rest of Canada is 6% (7% before July 1, 2006).

For information about GST/HST taxable farm goods and services, zero-rated farm products, and zero-rated farm purchases, see page 23. For more information on GST/HST, visit our Web site at www.cra.gc.ca/gsthst.

Reporting partnership income

A partnership does not pay income tax on its income or file a tax return. Instead, each partner files an income tax return to report his or her share of the partnership’s net income or loss. The partners have to do this whether the share of income was received in cash or as a credit to a capital account in the partnership.

See Interpretation Bulletin IT-90, What is a Partnership?, for more details.

Partnership information return

Partnerships that had six or more partners at any time in the fiscal period have to file a partnership information return. Partnerships of five or fewer partners throughout the year also have to file a partnership information return if one or more of the partners is another partnership.

Partnerships also have to file a partnership information return if they invested in flow-through shares of a principal-business corporation that incurred Canadian resource expenses and renounced those expenses to the partnership.

If you are a partner of a partnership that has to file a partnership information return, you should get two copies of a T5013 slip, Statement of Partnership Income, or a T5013A slip, Statement of Partnership Income for Tax Shelters and Renounced Resource Expenses, from the partnership. If you do not receive this slip, contact the person who prepares the forms for the partnership.

The T4068, Guide for the T5013 Partnership Information Return, has more details about the return.

When you receive your T5013 slip, your T5013A slip, or a partnership financial statement, you will have to complete a Form T1163 (Statement A) or T1164 in the manner described in Chapter 3. Use a separate Form T1164 to deduct any business expense you incurred for which the partnership did not repay you. See “Additional expenses (partnerships)” on page 13 for more information.

Once Form T1163 (Statement A) is completed, enter the gross income from the T1163 (Statement A) plus any gross income from the T1163 (Statement A) plus any gross income from T1164 on line 168 of your income tax return. Enter your share of the net income from page 5 of Form T1163 (Statement A) or a total of your share of the net income from T1163 (Statement A) plus your share of any net income from T1164 on line 141. Attach copy 2 of your T5013 or T5013A slips to your return.

Capital cost allowance (CCA)

As an individual partner, you cannot claim CCA on property owned by a partnership to which you belong. Only the partnership can claim CCA on the depreciable property the partnership owns. Any CCA calculated at the partnership level will, however, be allocated to you according to your share of the partnership interest. It will therefore reduce the net income allocated to you by the partnership.

From the capital cost of depreciable property, the partnership has to subtract the following amounts:

■ any investment tax credit allocated to the individual partners (we consider this allocation to be made at the end of the partnership’s fiscal period); and

■ any type of government assistance.

See Chapter 4 for more details about CCA and the adjustments to capital cost.
Any capital gain or recapture from the sale of property the partnership owns is income of the partnership. Also, any capital or terminal loss from the sale of partnership-owned property is the loss of the partnership. See Chapter 7 for more details about capital gains and losses, and Chapter 4 for more details about recapture and terminal losses.

**Eligible capital expenditures**

A partnership can own eligible capital property and deduct an annual allowance. Any income from the sale of eligible capital property the partnership owns is income of the partnership. See Chapter 5 for more details about eligible capital expenditures.

**Investment tax credit (ITC)**

The ITC lets you subtract, from the taxes you owe, part of the cost of some types of property you acquired or expenditures you incurred. You may be able to claim this credit in 2007 if you:

- bought qualifying property;
- incurred qualifying expenditures, including monies paid to agricultural organizations through check-offs, levies, or cash assistance; or
- received renounced Canadian exploration expenses.

You may also be able to claim the credit if you have unused ITC from years before 2007.

Eligible employers who hire new apprentices in the first two years of their provincially registered apprenticeship contract can claim the apprenticeship job creation tax credit (AJCTC).

The 2007 federal budget proposes to introduce a tax credit for employers that create licensed child care spaces. Employers carrying on a business in Canada, other than a child care service business, would be allowed to add in computing their investment tax credit, a non-refundable amount equal to the lesser of $10,000 or 25% of the eligible expenditure incurred after March 18, 2007 for the creation of each new child care facility operated for the benefit of the children of the employees.

For more information about ITCs, see Form T2038(IND), *Investment Tax Credit (Individuals)*.

**Goods and services tax/harmonized sales tax (GST/HST) rebate**

If you are a partner in a partnership and you claimed expenses on your income tax return, you may be able to get a partial refund of any GST/HST you paid on the expenses.

The GST/HST rebate is available to you if you meet both of the following conditions:

- you are a partner of a GST/HST-registered partnership; and
- on your income tax return, you deduct expenses you incurred to earn partnership income and the partnership did not repay you.

We base the rebate on the amount of the expenses subject to GST/HST that you deduct on your income tax return.

For more details about the GST/HST rebate, see Guide RC4091, *GST/HST Rebate for Partners*. This guide includes Form GST370, *Employee and Partner GST/HST Rebate Application*.

**Chapter 2 – Your AgriStability and AgriInvest programs**

Updated information on program eligibility, deadlines and policies may be found on the program Web sites or in the program handbooks.

**Participating in the AgriStability and AgriInvest programs**

As a program participant, you are responsible for knowing program deadlines and understanding program policies. Information on deadlines and policies can be found on the program Web sites or in the program handbooks.

**Who is eligible?**

**AgriStability**

Generally, you are eligible to participate in AgriStability if you meet all of the following criteria for the 2007 program year:

- you file a 2007 Canadian income tax return reporting eligible farming business income (or loss). If you are a Status Indian farming on a reserve, contact the Administration for a copy of the form and guide for corporations/co-operatives and special individuals;
- you have completed a minimum of six consecutive months of farming activity;
- you have completed a production cycle; and
- met all program requirements by the established deadlines.

For more details on eligibility, see the program handbooks or visit the program Web sites.

**Note**

The requirements to complete six consecutive months of farming activity and completing a production cycle may be waived if, in the opinion of the Administration, they could not be completed for reasons beyond your control.

**AgriInvest**

Generally, you are eligible to participate in AgriInvest if you meet all of the following criteria for the 2007 program year:

- you file a 2007 Canadian income tax return reporting eligible farming business income (or loss). If you are a Status Indian farming on a reserve, contact the Administration for a copy of the form and guide for corporations/co-operatives and special individuals; and
■ met all program requirements by the established deadlines.

For more details on eligibility, see the program handbooks or visit the program Web sites.

_Crop Share:_ Tenants in a crop share are eligible to apply for AgriStability and AgriInvest. Landlords are eligible if the arrangement constitutes a joint venture. For program purposes, a crop share arrangement qualifies as a joint venture if the landlord’s share of the allowable expenses (as reported to CRA) reasonably approximates their share in the allowable related income.

**Participating in the programs**

You can choose to participate in AgriInvest only, AgriStability only, or both programs together, depending on the business risk management needs of your farm.

_Agrinves_

To participate in _Agrinves_, submit _Form T1163 (Statement A)_ (and _T1164_, if applicable) found in the middle of this guide by the deadline. For information on program deadlines, see page 9. Be sure to indicate your intent to apply for _Agrinves_ using the appropriate box on page 1 of the form.

**Agrinves Benefit Calculations**

The _Agrinves_ program is a voluntary program that provides coverage for small income declines and supports investments that help mitigate risks or improve market income. You can deposit money annually into an _Agrinves_ account and receive matching government contributions. You can withdraw funds when you need them. _Agrinves_ deposits are based on your Allowable Net Sales (ANS). ANS is your total qualifying Commodity Sales and Program Payments minus your total qualifying Commodity Purchases and Repayment of Program Benefits.

Once the Administration has calculated your ANS using the information on your Harmonized form, you will receive a notice outlining your deposit and withdrawal options.

_AgriStability_

To participate in _AgriStability_, submit _Form T1163 (Statement A)_ (and _T1164_, if applicable) found in the middle of this guide by the deadline established by your provincial administration. Be sure to indicate your intent to apply for _AgriStability_ using the appropriate box on page 1 of the form.

In addition, you must submit supplementary information using the forms provided by your provincial administration. Contact your provincial administration to obtain copies of the necessary supplementary forms.

**AgriStability Program Fee**

_AgriStability_ participants must pay an annual fee to participate in the program. The amount of the fee is $4.50 for every $1,000.00 of contribution reference margin protected (based on coverage of 85% of your margin). There is a minimum fee of $45.00.

_AgriStability Administrative Cost Share (ACS)_

In addition to the fee, there is an annual charge for administration costs payable to your Administration. For more information on program fees and participation rules, contact your provincial administration at one of the numbers found on page 3.

Do not send payments for the _AgriStability_ ACS, or any other monies related to the _AgriStability_ or _AgriInvest_ programs, with your income tax return. The CRA will credit any cheques you include with your income tax return to your income tax account.

**Opting out (closing your _AgriStability_ and/or _AgriInvest_ program account)**

If you want to opt out of the _AgriStability_ program, contact your provincial administration. If you want to opt out of the _Agrinves_ program, contact the federal administration.

**Form T1163, Statement A — _AgriStability_ and _Agrinves_ Programs Information and Statement of Farming Activities for Individuals**

As a self-employed farmer, you must give us a statement that accurately shows your farming activities for the year. We use _Form T1163 (Statement A)_ for tax purposes as well as _AgriStability_ and _Agrinves_ purposes. The form allows for the differences between reporting requirements for taxation purposes, and those used for _AgriStability_ and _Agrinves_ purposes.

**Deceased participant**

If a deceased individual had farming income or losses, complete _Form T1163 (Statement A)_ in the name of the deceased individual. Print “Estate” in the name and address area. Use the income and expenses that you are reporting on the individual’s final income tax return for 2007.

Include a copy of the individual’s death certificate and the probated will (or letters of administration) with the final income tax return.

If, in addition to the final income tax return, you file an optional return for the year of death for a deceased program participant, such as a return of rights and things under subsection 70(2) of the _Income Tax Act_, the CRA will not forward the farming income and expense information from that optional return to your Administration. Contact your Administration directly to get the correct form to submit to them. They will combine the information from it with the information from the return that reported income to the date of death.

If a surviving spouse or common-law partner continues the farming business, prepare an additional _Form T1163 (Statement A)_ in the name of the surviving spouse or common-law partner. If a spousal or common-law partner trust has been established for the surviving spouse or common-law partner, contact your Administration to get the correct form. Use the income and expenses from the...
surviving spouse or common-law partner’s 2007 income tax return. Contact your Administration for information about applying as a trust.

Form T1164, Statement B – AgriStability and AgriInvest Programs Information and Statement of Farming Activities for Additional Farming Operations

You may have more than one farming operation. You could have a sole proprietorship and be a partner of a partnership, or you could be a partner of more than one partnership. If you have more than one farming operation, complete Form T1163 (Statement A) for one operation and a separate Form T1164 (Statement B) for each additional operation. Do not use Form T2042, Statement of Farming Activities, if you are an AgriStability or AgriInvest participant.

Note
For each additional farming operation, you must complete both Form T1164 (Statement B) and a supplemental AgriStability program form.

Additional expenses (partnerships)
Complete Form T1164 (Statement B) if you have recorded a partnership operation on Form T1163 (Statement A) and you want to deduct additional expenses for which the partnership did not reimburse you. For example, you may want to deduct the farming business part of allowable motor vehicle expenses or business-use-of-home expenses.

If you are using Form T1164 (Statement B) to deduct business-use-of-home expenses, follow these steps:

■ leave the income areas on page 2 blank;
■ record your expenses on the appropriate lines on page 3;
■ enter the total expense from page 3 on Line 9968 on page 4;
■ do not complete the “Partnership information” area on page 4;
■ do not make an entry on line 9934, “Adjustment to business-use-of-home expenses;” and
■ complete Form T1175, Farming – Calculation of Capital Cost Allowance (CCA) and Business-use-of-home Expenses.

The amount you claim reduces your net income from farming on line 141 of your income tax return. However, you cannot use business-use-of-home expenses to create or increase a loss from farming.

Note
The instructions in the note in Area B at the bottom of Form T1175 do not apply if you are only claiming business-use-of-home expenses.

Completing the forms
By completing Form T1163 (Statement A) and Form T1164 (Statement B), you consent to allowing the CRA to share information from your income tax return with the federal Minister of Agriculture and Agri-Food, and you authorize the Minister of Agriculture and Agri-Food to share the information with provincial ministers of agriculture and with the administrators of other federal/provincial farm programs. You also consent to allowing the Minister of Agriculture and Agri-Food to share any additional information that you provide as your application is processed.

The information will be used for the purposes of audit, analysis, evaluation, and special assistance payments. The information is protected under the Privacy Act and is stored in the personal information bank numbers AAFC/P-PU-189 and CRA/P-PU-005.

The Privacy Act provides individuals with the right to access their personal information held by the Government of Canada and if necessary, to make any corrections to their information. Requests for access or corrections are to be made in writing and sent to the Access to Information and Privacy Coordinator at:

Agriculture and Agri-Food Canada
930 Carling Avenue, Room 282
Ottawa, ON K1A 0C5
Tel: (613) 759-6766
Fax: (613) 759-6547

General inquiries regarding privacy of personal information may be made to the Office of the Privacy Commissioner at:

■ Office of the Privacy Commissioner (OPC):
  General Inquiries
  For all general inquiries, please contact:
  Toll-free: 1-800-282-1376
  Phone: 613-995-8210
  Fax: 613-947-6850
  TTY: 613-992-9190
  www.privcom.gc.ca
  OPC hours of service are from 9 a.m. to 5 p.m.

If you believe you have a complaint under the Privacy Act, please submit it to the OPC in writing at the following address:

  Office of the Privacy Commissioner
  112 Kent Street
  Place de Ville
  Tower B, 3rd Floor
  Ottawa ON K1A 1H3

Please include your full contact details in your letter, including your name, address and the telephone number where you can be reached, and provide as much detail as possible about your complaint. The Office of the Privacy Commissioner does not process complaints via e-mail. Please submit your complaint by mail.

Requesting an adjustment
If you would like to change the information you included on Form T1163 (Statement A) or T1164 (Statement B), you must send the amended information to both your Administration and the CRA. This will ensure that all program and tax information is updated. For more information on program adjustments, contact your
Administration. You will find the addresses and telephone numbers on page 3.

The following text explains how to complete Form T1163 (Statement A) Some parts of the form are self-explanatory.

**Name and address of participant**

Enter your name and address. Program benefits must be mailed directly to you, the participant, and not to a form preparer or other representative.

**Name and address of contact person**

Complete this area if someone else (such as your spouse or common-law partner or accountant) has your consent to provide or ask for more information concerning the AgriStability and/or AgriInvest programs, on your behalf.

You must provide complete contact person details each time you submit this page of the form, even if you have already provided contact person details to the Administration on a previous form. To ensure the programs are using your most recent contact person information, previous information will be replaced with new information each time you submit this form. Any fields you leave blank will be recorded as blank fields.

**Participant profile**

Indicate whether you are applying for AgriStability only, AgriStability and AgriInvest, or AgriInvest only.

Provide your **Participant Identification Number (PIN), which can be found on your Enrolment Notice.** If you participated previously in CAIS, this number will be the same as your CAIS PIN. If you cannot locate your PIN, contact your provincial administration.

You must provide your social insurance number (SIN) to participate in the AgriStability and/or AgriInvest programs.

Enter the **industry code** that best describes your farming activity. If more than 50% of your farming business involved one specific activity, choose the code that identifies that main activity. However, if your farming operation involved more than one type of farming activity and none of these makes up more than 50% of your farming business, choose the appropriate code from the combination farm list.

The following are lists of these codes for farming operations:

**Livestock farm**
- 112110 Beef cattle, including feedlots
- 112120 Dairy cattle and milk
- 112210 Hogs and pigs
- 112310 Chicken eggs (including hatching eggs)
- 112320 Broiler and other meat-type chickens
- 112330 Turkeys
- 112340 Poultry hatcheries
- 112391 Combination poultry and egg
- 112399 All other poultry and egg
- 112410 Sheep
- 112420 Goats
- 112510 Aquaculture (including animal aquaculture, and algae and seaweed farming)
- 112991 Livestock combination farming, and livestock farming with secondary crop farming
- 115210 Support activities for animal production (husbandry services)

**Other animal specialties farm**
- 112910 Apiculture (beekeeping)
- 112920 Horses and other equines
- 112930 Fur-bearing animals and rabbits
- 112999 All other miscellaneous animals

**Field-crop farm**
- 111110 Soybeans
- 111120 Oilseed (including canola, flax, mustard, sunflowers)
- 111130 Pulse crops (such as dry field peas, beans, and lentils)
- 111140 Wheat
- 111150 Corn
- 111190 Cereals (such as barley, oats, rye, and growing wild rice)
- 111211 Potatoes (including sweet potatoes, yams)
- 111219 Other vegetables (except potatoes, sweet potatoes, yams) and melons
- 111330 Non-citrus fruit and tree nuts
- 111411 Mushrooms
- 111419 Other food crops grown under cover
- 111421 Nursery and tree production
- 111422 Floriculture
- 111910 Tobacco
- 111940 Hay
- 111993 Fruit and vegetable combination farming
- 111994 Production of maple syrup and maple products
- 111999 Miscellaneous crops, combination of crops, and combination of crops with secondary livestock farming (except maple syrup, algae and seaweed)
- 115110 Support activities for crop production (soil preparation, pruning, spraying, harvesting, fruit picking, crop clearing, sorting, grading) on contract
Province/territory of main farmstead
Enter the province/territory where all or the majority of the gross farming income was earned over the previous 5 years. For more information on determining the province of main farmstead and multi-jurisdiction farms, please see the program handbooks.

Production Cycle
Indicate whether you have completed a production cycle on at least one of the commodities you produce. If “No”, you must have been prevented from completing a production cycle due to disaster circumstances in order to be eligible for AgriStability.

You do not need to complete a production cycle to be eligible for AgrifInvest.

Identification
In this area of Form T1163 (Statement A), provide information only about your main farming operation (Operation #1). If you have more than one farming operation, complete Form T1164 (Statement B) for each additional one. Identify each one with successive operation numbers in the box at the top right-hand corner of each page.

Fiscal period
Enter the operation’s fiscal period. Record the year, month, and day of the beginning and end of the farming operation’s business year. The farming operation’s 2007 fiscal period must end in your 2007 tax year.

Method of accounting
You must use the same method of reporting (cash or accrual) for program purposes as you use for income tax purposes.

Enter:
- code 1 if you are using the accrual method; or
- code 2 if you are using the cash method.

Was your farming operation involved in any of the following:
In this area, check the applicable boxes if you carried on business as a member of a feeder association, or in a crop share arrangement as either a landlord or a tenant. For your main farming operation (Operation #1), enter this information on Form T1163 (Statement A). If you have more than one farming operation, complete Form T1164 (Statement B) for each additional one.

Chapter 3 – Calculating Your Farming Income or Loss

This section of the form is used to calculate your allowable net sales (ANS) for the AgrifInvest program. ANS is qualifying commodity sales and program payments, less qualifying purchases. For more information on ANS and the calculation of benefits under AgrifInvest, visit the program Web site or see the program handbook.

To be eligible for coverage under the AgriStability and AgrifInvest programs, farming income must result from the sale of a commodity that is an agricultural product, either plant or animal, produced in a farming business. Some commodities that are considered agricultural commodities for tax purposes are not eligible for coverage under the AgrifInvest and AgriStability programs. These include but are not limited to aquaculture, trees sold for use in reforestation, wood sales, peat moss, and income or expenses generated from wild game reserves.

Point of Sale Guidelines
Because AgrifInvest benefits are based on allowable net sales (ANS), it is necessary to determine the point at which

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the sale occurs. For AgrifInvest purposes, the point of sale is determined by the following criteria:

- It is separate and identifiable from other producers’ commodities;
- You produce it on your farm;
- You bear full direct risk for it; and
- You have a separate billing or accounting transaction that clearly shows the commodity sales value and any deductions from that value.

The point of sale occurs when your commodity is no longer identifiable as your own, and you are no longer at risk for the value of the commodity.

If your commodity sales meet these point of sale criteria, record the code, name, and gross sale amount of each commodity on the form.

**Example**
You have seed potato sales of $50,000.
You record:
147 potatoes $50,000

If you received a cheque for a commodity sale that is **net** of expenses that are recognized in the calculation of farming income (or loss), report the sale to include the full value of the commodity.

**Example**
Your receipt from the processor shows gross apple sales of $10,000, pack and sell costs of $1,500, leaving you a **net** cheque of $8,500. You would report $10,000 as your gross apple sales, and $1,500 as an expense on line 9836 – “Commissions and levies”.

If your commodity sales include amounts (recognized in calculating farming income or loss) that were incurred after the point of sale, you must adjust your sales to reflect the value of the commodity at the point of sale. Report any amounts incurred after the point of sale on line 575 – Point of Sale Adjustments. This will ensure that your allowable net sales (ANS) are calculated correctly.

**Example**
Your cash ticket from the elevator shows gross wheat sales of $7,000, freight charges of $1,500, and elevation charges of $300. Report the gross wheat sales of $7,000 as income. Report the freight charges of $1,500 and elevation charges of $300 as a point of sale adjustment on line 575 under Commodity Purchases and Repayment of Program Benefits (not under Allowable Expenses) because these expenses were incurred after you delivered your grain to the elevator (i.e. after the point of sale).

While point of sale adjustments are not a commodity purchase, you must record them in the Commodity Purchases and Repayment of Program Benefits section to ensure your allowable net sales (ANS) are calculated correctly for AgrifInvest purposes.

**Payment in kind**
A payment in kind occurs when you receive or give goods or services instead of money. For instance, to pay someone for a business expense, you may give something you produced on your farm instead of money. When you do this, include the fair market value of the goods or services in income. Use the appropriate code for the commodity. Deduct the same amount as an expense.

**Example**
You owed your landlord $1,000 for rent. Instead of cash, you pay him by giving him $1,000 worth of seed. You add the fair market value of the seed crops ($1,000) that you gave the landlord to your income as a commodity sale. (We consider that you received rent in exchange for the seed.) Deduct the $1,000 on line 9811 as a rental expense.

If you received a payment in kind for a product you would normally have sold, include the fair market value of the product in income.

**Gifts**
In your income, include the fair market value of livestock or other items you gave away that you would normally have sold. See page 41 for the definition of fair market value.

Once you give the livestock or other items away, you cannot deduct any more costs for raising or maintaining them.

**Crop share**
Tenants in a crop share are eligible to apply for AgriStability and AgrifInvest.

Landlords are eligible to apply for AgriStability and AgrifInvest if the crop share arrangement constitutes a joint venture. For program purposes, a crop share arrangement qualifies as a joint venture if the landlord’s share of the allowable expenses (as reported to CRA) reasonably approximates their share of the allowable related income. Generally for AgrifInvest and AgriStability eligible tenants and landlords must report only their respective shares of the allowable income and expenses.

**Example 1**
You are a tenant in a crop share and take 60% of the income. You should report 60% of the gross sales amounts under Commodity Sales and Program Payments.

**Example 2**
You are a landlord where your crop share arrangement constitutes a joint venture and you take 40% of the income and pay 40% of the allowable expenses. You should report 40% of the gross sales amounts under Commodity Sales and Program Payments. Report your 40% share of expenses under Allowable Expenses.

However, if you are a tenant and for tax purposes your gross sales must include your landlord’s share of the crop, you must record your landlord’s share as a commodity purchase using the code for the commodity, under Commodity Purchases and Repayment of Program...
Benefits. This will ensure your program benefits are calculated correctly.

Example
You are a tenant in a crop share and sell the crop and then pay the landlord 40% of the income from the sale. You should report 100% of the gross sales amount under Commodity Sales and Program Payments and 40% of that amount under Commodity Purchases and Repayment of Program Benefits.

Commodity futures
You can record an income transaction involving commodity futures as a commodity sale for AgriStability and AgriInvest purposes if the transaction involves a primary agricultural product that you produced on your farm and the transaction is considered a hedging strategy.

Record commodity futures as follows:
- For futures transactions reported as a gross amount, record the income as a commodity sale using the code for the commodity. Record related purchases as a commodity purchase using the code for the commodity.
- For futures transactions reported as a net amount, record the net gain as a commodity sale using the code for the commodity. Record the net loss as a commodity purchase using the code for the commodity.

Record income from futures transactions involving commodities that you did not produce or that were not considered a hedging strategy on line 9600 as other farming income, and record losses on line 9896 as a non-allowable expense.

Grains, oilseeds, and special crops
If you sold grain directly or through an agency, include in income all the amounts you received from these sales. For example, include any Canadian Wheat Board payments from the sale of wheat, durum wheat, and barley.

Storage and cash purchase tickets
When you delivered grain to a licensed public elevator or process elevator, you received a storage ticket, a cash purchase ticket, or a deferred cash purchase ticket.

If you received a storage ticket, a sale did not take place. Therefore, you do not have to include that amount in income.

However, if you received a cash purchase ticket, a sale did take place. Since we consider that you received a payment at the time you received the ticket, you have to include the amount in income.

If you received a deferred cash purchase ticket, you may be able to defer the income until a later fiscal period. You can do this if the ticket provides for payment after the end of the year in which you delivered the grain. This carry-over of income is only allowable in specific situations. For more details, see Interpretation Bulletin IT-184, Deferred Cash Purchase Tickets Issued for Grain.

Cash advances
Under the Agricultural Marketing Programs Act, you may be able to get cash advances for crops that someone stores in your name. We consider these advances to be loans. Do not include these payments in your income until the crops are sold. However, for the fiscal period in which the sale occurs, include the full amount from the sale of your crops in your income.

Tree Production
Allowable items
Allowable tree production (excluding the non-allowable items listed below) must be generated through farming activity to be allowable under AgriStability and AgriInvest.

Farming activity includes the planting, nurturing and harvesting of trees, with significant attention paid to managing the growth, health, and quality of the trees. This activity can involve the regular seeding and harvesting of trees, shrubs, herbaceous perennials, or annuals, including ornamental, fruit, and Christmas trees.

These operations incur normal input and harvesting costs and the crop is considered an agricultural commodity. The income and expenses associated with these commodities is allowable, and they should be included as inventory on your AgriStability application.

Non-allowable items
Income, expenses, and inventories related to the production and/or harvesting of trees for use as the following are non-allowable under AgriStability and AgriInvest:
- firewood;
- construction material;
- poles or posts;
- fibre, pulp and paper; and
- trees and seedlings destined for use in reforestation

Income from the above must be reported on line 9600 (Other Income) and will not be included in AgriStability and AgriInvest calculations, regardless of the activities used to produce them.

Woodlots
If you operated or regularly harvested a woodlot, include the sale of trees, lumber, logs, poles, or firewood in your income. This income is non-allowable income for AgriStability and AgriInvest purposes, but it must be reported as a commodity sale, using commodity code 259.

From this income, you can deduct a type of capital cost allowance known as a depletion allowance. For details, see Interpretation Bulletin IT-481, Timber Resource Property and Timber Limits.

If you earned the income by letting other people remove standing timber from your woodlot, the proceeds may be a capital receipt. A taxable capital gain or an allowable capital loss may result. For more details on capital gains and losses, see Chapter 7 and Guide T4037, Capital Gains.

For more details on the sale of wood, see Interpretation Bulletin IT-373, Woodlots.
Livestock

Custom feedlot operator income
Custom feedlot operators feeding cattle, calves, swine, sheep and lambs are eligible for AgriInvest based on the value of qualifying grain they produce and feed to custom-fed livestock.

If your custom feeding invoices are itemized:
- Record qualifying feed and protein supplements as a prepared feed sale under Commodity Sales and Program Payments using code 243;
- Record other charges itemized under Commodity Sales and Program Payments using line code 576.

If your custom feeding invoices are not itemized:
- Record the total amount invoiced as a prepared feed sale under Commodity Sales and Program Payments using code 246. 50% of this amount will be included in the calculation of your ANS, as a qualifying commodity.

Include any insurance payments you receive for losses of livestock in the sales column of Form T1163 (Statement A) or T1164 (Statement B), using the applicable livestock commodity code.

If your farming business was located in a prescribed drought region in 2007, you may be able to defer including income from the sale of breeding animals in your taxable income. See “Prescribed drought region (PDR)” on page 18. These deferrals do not apply if you were a non-resident and were not carrying on a farming business through a fixed place of business in Canada at the end of the tax year. They also do not apply in the year of the farmer’s death.

If you received a Bovine Spongiform Encephalopathy (BSE) Recovery Program payment, report the amount you received under program code 468.

PMU Contract Cancellation Income
Income received from the buy-out of PMU contracts will be allowable to the extent it is paid in lieu of the commodity income otherwise receivable under the contract. Penalty fees and other compensation that may be paid in addition to the amount in lieu of commodity income will be considered non-allowable.

Report amounts received for your Collection Agreement, Herd and Health payments, West Nile Reimbursement and Equine Placement Fund in allowable income code 322. Report amounts received for the Rancher payment, Business Planning Subsidy and capital costs in “other income” code 9600.

Canadian Food Inspection Agency (CFIA) – Destroying livestock
You have to include in income any payments you received under the Health of Animals Act for destroying animals. Include these amounts under the program payment codes 469 and 479 – CFIA compensation. You can choose to deduct all or part of the payment as an expense in the year. However, if you choose to do this, you have to include in your income for your next fiscal period the amount you deduct in your 2007 fiscal period. If you deferred payments in your 2006 fiscal period, you have to include the deferred amounts as income in this fiscal period.

Report the full amount received as a commodity sale, using program payment codes 469 and 479. If you chose to deduct all or part of this payment as an expense in the year, then enter this amount under commodity purchases, using one of the codes from the “PDR Deferred/CFIA Livestock Codes” chart on page 19. You must also use these codes in the next fiscal period to report this amount as income.

Prescribed drought region (PDR)
In some cases, you may be able to defer the applicable income received from the sale of breeding animals in your 2007 fiscal period to a later fiscal period.

To be able to do this, you have to meet these two conditions:
- your farming business was located in a PDR at some time during your 2007 fiscal period; and
- you reduced, by sale or other means, the number of breeding animals in your breeding herd by at least 15%.

For a list of PDRs, contact the CRA or Agriculture and Agri-Food Canada. You will find the addresses and telephone numbers in the government section of your telephone book.

The following are considered to be “breeding animals”:
- bovine cattle;
- bison;
- goats;
- sheep;
- deer, elk, and other similar grazing ungulates you keep for breeding; and
- horses you breed to produce pregnant mare’s urine (PMU) that you sell.

All your breeding animals must be older than 12 months.

To determine the size of your breeding herd at the end of your 2007 fiscal period, complete Part 1 and Part 2 of the following chart.
Breeding herd chart

Part 1

How many of your female bovine cattle over 12 months of age held at the end of your 2007 fiscal year have given birth? _______ A

How many of your female bovine cattle over 12 months of age held at the end of your 2007 fiscal year have never given birth? _______ B

Enter one half of the figure from line A _______ C

Enter either the figure from line B or line C, whichever is less _______ D

Part 2

How many breeding animals did you have at the end of your 2007 fiscal period? _______ E

Enter the figure from line B _______ F

Enter the figure from line D _______ G

Line F minus line G _______ H

Number of breeding animals in your breeding herd at the end of your 2007 fiscal period: line E minus line H _______ I

If the figure from line I is not more than 85% of the number of animals in your breeding herd at the end of your 2006 fiscal year, you can defer part of the income received in 2007 from the sale of breeding animals.

Before you determine how much you can defer, you need to calculate a few amounts. First, determine your sales of breeding animals for your 2007 fiscal period minus any reserves you claimed for these sales.

A reserve is created when you sell property and do not receive the full proceeds at the time of the sale. Instead, the amount of proceeds is spread over a number of years, which allows you to defer reporting these proceeds to the year in which you receive them. For more details on reserves, see Interpretation Bulletin IT-154, Special Reserves.

After you have determined your sales of breeding animals, subtract from this amount the cost of breeding animals you bought in your 2007 fiscal period. The result is your net amount.

You then determine how much you can defer as follows:

- if the figure on line I is more than 70% and not more than 85% of your breeding herd at the end of your 2006 fiscal period, you can defer up to 30% of the net sales; or
- if the figure on line I is between 0% and 70% of your breeding herd at the end of your 2006 fiscal period, you can defer up to 90% of the net sales.

You do not have to defer all this income. You can include any part of it in your 2007 income. The deferred income must, however, be reported in the fiscal period that ends in:

- the year beginning after the period or periods when the region stops being a PDR;
- the year when the farmer dies; or
- the first year when, at the end of that year, the farmer is a non-resident and has ceased to carry on business through a fixed place of business in Canada.

If you want, you can elect to report the deferred income in the year after you deferred it.

Report the income you received from the sale of breeding animals as a commodity sale using the code for the commodity (see page 15). Report the amount you are deferring as a purchase using one of the deferred livestock codes listed below. In the year that you declare the deferred income, report it under commodity sales using the same deferred livestock code you used before.

<table>
<thead>
<tr>
<th>PDR deferred/CFIA livestock codes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred bovine cattle</td>
</tr>
<tr>
<td>Deferred bison</td>
</tr>
<tr>
<td>Deferred goat</td>
</tr>
<tr>
<td>Deferred sheep</td>
</tr>
<tr>
<td>Deferred deer</td>
</tr>
<tr>
<td>Deferred elk</td>
</tr>
<tr>
<td>Deferred horse for PMU sales</td>
</tr>
<tr>
<td>Deferred other breeding animals</td>
</tr>
</tbody>
</table>

If your farming business was not in a PDR at any time during your 2007 fiscal period, you cannot defer the amount you received when you sold breeding animals. Also, you have to include in your 2007 income any unreported amounts you deferred in earlier years.

However, as long as your farming business was in a PDR at any time in your 2007 fiscal period, you do not have to include income you deferred in earlier years.

Insurance proceeds for allowable expense items

Use code 406 to record insurance proceeds you received for allowable expense items, such as fertilizers, chemicals, fuel, twine, etc.

Income from program payments

Treatment of program payment income is determined by the type of loss it has compensated you for.

For AgriInvest, your ANS will only include program payment income you received directly for the loss of a qualifying commodity (e.g., production insurance). For AgriStability, your program year margin will only include payments which have compensated you for the same type of loss covered under AgriStability.

You should receive an AGR-1 slip, Statement of Farm-Support Payments, to identify your 2007 taxable farm-support payments. According to the Income Tax Regulations, you have to provide your social insurance number to organizations that issue farm-support payments.

If you received a payment found on Program Payment Code List A on page 65, record the program payment code,
name, and amount under “Commodity Sales and Program Payments”.

If you received a payment found on Program Payment Code List B on page 66, itemize each payment under line 9600, “Other” by listing the corresponding 3-digit code found on Program Payment List B.

If your program payments were recorded in your books net of expenses that are recognized in the calculation of farming income (or loss), adjust your income to include the full amount of the payment.

Example
You were entitled to a payment of $6,000 as proceeds from a hail insurance program for your wheat crop. The program deducted $2,000 in premiums, so the net cheque was for $4,000. You would report $6,000 as a Crop/hail insurance program payment for grains, oilseeds, and special crops, as code 401. You would claim $2,000 for the allowable expense on line 9665, “Insurance premiums (crop or production).”

You should receive an AGR-1 slip for all farm-support programs from which you received payments of more than $100. These include farm-support programs administered by the federal, provincial, territorial, and municipal governments, and by producer associations. The AGR-1 slip will also report any withdrawals you make from Fund 2 of your NISA account.

You have to include in income all taxable farm-support payments you received in your 2007 fiscal period, including amounts of $100 or less.

If your farm is operated as a partnership, only one partner should attach the AGR-1 slip to his or her income tax return. However, if your partnership has to file a partnership information return, you should file the AGR-1 slip with that return.

If the annual period of the AGR-1 slip is not the same as the fiscal period of your farming operation, report only the part of the farm-support payments that you earned during your normal fiscal period. For example, if your farming business has a fiscal period ending on June 30, 2007, and your AGR-1 slip shows income of $10,000 in box 14, but you earned only $6,000 of that income by June 30, 2007, you will include only $6,000 in your income for your 2007 fiscal period. You will include the remaining $4,000 in your next fiscal period. You should, however, include the AGR-1 slip issued for the 2007 calendar year with your 2007 income tax return.

Wind-Down Payments from your NISA account
If you are a former Net Income Stabilization Account (NISA) program participant and received an AGR-1 slip with a positive amount in box 18, report it as income on line 130 of your income tax return. The figure in box 18 represents taxable amounts paid out of your NISA Fund 2 account.

The back of the AGR-1 slip has information about how to report amounts that appear in the various boxes.

How to Report Payments from the AgriStability and AgriInvest programs
Payments received from the AgriInvest Kickstart program, and government contributions (Fund 2) from AgriInvest are considered investment income (box 18 of the AGR-1), and should not be reported on this form.

Payments from AgriStability are considered farming income (box 14 of the AGR-1).

If you received an AGR-1 slip with a positive amount in box 14, include it as income on Line 9544, “Business risk management (BRM) and disaster assistance program payments,” of your Form T1163 (Statement A). The figure in box 14 represents taxable amounts paid out by the AgriStability program for government contributions.

If you received an AGR-1 slip with a negative amount showing in box 14, do not enter this amount on line 9544 of your Form T1163 (Statement A). You could have a negative amount in box 14 if you repaid an amount to the AgriStability program in a year after you got an AGR-1 slip reporting the amount you received. Since a negative figure is not considered income, enter the amount on line 9896, “Other (specify).” Make sure you attach the AGR-1 slip to support this deduction.

Other farming income
The instructions for completing “Other farming income” apply to both Form T1163 (Statement A) and Form T1164 (Statement B).

Rental income
Except for leases explained under line 9613 on page 21, you do not usually include rental income in your farming income. To determine your rental income, use Form T776, Statement of Real Estate Rentals. You will find this form in Guide T4036, Rental Income. Enter the amount of your net rental income on line 126 of your income tax return.

However, for the AgriStability and AgriInvest programs, landlords are eligible if the crop share arrangement constitutes a joint venture. For program purposes, a crop share arrangement qualifies as a joint venture if the landlord’s share of the allowable expenses reasonably approximates their share in the allowable related income. If you are a landlord see page 16. “Crop Share” for more information on how to report your income and expenses.

Line 9540 – Other program payments
Enter any payments from programs that are not listed on Program Payment List A or B on pages 65 and 66, or under 9544 (below).

If you received an overpayment from any programs on line 9540, claim the amounts you repaid on line 9896, “Other (specify).” See page 36 for details.

Do not report crop/production insurance payments on line 9540.
Line 9544 – Business risk management (BRM) and disaster assistance program payments
Enter any payments you received from the following federal or provincial BRM and disaster assistance programs. Do not include crop/production insurance payments listed on page 65:
- CAIS payments and AgriStability, including Interim payments
- Canadian Farm Income Program (CFIP) in Saskatchewan, Manitoba, Nova Scotia, Newfoundland and Labrador, New Brunswick, Prince Edward Island, and Quebec
- Whole Farm Insurance Pilot (WFIP) Program in British Columbia
- Farm Income Disaster Program (FIDP) in Alberta
- Ontario Whole Farm Relief Program (OWFRP) and the Ontario Farm Income Disaster Program (OFIDP) in Ontario
If you received an overpayment from any of the programs listed above, claim any amounts you repaid on line 9896, “Other (specify).” See page 36 for details.

Line 9574 – Resales, rebates, GST/HST for allowable expenses
Enter on this line the total resales and rebates of allowable expenses, including GST/HST rebates, unless you have already reduced your expenses by these amounts.

Line 9575 – Resales, rebates, GST/HST for non-allowable expenses, and recapture of capital cost allowance (CCA)
Enter on this line the total resales and rebates for non-allowable expenses, including GST/HST rebates, unless you have already reduced your expenses by these amounts.

Recapture of capital cost allowance (CCA)
Include in your income the amount of any recapture of CCA you have from selling depreciable property such as tools and equipment.

Complete the chart “Calculation of capital cost allowance (CCA)” on Form T1175, Farming – Calculation of Capital Cost Allowance (CCA) and Business-use-of-home Expenses, to find out if you have to report any recapture of CCA. See Chapter 4 for details.

Line 9600 – Other (specify)
If you received income from a program found on Program Payment List B on page 66, itemize the payments under line

Line 9505 – Patronage dividends
Report patronage dividends (other than those for consumer goods or services) received by eligible members of agricultural co-operatives on line 9605.

If you receive a patronage dividend in the form of “tax deferred co-operative shares”, there is no need to immediately include it in income. Tax may be deferred until the shares are disposed of (or deemed disposed of). The balance could then be carried forward and sheltered later as actual (or deemed) proceeds of disposition.

Line 9607 – Interest
Enter the total incidental interest earned on business accounts related to your farming business. Do not report interest on personal accounts and investments.

Line 9610 – Gravel
Enter the total amounts you received from the sale of soil, sand, gravel, or stone. For some of these items, you can claim a depletion allowance.

Line 9611 – Trucking (farm-related only)
Enter amounts you received for trucking related to your farming business.

Line 9612 – Resales of commodities purchased
Enter your total sales of commodities that you did not produce, that is, commodities that you bought for resale. Enter the corresponding purchases made in this fiscal period on line 9827, “Purchases of commodities resold.” See page 33 for details.

Line 9613 – Leases (gas, oil well, surface, etc.)
If you received payments for leasing your farmland for petroleum or natural gas exploration, these payments will be either income or a capital receipt.

Include in your income the yearly amounts for rental, severance, or inconvenience from a surface rental agreement.

The first payment from these agreements is often larger than the rest of the annual payments. However, the agreement may not specify how much of the first payment is for such things as damage to land, land improvements, severance, inconvenience, or the first year’s rent. When this happens, in the year you received the first payment, include in income an amount that is equal to the annual payment you will receive in the following years. The rest of the first payment is a payment for property. This may result in either a capital gain or loss. For details about capital gains, see Chapter 7.

Line 9614 – Machine rentals
Enter the amounts you received from the rental of your farm machinery.

Line 9601 – Agricultural contract work
If you are a custom feeder, do not report your income on this line. See page 18 for instructions on reporting your custom feeding income.

If you have incidental farming income from such things as custom or contract work, harvesting, combining, crop dusting or spraying, seeding, drying, packing, cleaning, and treating seeds, enter the income on this line. Do not include income received from renting farm machinery on this line. See “Line 9614 – Machine rentals” on page 21.
9600 by listing the corresponding 3-digit code for each program.

If you have other types of farming income not listed on the form, enter the total amount of all other types of farming income on this line. Then list the items on the blank lines provided under it.

In this section, record all ineligible farming income. Ineligible income includes, but is not limited to, aquaculture, trees sold for use in reforestation, wood sales, peat moss, and income or expenses generated from wild game reserves.

The following paragraphs identify some of the income items you can report on line 9600.

**Insurance proceeds**

If you received insurance proceeds as compensation for loss or damage to certain types of property, enter the amount of insurance proceeds that did not relate to a specific commodity. For example, you may have insurance proceeds for damage to a building due to fire.

Enter the total insurance proceeds on this line if you are being reimbursed for:

- the cost of non-depreciable property that you previously deducted as a current expense; or
- the cost of property that was a saleable item.

Print “insurance proceeds” on one of the lines below line 9600. If the insurance proceeds compensated you for damages to depreciable property and you used all of them to repair the property within a reasonable period of time, include the proceeds as income on this line and claim a deduction for the same amount in the “Expenses” area on page 3 of the form. Claim repairs to depreciable property that is machinery on line 9760 and repairs to motor vehicles on line 9819. If you did not spend all the insurance proceeds on repairs within a reasonable length of time, include the unexpended excess as proceeds of disposition. See “Column 4 – Proceeds of disposition in the year” on page 43 for more details.

Insurance proceeds that compensate you for replacement of lost or destroyed depreciable property are considered to be proceeds of disposition for that depreciable property. Do not include this type of insurance proceeds on line 9600. See Chapter 4 for details. You can also refer to Chapter 7 for information on how insurance affects the adjusted cost base of capital property.

Do not include insurance proceeds from federal, provincial, or municipal government programs. For the codes to use for government insurance programs, see the program lists on pages 65 and 66.

**Miscellaneous**

You can deduct 100% of the cost of property such as small tools if they cost less than $500. If you did this and you later sold that property, you have to include in income the amount you received from the sale.

Include in your income prizes you won from fairs or exhibitions. For more details, see Interpretation Bulletin IT-213, *Prizes From Lottery Schemes, Pool System Betting and Giveaway Contests*.

Report resales and rebates of allowable expenses on line 9574.

**Summary of income**

Enter totals A and B from the last lines of the two columns on page 2 of the form. Add the totals together to get your gross farming income. Gross farming income is your total farming income before you deduct expenses.

**Expenses**

Use page 4 of Form T1163 (Statement A) to record your farming expenses. If you have more than one farming operation, use a separate Form T1164 (Statement B) for each additional operation.

You cannot include expenses for your personal use of either of the following:

- property of your farming business; or
- partnership property or services.

In addition, you cannot include any of the following as part of your expenses:

- the cost of saleable goods or services you, your family, or your partners and their families personally used or consumed, such as dairy products, eggs, fruit, vegetables, poultry, and meat;
- donations to charities and political contributions;
- interest and penalties you paid on your personal income tax; or
- most life insurance premiums (see “Line 9804 – Other insurance premiums” on page 28 for details).

For AgriStability program purposes, there are two types of expenses:

- allowable expenses; and
- non-allowable expenses.

**Allowable expenses** are the operating or input expenses you paid that directly relate to the production of your commodities. **Non-allowable expenses** include interest and capital-related expenses as well as costs that are not directly related to the production of your commodities.

**Current or capital expenses**

Renovations and expenses that extend the useful life of your property or improve it beyond its original condition are usually capital expenses. However, an increase in a property’s market value because of an expense is not a major factor in deciding whether the expense is capital or current. To decide whether an amount is a current expense or a capital expense, consider your answers to the questions in the following chart.
### Current or capital expenses

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Capital expenses</th>
<th>Current expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Does the expense provide a lasting benefit?</td>
<td>A capital expense generally gives a lasting benefit or advantage. For example, the cost of putting vinyl siding on the exterior walls of a wooden house is a capital expense.</td>
<td>A current expense is one that usually recurs after a short period. For example, the cost of painting the exterior of a wooden house is a current expense.</td>
</tr>
<tr>
<td>Does the expense maintain or improve the property?</td>
<td>The cost of a repair that improves a property beyond its original condition is probably a capital expense. If you replace wooden steps with concrete steps, the cost is a capital expense.</td>
<td>An expense that simply restores a property to its original condition is usually a current expense. For example, the cost of repairing wooden steps is a current expense.</td>
</tr>
<tr>
<td>Is the expense for a part of a property or for a separate asset?</td>
<td>The cost of replacing a separate asset within that property is a capital expense. For example, the cost of buying a compressor for use in your business operation is a capital expense. This is the case because a compressor is a separate asset, and is not a part of the building.</td>
<td>The cost of repairing a property by replacing one of its parts is usually a current expense. For instance, electrical wiring is part of a building. Therefore, an amount you spend to rewire is usually a current expense, as long as the rewiring does not improve the property beyond its original condition.</td>
</tr>
<tr>
<td>What is the value of the expense? (Use this test only if you cannot determine whether an expense is capital or current by considering the three previous tests.)</td>
<td>Compare the cost of the expense to the value of the property. Generally, if the cost is of considerable value in relation to the property, it is a capital expense.</td>
<td>This test is not a determining factor by itself. You might spend a large amount of money for maintenance and repairs to your property all at once. If this cost was for ordinary maintenance that was not done when it was necessary, it is a maintenance expense, and you deduct it as a current expense.</td>
</tr>
<tr>
<td>Is the expense for repairs to used property that you acquired to put it in suitable condition for use?</td>
<td>The cost of repairing used property that you acquired to put it in a suitable condition for use in your business is considered a capital expense, even though in other circumstances it would be treated as a current operating expense.</td>
<td>Where the repairs were for ordinary maintenance of a property that you already had in your business, the expense is usually current.</td>
</tr>
<tr>
<td>Is the expense for repairs made to an asset in order to sell it?</td>
<td>The cost of repairs made in anticipation of the sale of a property or as a condition of sale is regarded as a capital expense.</td>
<td>Where the repairs would have been made anyway, but a sale was negotiated during the course of the repairs or after their completion, the cost is regarded as current.</td>
</tr>
</tbody>
</table>

For more information, see Chapter 4 and Interpretation Bulletin IT-128, *Capital Cost Allowance – Depreciable Property*

### Eligible disability-related modifications made to a building

Outlays and expenses for eligible disability-related modifications made to a building can be considered current expenses. You do not have to add them to the capital cost of your building. You can also deduct expenses you paid to install or get disability-related devices and equipment. Eligible disability-related modifications include changes you make to accommodate wheelchairs.

### Rebates, grants, or assistance

You should subtract from the applicable expense any rebate, grant, or assistance you have received.

If the rebate, grant, or assistance is for a depreciable asset, subtract the amount of the rebate from the property’s capital cost before calculating the capital cost allowance. See Chapter 4 for details. If the asset qualifies for the investment tax credit, this reduction to the capital cost will also affect your claim. For more details, see Form T2038(IND), *Investment Tax Credit (Individuals).*

If you cannot apply the rebate, grant, or assistance to reduce a particular expense or a property’s capital cost, include the amount as income on line 9574 or 9575. Only include the amount that was not used to reduce the cost of a property or the amount of an outlay or expense.

### GST/HST input tax credits

If you claim the GST/HST you paid on your farming business expenses as an input tax credit, reduce the amount of the business expenses you claim by the amount of the input tax credit. Do this when the GST/HST for which you are claiming the input tax credit was paid or became payable. Enter the net expense figure on the appropriate line of Form T1163 (Statement A) or T1164 (Statement B).

Input tax credits that you claim for the purchase of depreciable property used in your business will affect your claim for CCA. If you cannot apply the credit you received to reduce a particular expense or an asset’s capital cost, include the amount as income on line 9574 or 9575 of Form T1163 (Statement A) or T1164 (Statement B).

For details about how input tax credits affect your claim for CCA, see “Column 2 – Undepreciated Capital Cost (UCC) at the start of the year” on page 42.
Prepaid expenses

A prepaid expense is the cost of a service you paid for ahead of time. For example, insurance, property taxes, and rent would be prepaid expenses if you paid for them in one year, but did not receive the benefits until the next year.

If you use the accrual method to determine your farming income, you can deduct the part of the prepaid expense that applies to the year you receive the benefit.

If you use the cash method for reporting income, you cannot deduct a prepaid expense amount (other than for inventory) relating to a tax year that is two or more years after the year the expense is paid. However, you can deduct the part of an amount you paid in a previous year for benefits received in the current tax year. These amounts are deductible as long as you have not previously deducted them.

For example, if you paid $600 for a three-year lease in 2007, you can deduct $400 in 2007. This represents the part of the expense that applies to 2007 and 2008. On your 2009 income tax return, you could then deduct the balance of $200 for the part of the prepaid lease that applies to 2009.

Business-use-of-home expenses

You can deduct expenses for using a work space in your home for the farming business, if you meet one of these conditions:

■ the work space is your principal place of business; or

■ you use the space only to earn income from your farming business, and you use it on a regular and ongoing basis to meet your customers.

You can deduct a part of the following expenses:

■ heating
■ home insurance
■ electricity
■ cleaning materials
■ property taxes
■ mortgage interest
■ capital cost allowance

To calculate the part you can deduct, use a reasonable basis, such as the area of the work space divided by the total area of your home.

The capital gain and recapture rules will apply if you deduct capital cost allowance on the business-use part of your home and you later sell your home. See Chapters 4 and 7 for more information about recapture and capital gains rules.

If you rent your home, you can deduct the part of the rent and any expenses you incur that relate to the work space.

Include your expenses for business-use-of-home on line 9896, “Other (specify)” of Form T1163 (Statement A) or T1164 (Statement B). For more details, see “Additional expenses (partnerships)” on page 13 and “Line 9934 – Adjustment to business-use-of-home expenses” on page 39.

Example

Marjorie calculates that $85 of her household electrical expense is for her farming business use. The total electrical expenses for her farm outbuildings are $1,200. She enters $1,200 on line 9799 and $85 on line 9896.

For income tax purposes, you cannot use business-use-of-home expenses to create or increase a farming loss. Therefore, if you claimed business-use-of-home expenses and you report a farming loss on line 9944, you will have to adjust your loss for income tax purposes at line 9934. For details on how to make this adjustment, see the instructions for line 9934 on page 39.

Business-use-of-home expenses are non-allowable expenses for program purposes.

Commodity purchases

Include seed, plants, transplants, livestock, and marketable products. For example, if you are an apple producer replacing damaged or dead trees, record apple tree purchases using the code for apples. If you are buying trees to expand an orchard, this amount would be a capital expenditure and would not be entered as a commodity purchase. Do not include the cost of seeds and plants you used in your personal vegetable or flower garden. Include expenses incurred from the use of commodities with the commodity purchases. For example, record pollination fees with bee purchases.

If you made a payment in kind for a farming-business commodity purchase, deduct the value of the payment as a purchase. For more details, see the definition of payment in kind on page 16.

If you are a tenant and your gross sales include your landlord’s share of the crop, record your landlord’s share as a corresponding commodity purchase.

If you have an expense for the purchase of water that is used in the production of your commodity and it has not been included in your municipal taxes, do not include this expense with the commodity purchases. Record this expense on line 9662 Fertilizers and Soil Supplements, even if the water was used for livestock. Expenses for the transportation or hauling of the water are non-allowable.

Livestock owners and custom feedlot operators with prepared feed purchases

If your purchase invoices of prepared feed are itemized by ingredient:

■ Record qualifying commodities (such as grains, forage, oilseeds) and protein supplements as a qualifying purchase using code 046;

■ Record other charges itemized separately (such as minerals and salts) under Allowable Expenses using line code 570.

If your invoices of prepared feed are not itemized by ingredient:
Record total purchases under Allowable Expenses using line code 571. 65% of this amount will be included in the calculation of your ANS, as a qualifying commodity.

Livestock owners with custom feeding expenses

If your purchase invoices of prepared feed are itemized by ingredient:
- Record qualifying commodities (such as grains, forage, oilseeds) and protein supplements as a qualifying purchase using code 577;
- Record other charges itemized separately (such as minerals and salts) under Allowable Expenses using line code 572.

If your purchase invoices of prepared feed are not itemized by ingredient:
- Record total purchases under Allowable Expenses using code 573. 50% of this amount will be included in the calculation of your ANS, as a qualifying commodity.

Livestock insurance premiums

Use code 463 to record the total amount of premiums paid for livestock insurance.

Do not include any premiums for private, business-related (business interruption), or motor vehicle insurance. See “Line 9804 – Other insurance premiums” on page 28 for details on other types of insurance premiums.

Ranch fur operators with prepared feed purchases

If your purchase invoices of prepared feed are itemized by ingredient:
- Record qualifying commodities and protein supplements using line code 046;
- Record the remaining expenses under Allowable Expenses using line code 310.

If your purchase invoices of prepared feed are not itemized by ingredient:
- Record total purchases under Allowable Expenses using code 574. 20% of this amount will be included in the calculation of your ANS, as a qualifying commodity.

Record the repayment of a program benefit as a purchase using the code for the program. You should receive an AGR-1 slip, Statement of Farm-Support Payments, identifying the amount of the repayment in box 17.

If you received an overpayment from any of the programs listed on lines 9540 and 9544, claim amounts you repaid in the tax year on line 9896, “Other (specify).”

AgriStability program – Allowable expenses

Line 9661 – Containers and twine
Enter the total amount you paid for material to package, contain, or ship your farm produce or products. If you operated a nursery or greenhouse, enter the cost of your containers and pots for the plants you sold.

Line 9662 – Fertilizers and soil supplements
Enter the total amount you paid for fertilizers and lime you used in your farming business.

If you used soil supplements or other growth media, enter the amounts you paid for them here. Examples of soil supplements include mulch, sawdust, and weed-mats.

Line 9663 – Pesticides and chemical treatments
Enter the total amount you paid for herbicides, insecticides, rodenticides, and fungicides. Insecticides include chemicals for pest control purposes as well as any predators or parasites introduced for that use. Also record the total amount you paid for chemicals used in treating water, manure, or slurry, as well as those used in disinfecting equipment and facilities.

Record seed treatment expenses on this line if the treatment was itemized separately from the seed purchase on your original invoice. Otherwise, include the treatment as part of the commodity purchase.

Line 9665 – Insurance premiums (crop or production)
Enter the total amount of deductible premiums for any crop insurance. Include premiums for hail insurance on this line. Do not include any premiums for private, business-related, or motor vehicle insurance. Do not include premiums for Alberta Revenue Insurance Coverage or Alberta Spring Price Endorsement. See “Line 9804 – Other insurance premiums” on page 28 for details on other types of insurance premiums.

Production insurance is the same as crop insurance.

Line 9713 – Veterinary fees, medicine, and breeding fees
Enter the total amount you paid for medicine for your animals, and for veterinary and breeding fees. Examples of such fees include the cost of artificial insemination, embryo transplants, disease testing, and castration. If you used disposable veterinary supplies for your farming business, enter these costs here.

Line 9714 – Minerals and salts
Record purchases of minerals, salts, vitamins, and premixes (which are mainly minerals and vitamins). Do not report purchased feed under this line code.

Line 9764 – Machinery (gasoline, diesel fuel, oil)
Enter the total amount you paid for fuel and lubricants for your machinery used in your farming operation.

Line 9799 – Electricity
Only the part of your electricity costs that relates to your farming business is deductible. To determine the part you can deduct, keep a separate record of the amounts that apply to the farmhouse and other farm properties. For example, the business part of your electricity expense will
depend on how much electricity you used for the barns and shops.

Since the electricity for the farmhouse is a personal expense, you cannot deduct it unless you meet the conditions we explain in “Business-use-of-home expenses” on page 24. Include your expenses for business-use-of-home on line 9896, “Other (specify).”

Do not include the electricity expense for a house that you rented to someone else. This is a rental expense, which you enter on Form T776, Statement of Real Estate Rentals. You can get this form in Guide T4036, Rental Income.

**Line 9801 – Freight and shipping**

Enter the amount you paid for shipping farm inputs to your operating site and shipping farm produce to market. Do not include costs you incurred when trucking for someone else on this line. These are non-allowable expenses for AgriStability, and should be claimed on line 9798, “Agricultural contract work.”

Also include amounts you paid for the disposal of carcasses on this line.

Do not include freight and shipping incurred after the point of sale on this line. These amounts must be recorded on line 575 – “Point of Sale Adjustments” in order to calculate your AgriInvest benefits correctly.

**Line 9802 – Heating fuel**

Enter the total amount you paid for natural gas, coal, and oil to heat farm buildings. Also enter your expenses for fuel used for curing tobacco, crop drying, or greenhouses.

You can deduct only the part of these costs that relates to your farming business. To determine the part you can deduct, keep a separate record of the amounts you paid for the farmhouse and other farm properties. For example, the business part of your heating fuel expense will depend on how much heating fuel you used for the barns and shops.

Since heating fuel for the farmhouse is a personal expense, you cannot deduct it unless you meet the conditions we explain in “Business-use-of-home expenses” on page 24. Include your expenses for business-use-of-home on line 9896, “Other (specify).”

Do not include heating fuel expenses for a house that you rented to someone else. This is a rental expense, which you enter on Form T776, Statement of Real Estate Rentals. You can get this form in Guide T4036, Rental Income.

**Line 9815 – Arm’s length salaries**

Enter the amount of gross wages you paid to your employees. Include the cost of board for hired help. Do not include salaries paid to related persons (see the definition below). If you paid salaries to related persons, see “Line 9816 – Non-arm’s length salaries” on page 31.

Related persons are:

- individuals connected by blood relationship, marriage or common-law partnership, or adoption;
- a corporation and
- an individual, group of persons, or entity that controls the corporation;
- an individual, group of persons, or entity of a related group that controls the corporation;
- any individual related to a person described above.

Salaries or drawings paid to yourself are not deductible for tax purposes. As the employer, also include in this total your share of Canada Pension Plan or Quebec Pension Plan contributions and Employment Insurance premiums. Do not deduct the amounts you withheld from your employees’ remuneration, since you already deducted them in the amount you claimed as wages.

You may have paid wages in kind to your employees. For example, you may have paid your employees by giving them livestock or grain instead of cash. If you did this:

- your employees include in their income the value of the livestock or grain;
- you include the same amount in your gross sales for the year and deduct it as a wage expense.

Keep a detailed record of the amounts you paid to each employee and the employee’s name, address, and social insurance number.

**Line 9822 – Storage/drying**

Enter the amount you paid for storing and drying commodities. Examples of such costs include amounts paid for storage and drying services, air treatment expenses, and the purchase of germination inhibitors and other preservative agents. Electricity and heating fuel costs incurred in storage and drying commodities should be entered on lines 9799, “Electricity,” and 9802, “Heating fuel,” respectively.

**Line 9836 – Commissions and levies**

Enter the amount you paid in commissions and levies incurred in the sale, purchase, or marketing of commodities. Also include amounts paid in levies to marketing boards, except those due as a result of penalties or fines you incurred. Do not include commissions paid to salespeople contracted to market your product.

Producers marketing fruits or vegetables through a co-op should enter any pack-and-sell expenses here. Do not include pack and sell expenses that were incurred after the point of sale. These amounts must be recorded on line 575 – Point of Sale Adjustments, in order to calculate your AgriInvest benefits correctly.

**AgriStability program – Non-allowable expenses**

**Line 9760 – Machinery (repairs, licences, insurance)**

Enter the total amount of repair, licence fee, and insurance premium expenses you incurred for your machinery. If you received insurance proceeds to help pay for repairs, see “Insurance proceeds” on page 22.
Line 9765 – Machinery lease/rental
Enter the expenses you incurred for leasing machinery used to earn your farming income. If you lease a passenger vehicle, see “Line 9829 – Motor vehicle interest and leasing costs” on page 33.

If you entered a lease agreement after April 26, 1989, you can choose to treat your lease payments as combined payments of principal and interest. However, you and the person from whom you are leasing have to agree to treat the payments this way.

In this case, we consider that:
- you have bought the machinery rather than leased it; and
- you have borrowed an amount equal to the fair market value (FMV) of the leased machinery. We define fair market value on page 41.

You can deduct the interest part of the payment as an expense. You can also claim capital cost allowance (CCA) on the machinery. See Chapter 4 for details on CCA. You can make this choice as long as the machinery qualifies and the total fair market value (FMV) of all the machinery that is subject to the lease is more than $25,000. For example, a combine that you lease with a FMV of $35,000 qualifies. However, office furniture and automobiles often do not.

To treat your lease this way, attach one of the following forms with your income tax return for the year you make the lease agreement.
- Form T2145, Election in Respect of the Leasing of Property; or
- Form T2146, Election in Respect of Assigned Leases or Subleased Property.

Both of these forms explain which property qualifies for this treatment.

Line 9792 – Advertising and promotion costs
Enter the expenses you incurred for advertising and promoting your farm products.

Producers marketing fruits or vegetables through a co-op should not enter any pack-and-sell expenses here. See line 9836 – “Commissions and levies” for information on how to report your pack-and-sell expenses.

Line 9795 – Building and fence repairs
Enter the amounts for repairs to fences and all buildings you used for farming, except your farmhouse. Do not include the value of your own labour. If the repairs improved a fence or building beyond its original condition, the costs are capital expenditures. Add them to the cost of the asset or building on your capital cost allowance (CCA) charts on Form T1175, Farming – Calculation of Capital Cost Allowance (CCA) and Business-use-of-home Expenses. We explain the CCA charts in Chapter 4.

For more details on capital expenditures, see Interpretation Bulletin IT-128, Capital Cost Allowance – Depreciable Property.

Note
You may have received insurance proceeds to pay for the repairs. If the insurance proceeds compensated you for damages to depreciable property such as buildings or fences, and you used all of them to repair the property within a reasonable period of time, you can claim a deduction for the amount spent on repairs on line 9795. You will, however, also have to include the insurance proceeds as income on line 9600. If you did not spend all the insurance proceeds on repairs within a reasonable length of time, include the remainder as proceeds of disposition in column 4 of Area A, “Calculation of capital cost allowance (CCA),” on Form T1175. For more details, see “Column 4 – Proceeds of disposition in the year” on page 43.

Line 9796 – Land clearing and draining
Enter the total amount for the expenses listed below. In most cases, you can deduct the costs for:
- clearing the land of brush, trees, roots, stones, and so on;
- first ploughing the land for farm use;
- building an unpaved road; and
- installing land drainage.

You do not have to deduct all the costs in the year you paid them. If you paid all the costs, you can deduct any part of them in the year you paid them. You can carry forward any part of the costs you did not deduct to another year.

However, if you rented land to someone else, you cannot deduct the above costs. Instead:
- add these costs to the cost of the land; or
- add these costs to the cost of the building if you plan on building on the land right away.

If you installed a tile, plastic, or concrete land drainage system, the cost can be included in class 8 of your CCA charts on Form T776, Statement of Real Estate Rentals, available in Guide T4036, Rental Income.

For more details, see Interpretation Bulletin IT-485, Cost of Clearing or Levelling Land.

You cannot deduct the cost of a paved road. Instead, you have to add this cost to class 17 on your CCA charts on Form T1175. See Chapter 4 for details.

You can deduct most of the cost to drill or dig water wells in the year you did the work. However, you have to add some of the costs to class 8 on your CCA charts. The costs you add to class 8 are those you incurred to purchase and install:
- the casing and cribwork for the well; and
- the system that distributes water, including the pump and pipes.

You can deduct amounts you paid to have public utilities brought to your farm as long as the installations remain the property of the utility.

You can deduct amounts you paid under the Canada Co-operative Associations Act to build a distribution system under a gas service contract.
Line 9798 – Agricultural contract work
If you are a custom feeder, do not report your custom feeding expenses on this line. See page 25 for instructions on reporting your custom feeding expenses.

If you have incurred expenses for custom and contract work, other than custom feeding, in your farming business report them on this line. For example, you could have had a contract with someone who cleaned, sorted, graded, and sprayed the eggs your hens produced, or someone who had facilities to age the cheese you produced. You could have also contracted someone to do your harvesting, combining, crop dusting, or contract seed cleaning.

For program purposes, agricultural contract work is a non-allowable expense. However, if you have contract work receipts that are itemized, enter the amounts of the contract work that pertain to the allowable portions, (such as fuel, fertilizer) on the appropriate lines as allowable expenses. Enter on line 9798 any amounts that are non-allowable expenses.

Line 9804 – Other insurance premiums
Enter the total amount of business-related insurance premiums you paid to insure your farm buildings, farm equipment (excluding machinery and motor vehicles), and business interruption. Do not include any premiums for hail insurance or livestock on this line. See “Line 9665 – Insurance premiums (crop or production)” on page 25 for details. Include premiums for Alberta Revenue Insurance Coverage and Alberta Spring Price Endorsement on this line.

In most cases, you cannot deduct your life insurance premiums. However, if you use your life insurance policy as collateral for a loan related to your farming business, you may be able to deduct a limited part of the premiums you paid. For more details, see Interpretation Bulletin IT-309, *Premiums on Life Insurance Used as Collateral*.

In most cases, you cannot deduct the amounts you paid to insure personal property such as your home or car. However, if you used the personal property for your farming business, you can deduct the business part of these costs. For more details, see “Business-use-of-home expenses” on page 24 and “Line 9819 – Motor vehicle expenses” on page 31.

**Definitions**
For the purposes of this claim, the following definitions apply:

- **Qualified employees** are arm’s length, full-time employees who have three month’s service since they last became employed with a business carried on by you, with a business in which you are a majority interest partner, or with a business carried on by a corporation affiliated with you. Temporary or seasonal workers are not qualified employees.

- **Arm’s length employees** are, generally, employees who are not related to you and who are not carrying on your business with you, (for example, as your partners). For more details, see “Non-arm’s length transactions” on page 41.

- **Insurable persons** are people to whom coverage is extended and who are:
  - qualified employees;
  - people who would be qualified employees if they had worked for you for three months; or
— people carrying on your business (including yourself and your partners).

**How to calculate your maximum deduction for PHSPs**
The following sections explain how to calculate your maximum PHSP deduction based on whether you had employees, and whether you insured them throughout the year or part of the year. Find the section that describes your situation.

**If you did not have any employees throughout 2007**
Your PHSP deduction is restricted by a dollar limit on an annual basis. The limit is a maximum of:

- $1,500 for yourself
- $1,500 for your spouse or common-law partner and household members 18 years of age or older at the start of the period when they were insured
- $750 for household members under the age of 18 at the start of the period

The maximum deduction is also limited by the number of days the person was insured. Calculate your allowable maximum for the year by using the following formula:

\[
A \times (B + C),
\]

where:

- **A** is the number of days during the period of the year when you insured yourself and household members, if applicable, but insured less than 50% of your employees
- **B** equals $1,500 × the number of household members 18 and over who were insured during that period
- **C** equals $750 × the number of household members under 18 who were insured during that period

**Example 1**
Edwin was a sole proprietor who ran his farm alone in 2007. He had no employees and did not insure any of his household members. Edwin paid $2,000 for PHSP coverage in 2007. In his case, the coverage lasted from July 1 to December 31, 2007, a total of 183 days. Edwin’s maximum allowable PHSP deduction is calculated as follows:

\[
\frac{183}{365} \times 1,500 = 752
\]

Even though Edwin paid $2,000 in premiums in 2007, he can only deduct $752, because the annual limit is $1,500 and he was only insured for about half of the year. If he had been insured for the entire year, his deduction limit would be $1,500.

**Example 2**
Bruce was a sole proprietor who ran his farm alone in 2007. He had no employees. From January 1 to December 31, he insured himself, his wife, and his two sons. Bruce paid $1,800 to insure himself, $1,800 to insure his wife, and $1,000 for each of his sons. One of his sons was 15 years old and the other turned 18 on September 1. Bruce’s PHSP deduction is limited to the following amounts:

- for himself – $1,500
- for his wife – $1,500
- for his 15-year-old son – $750
- for the son who turned 18 – $750. This limit applies because he did not turn 18 until after the insured period began.

**If you had employees throughout 2007**
If you had at least one qualified employee throughout all of 2007, and at least 50% of the insurable persons in your business were qualified employees, your claim for PHSP premiums is limited in a different way. Your limit is based on the lowest cost of equivalent coverage for each of your qualified employees. For a definition of qualified employees, see page 28.

Use the following steps to calculate your maximum allowable claim for the PHSP premiums paid or payable for yourself, your spouse or common-law partner, and your household members.

For each of your qualified employees, use the following formula:

\[
X \times Y = Z,
\]

where:

- **X** equals the amount you would pay to provide yourself, your spouse or common-law partner, and your household members with coverage equivalent to that provided to a particular employee, his or her spouse or common-law partner, and household members
- **Y** equals the percentage of the premium you pay for that particular employee
- **Z** equals your limit based on that particular employee

**Example**
You have one qualified employee. To provide yourself with coverage equivalent to his, you pay a premium of $1,800. You pay 60% of your employee’s premium. Your deduction limit for yourself is $1,080, calculated as follows:

\[
1,800 \times 60\% = 1,080
\]

The maximum you can claim is $1,080, if you have only one qualified employee.

If you had more than one qualified employee, you have to do the \(X \times Y = Z\) calculation for each employee. Your limit is then the least amount you calculate for each and every employee.

**Example**
You have three qualified employees, Jack, Jill, and Sue. The following table shows how much you would pay for coverage equivalent to each of theirs, and the percentage of each employee’s premium that you pay:

<table>
<thead>
<tr>
<th>Name of employee</th>
<th>Cost of equivalent coverage for yourself</th>
<th>Percentage of the employee’s premium you pay</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jack</td>
<td>$1,500</td>
<td>20%</td>
</tr>
<tr>
<td>Jill</td>
<td>$1,800</td>
<td>50%</td>
</tr>
<tr>
<td>Sue</td>
<td>$1,400</td>
<td>40%</td>
</tr>
</tbody>
</table>
You have to do the following three calculations.

For Jack: $1,500 (X) × 20% (Y) = $300 (Z)
For Jill: $1,800 (X) × 50% (Y) = $900 (Z)
For Sue: $1,400 (X) × 40% (Y) = $560 (Z)

Your limit is $300, the lowest of the amounts you calculated for the three employees.

**Note**
If you have a qualified employee with no coverage, you cannot claim your PHSP premiums as a deduction from self-employment income. You may, however, be able to claim them as medical expenses.

If you had employees throughout 2007 but the number of arm’s length employees you insured was less than 50% of all the insurable persons in your business, your maximum allowable deduction is the lesser of the following two amounts:

**Amount 1**
Determine this amount by using the following formula:

\[ A \times \left( \frac{B + C}{365} \right) \]

- **A** is the number of days during the period of the year when you insured yourself and household members, if applicable, but insured less than 50% of your employees
- **B** equals $1,500 × the number of household members 18 and over insured during that period
- **C** equals $750 × the number of household members under 18 insured during that period

**Amount 2**
If you had at least one qualified employee, amount 2 is the lowest cost of equivalent coverage for each qualified employee, calculated by using the X × Y = Z formula on the previous page. If you did not have at least one qualified employee, the limit in amount 1 will apply.

**Undeducted premiums**
If you deduct only a part of your PHSP premium at line 9804, and you paid the premium in the year, you can include the undeducted balance in the calculation of your non-refundable medical expense tax credit. For details, see “Line 330” in your General Income Tax and Benefit Guide.

**Line 9805 – Interest (real estate, mortgage, other)**
Enter the total amount of interest you paid on money you borrowed to earn farming income, such as interest on a loan you used to buy a bale of hay. However, do not include the interest on money you borrowed to buy a passenger vehicle used in your farming business. Include this amount under “Line 9829 – Motor vehicle interest and leasing costs.”

You may be able to deduct interest expenses for a property that you used for your farming business, even if you have stopped using the property for such purposes because you are no longer in the farming business. For more information, call us at 1-800-959-5525.

You can deduct interest you paid on any real estate mortgage you incurred to earn farming income, but do not deduct the principal part of the loan or mortgage payments. Do not deduct interest on money you borrowed for personal purposes or to pay overdue income taxes.

**Line 9807 – Memberships/subscription fees**
Enter the amount of annual dues or fees you paid to keep your membership in a trade or commercial farming association. You cannot deduct club membership dues (including initiation fees) if the main purpose of the club is dining, recreation, or sporting activities.

You can also deduct fees for subscriptions to farming publications you use in your farming business.

If you received an AGR–1 slip with a positive amount in box 14, and the amount of your AgriStability program payment does not have your Administrative Cost Share (ACS) or your program fee already deducted, enter the amount you paid for your ACS and fee on this line.

**Line 9808 – Office expenses**
Enter the total amount of office expenses, such as stationery, invoices, receipt and accounting books, and any other office supplies.

**Line 9809 – Legal and accounting fees**
In most cases, you can deduct legal fees you incurred for your farming business. Also, you can deduct any accounting or bookkeeping fees you paid to have someone
maintain your books and records, and to prepare your income tax return and GST/HST returns.

If you paid accounting and legal fees to file an appeal against an assessment or decision under the Income Tax Act, the Canada Pension Plan (CPP), the Quebec Pension Plan (QPP), the Employment Insurance Act, or the Unemployment Insurance Act, do not deduct them here. Deduct them on line 232 of your income tax return instead. However, you have to subtract any reimbursement you received from the fees and enter only the result on line 232. If you received a reimbursement in 2007 for these types of fees, which you deducted in a previous year, report the amount of the reimbursement on line 130 of your income tax return.

Do not deduct any legal or other fees you incurred to buy property, such as land, buildings, and equipment. Add these fees to the adjusted cost base of the property if the property is used in your farming business.

For more details, see Interpretation Bulletin IT-99, Legal and Accounting Fees.

**Line 9810 – Property taxes**
Enter the total amount of land, municipal, and realty taxes you paid for property used in your farming business. Since the municipal tax for the farmhouse is a personal expense, you cannot deduct it unless you meet the conditions we explain in “Business-use-of-home expenses” on page 24. If you are repaying a loan for land drainage through your property tax payments to your township, you cannot include the amount you repaid as part of your property tax expense.

**Line 9811 – Rent (land, buildings, pastures)**
Enter the total amount of rent expense you paid for land, buildings, and pastures you used for your farming business.

- If you farmed on a crop share basis and paid your landlord a share of the crop, add the fair market value of the crops you gave your landlord to your income as a commodity sale. This amount should represent what you would have paid in cash to your landlord for rent. Deduct the same amount as a commodity purchase.

**Line 9816 – Non-arm’s length salaries**
Keep a detailed record of the amounts you paid to each related person. For a definition of related persons, see “Line 9815 – Arm’s length salaries” on page 26. As the employer, include your share of Canada Pension Plan (CPP) or Quebec Pension Plan (QPP) contributions, Employment Insurance premiums, and provincial parental insurance plan (PPIP) premiums. Do not deduct the amounts you withheld from remuneration, since you already deducted them in the amount you claimed as wages. Do not include the cost of board.

The terms “salaries” and “wages” are used interchangeably in the description of this non-allowable expense.

You can deduct the wages you paid to your child, as long as you meet all of these conditions:

- you paid the wages by cheque, in cash or in kind;
- the work your child did was necessary for you to earn farm income;
- the wages were reasonable when you consider your child’s age; and
- the amount you paid is what you would have paid someone else to do the same work.

Keep documents to support the wages you paid to your child. If you paid your child by cheque, keep the cancelled cheque. If you paid cash, have your child sign a receipt.

If you paid wages in kind to non-arm’s length employees (including your spouse or children), report such wages in the same manner that is described in “Line 9815 – Arm’s length salaries” on page 26.

You can deduct wages you paid to your spouse or common-law partner, as long as that person is not a partner in your business and you follow the same rules that apply to wages paid to your child. If you were a partner of a farm partnership that employed your or your partner’s spouse or common-law partner, the farm partnership can deduct that person’s wages if it incurred the expense to earn farming income and the wages were reasonable.

**Line 9819 – Motor vehicle expenses**

**Business use of a motor vehicle**
If you used your motor vehicle for personal and business reasons, you can deduct the part of your expenses that was for farming-business use. Farming-business use includes things such as trips to pick up parts and farm supplies, or to deliver grain. If you did not live on your farm, the travel between the farm and your home is not considered business travel.

Keep a record of the total kilometres you drive and the kilometres you drive for farming-business use. Also, keep track of what it costs you to run and maintain the motor vehicle for your fiscal period.

Do not include any of the following:

- interest on the money you borrow for a motor vehicle;
- leasing costs for a motor vehicle; or
- the capital cost allowance (CCA).

For details on interest and leasing costs, see line 9829 on page 33. For details on CCA, see Chapter 4.

The kind of vehicle you own may affect the expenses you can deduct. For income tax purposes, there are three definitions for vehicles:

- motor vehicles
- automobiles
- passenger vehicles

A **motor vehicle** is an automotive vehicle for use on streets or highways.

An **automobile** is a motor vehicle that is designed or adapted mainly to carry passengers on highways and streets and that seats no more than a driver and eight passengers.
An automobile does not include:

- an ambulance
- a clearly marked police and fire emergency-response vehicle
- a motor vehicle you bought to use more than 50% as a taxi, a bus used in the business of transporting passengers, or a hearse in a funeral business
- a motor vehicle you bought to sell, rent, or lease in a motor vehicle sales, rental, or leasing business
- a motor vehicle (except a hearse) you bought to use in a funeral business to transport passengers
- a van, pick-up truck, or similar vehicle that seats no more than the driver and two passengers which, in the taxation year you bought or leased it, was used more than 50% to transport goods or equipment to earn income
- a van, pick-up truck, or similar vehicle that, in the taxation year you bought or leased it, was used 90% or more to transport goods, equipment, or passengers to earn income
- a pick-up truck that, in the tax year you bought or leased it, was used more than 50% to transport goods, equipment, or passengers while earning or producing income at a remote work location or at a special work site that is at least 30 kilometres from the nearest community having a population of at least 40,000 persons

A passenger vehicle is an automobile you bought after June 17, 1987. A passenger vehicle is also an automobile that you leased under a lease agreement you entered into, extended, or renewed after June 17, 1987.

Most cars, station wagons, vans, and some pick-up trucks are passenger vehicles. They are subject to the limits for CCA, interest, and leasing.

To help you determine what type of vehicle you have, see the following chart. The chart does not cover every situation, but it gives some of the main definitions for vehicles bought or leased, and used to earn business income.

<table>
<thead>
<tr>
<th>Type of vehicle</th>
<th>Seating (includes driver)</th>
<th>Business use in year bought or leased</th>
<th>Vehicle definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coupe, sedan, station wagon, sports car, or luxury car</td>
<td>1 to 9</td>
<td>1% to 100%</td>
<td>passenger</td>
</tr>
<tr>
<td>Pick-up truck used to transport goods or equipment</td>
<td>1 to 3</td>
<td>more than 50%</td>
<td>motor</td>
</tr>
<tr>
<td>Pick-up truck (other than above)</td>
<td>1 to 3</td>
<td>1% to 100%</td>
<td>passenger</td>
</tr>
<tr>
<td>Pick-up truck with extended cab used to transport goods, equipment, or passengers</td>
<td>4 to 9</td>
<td>90% or more</td>
<td>motor</td>
</tr>
<tr>
<td>Pick-up truck with extended cab (other than above)</td>
<td>4 to 9</td>
<td>1% to 100%</td>
<td>passenger</td>
</tr>
<tr>
<td>Sport-utility used to transport goods, equipment, or passengers</td>
<td>4 to 9</td>
<td>90% or more</td>
<td>motor</td>
</tr>
<tr>
<td>Sport-utility (other than above)</td>
<td>4 to 9</td>
<td>1% to 100%</td>
<td>passenger</td>
</tr>
<tr>
<td>Van or minivan used to transport goods or equipment</td>
<td>1 to 3</td>
<td>more than 50%</td>
<td>motor</td>
</tr>
<tr>
<td>Van or minivan (other than above)</td>
<td>1 to 3</td>
<td>1% to 100%</td>
<td>passenger</td>
</tr>
<tr>
<td>Van or minivan used to transport goods, equipment, or passengers</td>
<td>4 to 9</td>
<td>90% or more</td>
<td>motor</td>
</tr>
<tr>
<td>Van or minivan (other than above)</td>
<td>4 to 9</td>
<td>1% to 100%</td>
<td>passenger</td>
</tr>
</tbody>
</table>

Example
Murray’s farming business has a December 31 year-end. He owns a truck that is not a passenger vehicle. He uses the truck to pick up supplies and equipment. Murray kept the following records for his 2007 fiscal period:

- Farming-business kilometres: 27,000 km
- Total kilometres: 30,000 km

Expenses:
- Gasoline and oil: $3,500
- Repairs and maintenance: 500
- Insurance: 1,000
- Licence and registration fees: 100

Total expenses for the truck: $5,100

This is how Murray determines the motor vehicle expenses he can deduct in his 2007 fiscal period:

$27,000 (farming-business kilometres) × $5,100 = $4,590

Murray enters $4,590 on line 9819 of the form as motor vehicle expenses in his 2007 fiscal period. He calculates and deducts the interest on the loan to buy his truck separately on line 9829.
Note
You may have received insurance proceeds to pay for the cost of repairs. If the insurance proceeds compensated you for damages to a motor vehicle for which you claimed CCA, and you used all of them to repair the vehicle within a reasonable period of time, claim a deduction for the amount spent on repairs on line 9819. You will, however, also have to include the insurance proceeds as income on line 9600. If you did not spend all the insurance proceeds on repairs within a reasonable length of time, include the remainder as proceeds of disposition in column 4 of Area A, “Calculation of capital cost allowance (CCA)” on Form T1175, Farming – Calculation of Capital Cost Allowance (CCA) and Business-use-of-home Expenses. For more details, see “Column 4 – Proceeds of disposition in the year” on page 43.

For more details on motor vehicle expenses, see Interpretation Bulletin IT-521, Motor Vehicle Expenses Claimed by Self-Employed Individuals.

More than one vehicle
If you used more than one motor vehicle for your farming business, keep a separate record that shows the total kilometres and farming-business kilometres you drove and the cost to run and maintain each vehicle. Calculate each vehicle’s expenses separately.

Line 9820 – Small tools
If a tool costs you less than $500, deduct its full cost. If it costs $500 or more, add the cost to your CCA charts on Form T1175 as class 8 property. See Chapter 4 for details.

Note
Small tools that cost less than $500 are fully deductible in the year you buy them. You can claim them as an expense on Line 9820 or claim capital cost allowance (CCA) by including them in class 12 (with a rate of 100%). Either method is acceptable, but do not claim the amount twice. For information on CCA, see Chapter 4.

Line 9821 – Soil testing
Enter the amount of expenses you incurred for testing soil samples.

Line 9823 – Licences/permits
Enter the total of annual licence and permit fees that you incurred to run your business.

Line 9824 – Telephone
Do not deduct the basic monthly rate of your home telephone. However, you can deduct any long-distance telephone calls you made on your home telephone for farming-business purposes.

If you have a separate telephone to use in your business and you use it for business calls only, you can deduct its basic monthly rate.

Line 9825 – Quota rental (tobacco, dairy)
Enter the amount of expenses you incurred for quota rentals in the fiscal year.

Line 9826 – Gravel
Enter the amount of expenses you incurred for gravel used to earn farming income in the fiscal year.

Line 9827 – Purchases of commodities resold
Enter purchases of commodities that you bought for resale and then sold. Enter the corresponding sales of commodities purchased for resale on line 9612, “Resales of commodities purchased.” See page 21 for details. Enter purchases of commodities that you bought for resale but have not sold yet.

Line 9829 – Motor vehicle interest and leasing costs
Enter the leasing costs for your motor vehicle or the interest on the money you borrowed for a motor vehicle.

If you used a passenger vehicle to earn farming income, there is a limit on the amount of interest you can deduct. See the definition of passenger vehicle on page 32. Whether you use the cash or accrual method to determine your income, complete the following chart to calculate the interest you can deduct. If you used your passenger vehicle for both personal and farming-business use, complete the chart before you determine how much interest you can deduct as an expense.

<table>
<thead>
<tr>
<th>Interest chart</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enter the total interest you paid (cash method) or that is payable (accrual method) in your fiscal year</td>
</tr>
<tr>
<td>$10 \times \text{number of days in your fiscal year for which interest was paid or payable}</td>
</tr>
<tr>
<td>Your available interest expense is either A or B, whichever amount is less</td>
</tr>
</tbody>
</table>

*For passenger vehicles bought:
- from September 1, 1989, to December 31, 1996, and from 2001 to 2007, use $10
- from 1997 to 2000, use $8.33

Example
Heather’s farming business has a December 31 year-end. On January 1, 2007, she bought a new passenger vehicle that she uses for both personal and business use. She borrowed money to buy the vehicle, and the interest she paid in her 2007 fiscal period was $2,200.

Since the car Heather bought is a passenger vehicle, there is a limit on the interest she can deduct. Heather’s available interest is either of these two amounts, whichever is less:
- $2,200 (the total interest she paid in her 2007 fiscal period); and
- $3,650 ($10 \times 365$ days).

Heather drove 20,000 kilometres on farming business out of the total 25,000 kilometres she drove in her 2007 fiscal period. Here is how Heather determines the motor vehicle interest expenses she can deduct for her 2007 fiscal period:
20,000 (farming-business kilometres) × $2,200 = $1,760
25,000 (total kilometres)

Heather enters $1,760 on line 9829, as motor vehicle interest for her 2007 fiscal period.

When you use a passenger vehicle to earn farming business income, there is a limit on the amount of the leasing costs you can deduct. To calculate your eligible leasing costs, complete the chart “Eligible leasing costs for passenger vehicles.”

The lease agreement for your passenger vehicle may include items such as insurance, maintenance, and taxes. In this case, include them as part of the lease charges on line A when you complete the chart.

Note
Generally, leases include taxes such as GST and PST, or HST. Include them at line A. If you pay for items such as insurance and maintenance separately, do not include them in the amount on line A. Claim them separately on the appropriate line on Form T1163 (Statement A).

On July 1, 2006, the GST rate was reduced from 7% to 6%, and the HST rate from 15% to 14%. The leasing chart below requires that you calculate GST/HST on two prescribed amounts. The rate that you should use in these calculations is the rate that is in effect at the start of each lease interval. The GST rate for any lease interval starting before July 1, 2006 is 7% and the HST rate is 15%. The GST rate for any lease interval starting after June 30, 2006, is 6% and the HST rate is 14%. If you were making monthly lease payments, each lease interval would be a month.

To calculate your eligible leasing costs, use the following guidelines to complete the chart below:
- If you entered into your lease agreement before July 1, 2006, use a GST rate of 7% or HST rate of 15%.
- If you entered into your lease agreement after June 30, 2006, use a GST rate of 6% or HST rate of 14%.

Example
On July 1, 2007, Meadow started leasing a car that is a passenger vehicle. She used the car to earn farming income. Her business has a December 31 fiscal year-end. The PST rate for her province is 8% and GST is 6%. Meadow entered the following for 2007:

- Monthly lease payment ..........................................$  500
- Lease payments for 2007 .................................$  3,000
- Manufacturer’s suggested list price ..................$  33,000
- Number of days in 2007 she leased the car ........ 184
- GST and PST on $30,000 ..................................$  4,200
- GST and PST on $35,294 .................................$  4,941
- GST and PST on $800 ......................................$  112
- Total GST and PST on $30,000 .................................$  4,200
- Total GST and PST on $35,294 .................................$  4,941
- Total GST and PST on $800 ......................................$  112

Total lease charges incurred in Meadow’s 2007 fiscal period for the vehicle .......................$  3,000

Total lease payments deducted in fiscal periods before 2007 for the vehicle ..........$  0

Total number of days the vehicle was leased in 2007 and previous fiscal periods ...... 184

Manufacturer’s list price ..........................................$  33,000

The amount on line 4 or $40,235 ($35,294 + $4,941), whichever is more:

- $40,235 × 85% ..............................................$  34,200
- ($912 × 184) ÷ 30 ..............................................$  5,594
- ($34,200 × $3,000) ÷ $34,200 ...................................$  3,000

Meadow’s eligible leasing cost is either line 6 or 7, whichever amount is less. In this case, her allowable claim is $3,000.
Eligible leasing costs for passenger vehicles

<table>
<thead>
<tr>
<th>Description</th>
<th>Formula</th>
<th>Calculation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total lease charges incurred in your 2007 fiscal period for the vehicle</td>
<td>$ \text{A} \leq \text{B}</td>
<td>$ \text{A} \leq \text{B}</td>
</tr>
<tr>
<td>Total lease payments deducted before your 2007 fiscal period for the vehicle</td>
<td>$ \text{B} \leq \text{A}</td>
<td>$ \text{B} \leq \text{A}</td>
</tr>
<tr>
<td>Total number of days the vehicle was leased in your 2007 and previous fiscal periods</td>
<td>$ \text{C} \leq \text{D}</td>
<td>$ \text{C} \leq \text{D}</td>
</tr>
<tr>
<td>Manufacturer's list price</td>
<td>$ \text{D} \leq \text{E}</td>
<td>$ \text{D} \leq \text{E}</td>
</tr>
<tr>
<td>$35,294 + GST and PST, or HST* on $35,294</td>
<td>$ \text{E} \leq \text{F}</td>
<td>$ \text{E} \leq \text{F}</td>
</tr>
<tr>
<td>The amount on line D or line E, whichever is more</td>
<td>$ \text{F} \leq \text{G}</td>
<td>$ \text{F} \leq \text{G}</td>
</tr>
<tr>
<td>[ \frac{($30,000 + \text{GST and PST, or HST* on }$30,000) \times \text{line A}}{30} ]</td>
<td>$ \text{G} \leq \text{H}</td>
<td>$ \text{G} \leq \text{H}</td>
</tr>
</tbody>
</table>

Eligible leasing cost: Line \( \text{G} \) or line \( \text{H} \), whichever is less

$ \text{J} \leq \text{F} \leq \text{G} \leq \text{H} \leq \text{A} \leq \text{B} \leq \text{C} \leq \text{D} \leq \text{E}

If you entered into a lease agreement for a passenger vehicle before January 1, 2001, make these changes to the chart:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>■ when calculating line E, replace $35,294 with:</td>
<td>$28,235</td>
<td>$29,412</td>
<td>$30,588</td>
<td>$31,765</td>
</tr>
<tr>
<td>■ when calculating line G, replace $800 with:</td>
<td>$650</td>
<td>$550</td>
<td>$650</td>
<td>$700</td>
</tr>
<tr>
<td>■ when calculating line H, replace $30,000 with:</td>
<td>$24,000</td>
<td>$25,000</td>
<td>$26,000</td>
<td>$27,000</td>
</tr>
</tbody>
</table>

*Use a GST rate of 7% or HST rate of 15% for the periods before July 1, 2006. Use a GST rate of 6% or HST rate of 14% for the periods after June 30, 2006.

Repayments and imputed interest
When you lease a passenger vehicle, you may have a repayment owing to you, or you may have imputed interest. If this is the case, you will not be able to use the chart.

Imputed interest is interest that would be owing to you if interest were paid on the money you deposited to lease a passenger vehicle. Calculate imputed interest for leasing costs on a passenger vehicle only if all the following apply:

■ you made one or more deposits for the leased passenger vehicle;
■ the deposit is, or the deposits are, refundable; and
■ the total of the deposits is more than $1,000.

For more information, see Interpretation Bulletin IT-521, Motor Vehicle Expenses Claimed by Self-Employed Individuals.

Joint ownership of a passenger vehicle
If you and someone else owned or leased the same passenger vehicle, the limits on CCA, interest, and leasing costs still apply. The amount you can deduct as joint owners cannot be more than the amount one person owning or leasing the passenger vehicle could deduct. Each of you has to claim expenses in proportion to your share of the passenger vehicle. Your share is based on the part of the purchase price or lease costs that you paid.

Line 9935 – Allowance on eligible capital property
We explain how to determine this allowance in Chapter 5.

Line 9936 – Capital cost allowance
Enter the amount of capital cost allowance (CCA) you calculate on all the eligible assets used in your farming operation. To calculate your CCA claim, use the charts on Form T1175, Farming – Calculation of Capital Cost Allowance (CCA) and Business-use-of-home Expenses. See Chapter 4 for details on how to complete these charts.

Line 9937 – Mandatory inventory adjustment – previous year
If you included an amount for the mandatory inventory adjustment (MIA) on line 9942 in your 2006 fiscal period, deduct the amount as an expense on line 9937 in your 2007 fiscal period. Do not include the accrual inventories from your financial statements on this line. For details about the accrual method, see the following:

■ “Reporting methods” on page 7; and
“Method of accounting” on page 15.

Line 9938 – Optional inventory adjustment – previous year
If you included an amount for the optional inventory adjustment (OIA) on line 9941 in your 2006 fiscal period, deduct the amount as an expense on line 9938 in your 2007 fiscal period. For more details on OIA, see the explanation for line 9941 on this page.

Do not include accrual inventories from your financial statements on this line. For details about the accrual method, see the following:
- “Reporting methods” on page 7; and
- “Method of accounting” on page 15.

Line 9896 – Other (specify)
The expenses listed on the form are only the most common ones. If you have other farming expenses, non-allowable for program purposes that are not listed on the form, enter the total amount on line 9896. Then list the items on the blank lines provided under line 9896. You can find more information about other expenses in Guide T4002, Business and Professional Income.

You may have received an overpayment from one of the programs identified on lines 9540 and 9544. Use line 9896 to record any overpayments that you repaid. See page 20 for details.

Summary of expenses
Copy totals C, D, and E from the bottom of each of the three tables on page 3. Add them to get your total expenses.

Summary of income and expenses
Line 9959 – Gross farming income
Enter your gross farming income from line 9959 to line 168 of your income tax return. If you also completed Form T1164 (Statement B), add the totals from line 9959 on your Form T1163 (Statement A) and all your T1164 (Statement B) forms. Enter the result on line 168 of your income tax return.

Line 9969 – Net income (loss) before adjustments
If you are a partner of a partnership, this amount is the net farming-business income of the partnership. If the amount is negative, enter the amount in brackets.

Line 9940 – Other deductions
You can enter any business-use-of-home expenses that you are carrying forward from a previous fiscal period, as long as you meet one of the following conditions:
- the work space is your principal place of business; or
- you use the space only to earn your farming-business income, and you use it on a regular, ongoing basis to meet your customers.

For more information, see line 9934 on page 39.

Line 9941 – Optional inventory adjustment – current year
If you want to include an inventory amount in income, read this section. By making the optional inventory adjustment (OIA), you can include in your income an amount up to the fair market value of your inventory minus the mandatory inventory adjustment (MIA). You can only make the OIA if you use the cash method. For the definitions of inventory and fair market value, see line 9942 on this page.

For the OIA, unlike for the MIA, the inventory does not have to be purchased inventory. It is all the inventory you still have at the end of your 2007 fiscal period.

Enter the amount of your OIA on line 9941. You must deduct this amount as an expense in your next fiscal period.

Line 9942 – Mandatory inventory adjustment – current year
The mandatory inventory adjustment (MIA) decreases your net loss if you held inventory at the end of your fiscal period. Read this section even if you do not have to make the MIA. This section will show you how to determine the value of the farm inventory you bought and still have at the end of your 2007 fiscal period. You will need to know this value if you have to make the MIA this year or in the future.

You have to make the MIA if all of the following apply:
- you use the cash method to report your income. Do not include accrual inventories from your financial statements on line 9942. For details about the accrual method, see the following:
  - “Reporting methods” on page 7, and
  - “Method of accounting” on page 15;
- you have a net loss on line 9969 of the form; and
- you bought inventory and still have it at the end of your 2007 fiscal period. This does not refer only to inventory that you bought in 2007. It includes inventory that you had previously bought and still owned at the end of your 2007 fiscal period.

Your MIA is one of these two amounts, whichever is less:
- the net loss before adjustments on line 9969; or
- the value of the purchased inventory you still have at the end of your 2007 fiscal period.

To calculate your MIA, complete charts 1, 2, 3, and 4 on page 68. Once you have completed Chart 4, enter the amount on line 9942. For more information, see Interpretation Bulletin IT-526, Farming – Cash Method Inventory Adjustments.

In your next fiscal period, you will deduct from your farming income the MIA you add to your net loss in your 2007 fiscal period.

Note
If you bought a specified animal (as defined below) in a non-arm’s length transaction, we consider that you
bought the animal in the same year and at the same price for which the seller bought it. We define non-arm’s length transaction on page 41.

Definitions
To value your inventory, you need to know the meaning of the following terms:

Inventory is a group of items that a business holds and intends either to consume or sell to its customers.

Farm inventory is tangible property that is:
- held for sale, such as harvested grain;
- used in the production of saleable goods, such as seed or feed; or
- in the process of being produced, such as standing crops or feeder livestock.

Seed that you have already planted and fertilizer or chemicals that you have already applied are no longer part of your inventory items, but are included in the value of the standing crops that may be included in the OIA.

Purchased inventory is inventory you have bought and paid for.

Specified animals are horses. You may also choose to treat cattle you registered under the Animal Pedigree Act as specified animals. To make this choice, put a note on your income tax return saying you want to treat the animal this way. If you treat an animal on a return as a specified animal, we will continue to treat it this way until you sell it.

Cash cost is the amount you paid to buy your inventory.

Fair market value is generally the highest dollar value you can get for your property in an open and unrestricted market between an informed and willing buyer and an informed and willing seller who are dealing at arm’s length with each other. We define non-arm’s length transaction on page 41.

Valuing your purchased inventory
To value your purchased inventory, read the text that follows and the example of how to complete the MIA charts. On page 68 of this guide, there are blank charts for you to use. Keep these charts as part of your records. Except for specified animals, you have to value any purchased inventory you bought before or during your 2007 fiscal period at one of these two amounts, whichever is less:
- the cash cost; or
- the fair market value.

To determine which amount is less, separately compare each item or group of items in the inventory.

Value at one of the following amounts the specified animals you bought before your 2007 fiscal period and still have at the end of this period:
- the cash cost;
- 70% of:
  - the value of the specified animals for MIA purposes as determined at the end of your 2006 fiscal period; plus
  - any amounts you paid in your 2007 fiscal period toward the purchase price; or
- any amount between these two amounts.

Example
Doug started his farming business in 1994 and uses the cash method to report his income. His year-end is December 31. Doug shows a net loss of $55,000 on line 9969. Doug has purchased inventory at the end of his 2007 fiscal period. This means he has to decrease his net loss by the MIA. Doug made a chart for the cash cost of his livestock that is purchased inventory at the end of his 2007 fiscal period.

Livestock

<table>
<thead>
<tr>
<th>Year of purchase</th>
<th>Cost of purchase</th>
<th>Amount Doug paid by the end of his 2007 fiscal period</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>$30,000</td>
<td>$25,000</td>
</tr>
<tr>
<td>2006</td>
<td>$26,000</td>
<td>$26,000*</td>
</tr>
<tr>
<td>2005</td>
<td>$22,000</td>
<td>$22,000</td>
</tr>
<tr>
<td>2004</td>
<td>$20,000</td>
<td>$20,000</td>
</tr>
</tbody>
</table>

* For livestock bought in his 2006 fiscal period, Doug paid $19,000 in 2006 and $7,000 in 2007.

Doug’s other inventory is fertilizer, seed, and fuel. The cash cost is the same as the fair market value for this inventory. Its value is as follows:
- Bought in his 2007 fiscal period ........................................ $15,000
- Bought in his 2006 fiscal period ........................................ $ 6,000
- Bought in his 2005 fiscal period ........................................ $ 5,000

At the end of his 2007 fiscal period, Doug did not have any other inventory that he bought before his 2005 fiscal period. Doug has registered his livestock under the Animal Pedigree Act. He wants to treat these animals as specified animals.

Doug completes Chart 1 as follows:
Chart 1
Cash cost of purchased inventory

Doug enters the amount he paid by the end of his 2007 fiscal period for the specified animals he bought:

<table>
<thead>
<tr>
<th>Fiscal period</th>
<th>Cash cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>in his 2007 fiscal period</td>
<td>$25,000</td>
</tr>
<tr>
<td>in his 2006 fiscal period</td>
<td>$26,000</td>
</tr>
<tr>
<td>in his 2005 fiscal period</td>
<td>$22,000</td>
</tr>
<tr>
<td>in his 2004 fiscal period</td>
<td>$20,000</td>
</tr>
<tr>
<td>before his 2004 fiscal period</td>
<td>$0</td>
</tr>
</tbody>
</table>

Doug enters the amount he paid by the end of his 2007 fiscal period toward the purchase price. Therefore, the amount he enters on line N is $4,802 (70% × ($13,300 + $7,000)). He could choose any amount between the cash cost of $26,000 and the lowest acceptable inventory value of $14,210.

a) Doug chose $20,000, which is between the cash cost of $25,000 and $17,500 (70% of the cash cost).

b) Doug chose to value the inventory he bought in his 2006 fiscal period at 70% of the cash cost. Therefore, the value of this inventory at the end of his 2006 fiscal period was $13,300 ($19,000 × 70%). Remember, Doug paid $19,000 for these specified animals in 2006. He paid $7,000 in 2007.

For his 2007 fiscal period, Doug chose to value the inventory he bought in his 2006 fiscal period at 70% of the total of the value at the end of the 2006 fiscal period plus any amounts he paid in his 2007 fiscal period toward the purchase price. Therefore, the amount he enters on line N is $14,210 [70% × ($13,300 + $7,000)]. He could choose any amount between the cash cost of $26,000 and the lowest acceptable inventory value of $14,210.

c) Doug chose to value the inventory he bought in his 2005 fiscal period at 70% of the cash cost. Therefore, the value of this inventory at the end of his 2005 fiscal period was $10,780 ($15,400 × 70%).

For his 2006 fiscal period, Doug chose to value the inventory he bought in his 2005 fiscal period at 70% of the total of the value at the end of his 2005 fiscal period. Therefore, the value of this inventory at the end of his 2006 fiscal period was $15,400 ($22,000 × 70%).

For his 2007 fiscal period, Doug chose to value the inventory he bought in his 2005 fiscal period at 70% of the total of the value at the end of his 2005 fiscal period. Therefore, the amount he enters on line M is $7,546 ($10,780 × 70%). He could choose any amount between the cash cost of $22,000 and the lowest acceptable inventory value of $7,546.

d) Doug chose to value the inventory he bought in his 2004 fiscal period at 70% of the cash cost. Therefore, the value of this inventory at the end of his 2004 fiscal period was $14,000 ($20,000 × 70%).

For his 2005 fiscal period, Doug chose to value the inventory he bought in his 2004 fiscal period at 70% of the total of the value at the end of his 2004 fiscal period. Therefore, the value of this inventory at the end of his 2005 fiscal period was $9,800 ($14,000 × 70%).

For his 2006 fiscal period, Doug chose to value the inventory he bought in his 2004 fiscal period at 70% of the total of the value at the end of his 2005 fiscal period. Therefore, the value of this inventory at the end of his 2006 fiscal period was $6,860 ($9,800 × 70%).

For his 2007 fiscal period, Doug chose to value the inventory he bought in his 2004 fiscal period at 70% of the total of the value at the end of his 2006 fiscal period. Therefore, the amount he enters on line N is $4,802 ($6,860 × 70%). He could choose any amount between the cash cost of $20,000 and the lowest acceptable inventory value of $4,802.

e) Doug had not purchased any specified animals before his 2004 fiscal period.

Chart 2
Value of purchased inventory for specified animals

The small letters in front of each line match the paragraphs at the end of this chart. These paragraphs explain how Doug calculates the number on each line.

Inventory bought in his 2007 fiscal period
Doug enters an amount that is not more than the amount on line A, but not less than 70% of this amount.

a) $20,000 K

Inventory bought in his 2006 fiscal period
Doug enters an amount that is not more than the amount on line B, but not less than 70% of the total of the value at the end of his 2006 fiscal period, plus any amounts he paid in his 2007 fiscal period toward the purchase price.

b) $14,210 L

d) $4,802 N

e) $0 O

Inventory bought in his 2005 fiscal period
Doug enters an amount that is not more than the amount on line C, but not less than 70% of the total of the value at the end of his 2006 fiscal period, plus any amounts he paid in his 2007 fiscal period toward the purchase price.

c) $7,546 M

e) $0 O

Inventory bought in his 2004 fiscal period
Doug enters an amount that is not more than the amount on line D, but not less than 70% of the total of the value at the end of his 2006 fiscal period, plus any amounts he paid in his 2007 fiscal period toward the purchase price.

d) $4,802 N

e) $0 O

Inventory bought before his 2004 fiscal period

Doug now knows the cash cost of his purchased inventory, including his specified animals. He uses these amounts to calculate the value of his purchased inventory at the end of his 2007 fiscal period. To do this, he completes charts 2, 3, and 4 as follows:
Chart 3
Value of purchased inventory for all other inventory

<table>
<thead>
<tr>
<th>Period</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory bought in 2005</td>
<td>$15,000 P</td>
</tr>
<tr>
<td>fiscal period</td>
<td></td>
</tr>
<tr>
<td>Inventory bought in 2006</td>
<td>$6,000 Q</td>
</tr>
<tr>
<td>fiscal period</td>
<td></td>
</tr>
<tr>
<td>Inventory bought in 2005</td>
<td>$5,000 R</td>
</tr>
<tr>
<td>fiscal period</td>
<td></td>
</tr>
<tr>
<td>Inventory bought before</td>
<td>$0 S</td>
</tr>
<tr>
<td>2004 fiscal period</td>
<td></td>
</tr>
<tr>
<td>Inventory bought before</td>
<td>$0 T</td>
</tr>
<tr>
<td>2004 fiscal period</td>
<td></td>
</tr>
</tbody>
</table>

Chart 4
Calculation of MIA

Doug enters the amount of his net loss from line 9969
$55,000 U

Doug enters the value of his inventory from charts 2 and 3:
- the amount on line K $20,000
- the amount on line L $14,210
- the amount on line M $7,546
- the amount on line N $4,802
- the amount on line O $0
- the amount on line P $15,000
- the amount on line Q $6,000
- the amount on line R $5,000
- the amount on line S $0
- the amount on line T $0

Total value of inventory $72,558

MIA – Doug enters the amount on line U or line V, whichever is less. $55,000 W

The MIA that Doug uses for his 2007 fiscal period will be the same amount he deducts from his farming income when he calculates his income for his next fiscal period.

Enter the figure from line W of Chart 4 on line 9942 of Form T1163 (Statement A).

Partnership information – Your share of line a

Show your share of the amount from line a. In the chart “Partnership information,” enter the following information:
- the name and address of each partner;
- their social insurance number or Business Number;
- a breakdown of each partner’s share of the income; and
- each partner’s percentage of the partnership.

Line 9934 – Adjustment to business-use-of-home expenses

If you have claimed business-use-of-home expenses (including a carry forward from a previous year claimed on line 9940) in arriving at your net income (loss), and the amount on line 9944 is negative (a loss), you must make an adjustment on line 9934. Enter one of the following amounts, whichever is less:
- the expenses you claimed from the business use of your home, including current-year expenses and any expenses you are carrying forward from previous years; or
- the amount of your loss on line 9944.

This does not mean that you cannot use your claim for business-use-of-home expenses. In a future year, you can use any expense you could not deduct in your 2007 fiscal period, as long as you meet one of these conditions:
- the work space is your principal place of business; or
- you use the space only to earn your farming business income, and you use it on a regular and ongoing basis to meet your customers.

Use the chart on Form T1175 to calculate your allowable claim for business-use-of-home expenses. In Area B, be sure to include any part of the CCA that you claimed for the business use of your home.

For more details, see Interpretation Bulletin IT-514, Work Space in Home Expenses.

Line 9946 – Net farming income or (loss)

Enter your net farming income or loss from line 9946 on line 141 of your income tax return if:
- your fiscal year-end is December 31, 2007; and
- you did not file Form T1139, Reconciliation of 2006 Business Income for Tax Purposes, with your 2006 income tax return.

Note
If you have more than one farming operation or additional expenses that apply to partnerships, add the amounts from line 9946 of Form T1163 (Statement A) and Form T1164 (Statement B). Enter the total of these amounts on line 141 of your income tax return.

If you have a loss, enter the amount in brackets. See Chapter 6 for more information about losses.

You may have to adjust the figure from line 9946 before entering it on your return if your fiscal year-end is not December 31, 2007. See Guide RC4015, Reconciliation of Business Income for Tax Purposes, to calculate the amount of farming income to report on your 2007 return. The guide includes Form T1139. You may have filed Form T1139 with your 2006 return. If so, you probably have to complete the same form for 2007.

Partnership information chart

Complete the chart if you are a partner of a partnership. Start with your own name on the first line and then add the names of the other partners.
Partners’ names
Record the names of each individual, corporate, or co-operative partner, starting with your own. If another partnership is a partner, list the names of the partners in that partnership.

Percentage (%) share
Record each partner’s percentage share based on the allocation of partnership net income/loss reported to us unless:
■ interest has been paid on the partners’ capital; or
■ salaries have been paid to partners.
In these cases, exclude these amounts when you determine the partner’s percentage share.
If another partnership is a partner, determine the beneficial ownership of each individual partner. (See the example below).

Example
The Fred and Mary Smith Partnership (a 50/50 partnership) owns 60% of the Sunny Skies Partnership. Therefore, Fred and Mary Smith would each have a 30% beneficial ownership in the Sunny Skies Partnership.

Social insurance number (SIN), or Business Number (BN)
Enter the SIN for each individual partner. For corporate or co-operative partners, enter the BN.

Chapter 4 – Capital Cost Allowance (CCA)

What is CCA?
You might acquire a depreciable property, such as a building, machinery, or equipment, to use in your farming business. You cannot deduct the cost of the property when you calculate your net farming income for the year. However, since these properties may wear out or become outdated over time, you can deduct their cost over a period of several years. The deduction for this is called capital cost allowance (CCA).

Definitions
To calculate your CCA claim, you will need to know the meaning of the following terms.

Available for use
You can claim CCA on a depreciable property only when it becomes available for use.

Property, other than a building, usually becomes available for use on the earliest of the following dates:
■ the date you first use the property to earn income;
■ the second tax year after the year you acquire the property;
■ the time just before you dispose of the property; or
■ the date the property is delivered or made available to you. It must be capable of producing a saleable product or service, or of performing the function for which you acquired it.

Example
If you buy a tractor and the seller delivers it to you in 2007, but it was not in working order until 2008, you cannot claim CCA on it until 2008. However, if you buy a tractor and the seller delivers it to you in working order in 2007, but you did not use it until 2008, you can still claim CCA in 2007 because it was available for use.

A building, or part of a building, usually becomes available for use on the earliest of the following dates:
■ the date you begin using 90% or more of the building for the purpose you acquired it;
■ the date the construction is completed;
■ the second tax year after the year you acquire the building; or
■ the time just before you dispose of the building.

We consider any construction, renovation, or alteration to a particular building to be a separate building for the purposes of applying the available-for-use rules.

Capital cost
This is the amount on which you first claim CCA. The capital cost of a depreciable property is usually the total of:
■ the purchase price not including the cost of land, which is not depreciable (see “Land” on page 43);
■ the part of your legal, accounting, engineering, installation, and other fees that relates to the purchase or construction of the depreciable property (not including the part that applies to land);
■ the cost of any additions or improvements you made to the depreciable property after you acquired it, provided you have not claimed these costs as a current expense; and
■ soft costs (such as interest, legal and accounting fees, and property taxes) related to the period you are constructing, renovating, or altering the building, provided you have not claimed these costs as a current expense.

Depreciable property
Depreciable property is any property on which you can claim CCA. You usually group depreciable properties into classes. For example, diggers, drills, and tools that cost $500 or more belong to class 8. You have to base your CCA claim on a rate assigned to each class of property.

See “Classes of depreciable property” on page 45 for the most common classes of depreciable properties you could
use in your farming operation and the “Capital Cost Allowance (CCA) Rates” chart on page 67.

**Fair market value (FMV)**

Fair market value is generally the highest dollar value that you can get for your property in an open and unrestricted market between an informed and willing buyer and an informed and willing seller who are dealing at arm’s length with each other.

**Non-arm’s length transaction**

A non-arm’s length transaction includes a transaction between parties who are related, such as members of a family. An example of a non-arm’s length transaction would be the sale of property between a husband and wife, or a parent and child. For more details on non-arm’s length transactions, see Interpretation Bulletin IT-419, *Meaning of Arm’s Length*.

**Proceeds of disposition**

Your proceeds of disposition are usually the amount you receive, or that we consider you to have received, when you dispose of your depreciable property. This could include compensation you receive for depreciable property that has been destroyed, expropriated, damaged, or stolen. For more details about proceeds of disposition, see Interpretation Bulletin IT-220, *Capital Cost Allowance – Proceeds of Disposition of Depreciable Property*, and its Special Release, and Interpretation Bulletin IT-285, *Capital Cost Allowance – General Comments*.

**Undepreciated capital cost (UCC)**

The UCC is generally the amount left after you deduct CCA from the capital cost of a depreciable property. The CCA you claim each year reduces the UCC of the property each year.

**How much CCA can you claim?**

Base your CCA claim on your fiscal period, not the calendar year. The amount of CCA you can claim depends on the type of property you own, and the date you acquired it. You group the depreciable property you own into classes. A different rate of CCA applies to each class.

We explain the most common classes of depreciable property in “Classes of depreciable property” on page 45. We list most of the classes of depreciable property and the rates for each class in the “Capital Cost Allowance (CCA) Rates” chart on page 67.

**There are a few other things you should know about CCA:**

- In most cases, you will use the declining balance method to calculate your CCA. This means that you claim CCA on the capital cost of the property minus the CCA you claimed in previous years, if any. The balance declines over the years as you claim CCA.

- You do not have to claim the maximum amount of CCA in any given year. You can claim any amount you like, from zero to the maximum allowed for the year. For example, if you do not have to pay income tax for the year, you may not want to claim CCA. Claiming CCA reduces the balance of the class by the amount of CCA claimed. As a result, the available CCA for future years will be reduced.

- In the year you acquire a depreciable property, you can usually claim CCA only on one-half of your net additions to a class. We explain this 50% rule in “Column 6 – Adjustment for current-year additions” on page 44. The available-for-use rules may also affect the amount of CCA you can claim. See the definition of available for use on page 40.

- You cannot claim CCA on most land or on living things such as trees, shrubs, or animals. However, you can claim CCA on timber limits, cutting rights, and wood assets. For more details, see Interpretation Bulletin IT-481, *Timber Resource Property and Timber Limits*.

- If you receive income from a quarry, sand, or gravel pit, or a woodlot, you can claim a type of allowance known as a depletion allowance. For more details, see Interpretation Bulletins IT-373, *Woodlots*, and IT-492, *Capital Cost Allowance – Industrial Mineral Mines*.

- If you claim CCA and you later dispose of the property, you may have to add an amount to your income as a recapture of CCA. Alternatively, you may be able to deduct an additional amount from your income as a terminal loss. For more information, see “Column 5 – UCC after additions and dispositions” on page 43.

- If you used depreciable property in 2007 that you used in your farming business before January 1, 1972, complete “Area A – Part XVII properties” on Form T1175, *Farming – Calculation of Capital Cost Allowance (CCA) and Business-use-of-home Expenses*.

- If you are a partner of a partnership that provides you with a Form T5013 slip, *Statement of Partnership Income*, or T5013A slip, *Statement of Partnership Income for Tax Shelters and Renounced Resource Expenses* you cannot personally claim CCA for property owned by the partnership. The T5013 or T5013A slip you receive will have already allocated to you a share of the partnership’s CCA on the depreciable farm property.

**You were asking ...?**

Q. If I start a farming business on June 1, 2007, how do I determine my CCA claim to December 31, 2007?

A. Since the period is shorter than 365 days, you have to prorate your CCA claim. Calculate your CCA using the rules we discuss in this chapter. However, base your CCA claim on the number of days in your fiscal period compared to 365 days.

In your case, your fiscal period is 214 days. Suppose you calculate your CCA to be $3,500. The amount of CCA you can claim is $2,052 ($3,500 × 214/365).
Form T1175, Farming – Calculation of Capital Cost Allowance (CCA) and Business-use-of-home Expenses

Area A – Calculation of capital cost allowance (CCA)

Use Area A on Form T1175 to calculate your CCA deduction. Add lines (i) and (ii) of the chart and enter the result on line 9936 on page 4 of Form T1163 (Statement A) or Form T1164 (Statement B). If any part of the CCA is for business-use-of-home expenses, enter that part in Area B of Form T1175. For more information, see “Area B – Business-use-of-home expenses” on page 50.

If you acquired or disposed of buildings or equipment during the year, you will need to complete Area C, D, E, or F (whichever applies) before you complete Area A. Even if you are not claiming a deduction for CCA for your 2007 fiscal period, you should complete these areas to show any additions or disposals during the year. For details on how to complete all these areas, see the following sections.

Column 1 – Class number

If this is the first year you are claiming CCA, read “Classes of depreciable property” on page 45 for the most common classes of depreciable properties you could use in your farming operation, and “Capital Cost Allowance (CCA) Rates” on page 67.

If you claimed CCA last year, you can get the class numbers from last year’s Form T1175. Generally, if you own several properties in the same CCA class, you combine the capital cost of all these properties in one class. You then enter the total in Area A.

Column 2 – Undepreciated capital cost (UCC) at the start of the year

If this is the first year you are claiming CCA, skip this column. Otherwise, enter in this column the UCC for each class at the end of last year. If you completed Area A on Form T1175 last year, you will find these amounts in column 10.

You may have received a GST/HST input tax credit in 2006 for a passenger vehicle you used less than 90% of the time in your business. In this case, subtract the amount of the credit from your beginning UCC for your 2007 fiscal period. For more information, see “Grants, subsidies, and rebates” on page 47.

Subtract any investment tax credit you claimed or were refunded in 2006 from your UCC at the start of your 2007 fiscal period. Also, subtract any 2006 investment tax credit you carried back to a year before 2006.

Note
In 2007, you may be claiming, carrying back, or getting a refund of an investment tax credit. If you still have depreciable property in the class, you have to adjust the UCC of the class to which the property belongs in 2008. To do this, subtract the amount of the investment tax credit from the UCC at the beginning of 2008. If there is no property left in the class, report the amount of the investment tax credit as other income on Line 9600 in 2008.

Column 3 – Cost of additions in the year

If you acquire or make improvements to depreciable property in the year, we generally consider the improvements to be additions to the class in which the property belongs. See “Class 3 (5%)” on page 45 for an exception to this rule. Enter the details of your 2007 additions on your form as follows:

- complete Area C or Area D (whichever applies) on page 2 of Form T1175; and
- for each class, enter in column 3 of Area A the corresponding amount from column 5 in Area C and Area D.

When completing Area C and Area D (see this page), enter in column 4 the part of the property that you use personally, separately from the part you use for business. For example, if you use 25% of the building in which you live for your farming business, your personal portion is the other 75%.

Do not include the value of your own labour in the cost of a property you build or improve. Include the cost of surveying or valuing a property you acquire in the capital cost of the property. Remember that a property usually has to be available for use before you can claim CCA. See the definition of available for use on page 40.

Note
If you received insurance proceeds to reimburse you for the loss or destruction of depreciable property, enter the amount you spent to replace the property in column 3 of Area A, and also in column 3 of Area C or D, whichever applies. Include the amount of insurance proceeds as proceeds of disposition in column 4 of Area A and also in column 3 of Area E or F, whichever applies. For more information, see “Insurance proceeds” on page 22.

If you replaced a lost or destroyed property within a year of the loss, special rules for replacement property may apply to you. See Interpretation Bulletin IT-259, Exchange of Property, and Interpretation Bulletin IT-491, Former Business Property, and its Special Release.

Area C – Details of equipment additions in the year

List the details of all equipment, machinery, or motor vehicles you acquired or improved in 2007. Group the equipment into the applicable classes, and put each class on a separate line. Enter on line 9925 the total business portion of the cost of the equipment.

Area D – Details of building additions in the year

List the details of all buildings you acquired or improved in 2007. Group the buildings into the applicable classes, and put each class on a separate line. Enter on line 9927 the total business portion of the cost of the buildings. The cost includes the purchase price of the building, plus any related expenses that you should add to the capital cost of the building, such as legal fees, land transfer taxes, and mortgage fees.
You should also see “Special situations” on page 47 to find out if any special situations apply in your case when you acquire property.

**Land**

Land is not depreciable property. Therefore, you cannot claim CCA on its cost. If you acquire a farm property that includes both land and a building, enter in column 3 of Area D only the cost of the building. To work out the building’s capital cost, you have to split any fees that relate to the purchase of the property between the land and the building. Related fees may include legal and accounting fees.

Calculate the part of the related fees you can include in the capital cost of the building as follows:

\[
\text{building value} \times \text{legal, accounting} = \text{the part of the fees you can include in the building’s cost}
\]

You do not have to split a fee if it relates specifically to the land or the building. In this case, you would add the amount of the fee to the cost to which it relates, either the land or the building.

**Column 4 – Proceeds of disposition in the year**

If you disposed of a depreciable property during your 2007 fiscal period:

- complete Area E and Area F on page 2 of Form T1175, if they apply; and
- for each class, enter in column 4 of Area A, the corresponding amount from column 5 of Area E and Area F.

When completing Area E and Area F, enter in column 3 one of the following amounts, whichever is less:

- your proceeds of disposition (see the definition on page 41), minus any related expenses; or
- the capital cost of your depreciable property.

**Note**

If you received insurance proceeds to reimburse you for the loss or destruction of depreciable property, include the amount of insurance proceeds as proceeds of disposition in column 4 of Area A and in column 3 of Area E or F, whichever applies. Enter the amount you spent to replace the property in column 3 of Area A, and in column 3 of Area C or D, whichever applies. For more information, see “Insurance proceeds” on page 22.

If you replaced a lost or destroyed property within a year, special rules for replacement property may apply. See Interpretation Bulletin IT-259, Exchange of Property, and Interpretation Bulletin IT-491, Former Business Property, and its Special Release.

Special rules may apply if you dispose of a building for less than both its undepreciated capital cost and your capital cost. If this is the case, see “Special rules for disposing of a building in the year” on page 49 for details.

If you dispose of a depreciable property for more than its cost, you will have a capital gain. See Chapter 7 for details on capital gains. You cannot have a capital loss when you sell depreciable property. However, you may have a terminal loss. See “Column 5 – UCC after additions and dispositions” on this page for an explanation of terminal losses.

**Recapture of CCA**

If the amount in column 5 is negative, you have a recapture of CCA. Include your recapture on line 9600 on page 3 of Form T1163 (Statement A) or T1164 (Statement B). A recapture of CCA can occur, for example, when you get a government grant, or claim an investment tax credit. It can also happen if the proceeds from the sale of depreciable property are more than the total of:

- the UCC of the class at the beginning of the year; and
- the capital cost of any additions during the year.

In some cases, you may be able to postpone a recapture of CCA. For example, you may sell a property and replace it with a similar one, someone may expropriate your property, or you may transfer property to a corporation, a partnership, or your child.
Terminal loss
If the amount in column 5 is positive, and you no longer own any property in that class, you may have a terminal loss. More precisely, you may have a terminal loss when, at the end of your fiscal period, you have no more property in the class, but you still have an amount that you have not deducted as CCA. You can usually subtract this terminal loss from your gross farming income in the fiscal period you disposed of the depreciable property. Include your terminal loss on line 9896 on page 3 of Form T1163 (Statement A) or T1164 (Statement B).

For more information on recapture of CCA and terminal loss, see Interpretation Bulletin IT-478, Capital Cost Allowance – Recapture and Terminal Loss.

Note
The rules for recapture of CCA and for terminal loss do not apply to passenger vehicles in class 10.1. However, see the comments in “Column 7 – Base amount for CCA” on this page to calculate your CCA claim.

Column 6 – Adjustment for current-year additions
In the year you acquire or make additions to a property, you can usually claim CCA on only one-half of your net additions (the amount in column 3 minus the amount in column 4). We call this the 50% rule.

Calculate your CCA claim only on the net adjusted amount. Do not reduce the cost of the additions in column 3, or the CCA rate in column 8. For example, if you acquired a property in 2007 for $30,000, you would base your CCA claim on $15,000 ($30,000 × 50%).

If you acquired and disposed of depreciable property of the same class in 2007, the calculation in column 6 restricts your CCA claim. Calculate the CCA you can claim as follows:

■ Determine which of the following amounts is less:
  – the proceeds of disposition of your property, minus any related costs or expenses; or
  – the capital cost.

■ Subtract the above amount from the capital cost of your addition.

■ Enter 50% of the result in column 6. If the result is negative, enter “0.”

In some cases, you do not make an adjustment in column 6. For example, in a non-arm’s-length transaction, you may buy depreciable property that the seller continuously owned from the day that is at least 364 days before the end of your 2007 fiscal period to the day the property was purchased. However, if you transfer personal property, such as a car or a personal computer into your business, the 50% rule applies to the particular property transferred.

Some properties are not subject to the 50% rule. Examples of these are the properties in classes 13, 14, 23, 24, 27, 29, or 34, as well as some of those in class 12, such as small tools that cost less than $500.

Note
If you claimed small tools that cost less than $500 as an expense on line 9820, do not claim them again as class 12 CCA.

The 50% rule does not apply when the available-for-use rule (see page 40) denies a CCA claim until the second tax year after the year you acquired the property.

If you need more details on the 50% rule, see Interpretation Bulletin IT-285, Capital Cost Allowance – General Comments.

Column 7 – Base amount for CCA
Base your CCA claim on this amount.

For a class 10.1 vehicle you disposed of in your 2007 fiscal period, you may be able to claim 50% of the CCA that would be allowed if you still owned the vehicle at the end of your 2007 fiscal period. This is known as the half-year rule on sale.

You can use the half-year rule on sale if, at the end of your 2006 fiscal period, you owned the class 10.1 vehicle you disposed of in 2007. If this applies to you, in column 7 enter 50% of the amount in column 2.

Column 8 – Rate (%)
Enter the rate in this column for each class of property in Area A of Form T1175. For a list of rates, see “Capital Cost Allowance (CCA) Rates” on page 67. For more detailed information on certain kinds of property, see “Classes of depreciable property” on page 45.

Column 9 – CCA for the year
In column 9, enter the CCA you would like to deduct for 2007. The CCA you can deduct cannot be more than the amount you get when you multiply the amount in column 7 by the rate in column 8. You can deduct any amount up to the maximum.

If this is your first year of business, you may have to prorate your CCA claim. See “You were asking ?” on page 41.

For Part XI assets, add the amounts in column 9 and enter the total on line (i). For Part XVII assets, add the amounts in column 6 and enter the total on line (ii). Enter the total of lines (i) and (ii), minus any CCA for business-use-of-home expenses, on line 9936 on page 4 of Form T1163 (Statement A) or T1164 (Statement B). Enter any CCA for business-use-of-home expenses in Area B of Form T1175. For more information, see “Area B – Business-use-of-home expenses,” on page 50.

See “Personal use of property” on page 47 to find out how to calculate your CCA claim if you are using the property for both business and personal use.

Column 10 – UCC at the end of the year
This is the UCC at the end of your 2007 fiscal period. It is the amount you will enter in column 2 when you calculate your CCA claim next year.

Enter “0” in column 10 if you have a terminal loss or a recapture of CCA. There will not be an amount in column 10 for a class 10.1 passenger vehicle you dispose of in the year.

The example at the end of this chapter sums up CCA.
Classes of depreciable property
The following are the most common classes of depreciable farm property and the rates that apply to each class.

Buildings – Classes 1, 3, and 6
A building may belong to Class 1, Class 3, or Class 6, depending on what the building is made of and the date you acquired it. You also include in these classes the parts that make up the building, such as:

- electrical wiring
- lighting fixtures
- plumbing
- sprinkler systems
- heating equipment
- air-conditioning equipment (other than window units)
- elevators
- escalators

Note
Land is not depreciable property. Therefore, when you acquire farm property, include in Area A and Area F only the cost that relates to the building.

Class 1 (4%)
Class 1 includes most buildings acquired after 1987, unless they specifically belong in another class. Class 1 also includes the cost of certain additions or alterations you made after 1987 to a Class 3 building. For more information, see “Class 3 (5%)” below.

The 2007 Federal Budget proposes that the rate for non-residential buildings included in Class 1 acquired by a taxpayer after March 18, 2007, used for manufacturing or processing in Canada of goods or sale or lease be increased to 10%, and that the rate for other non-residential buildings be increased to 6%. In order to be eligible for one of the additional allowances, a building will be required to be placed into a separate class.

If you need more information, see Interpretation Bulletin IT–79, Capital Cost Allowance – Buildings or Other Structures.

Class 3 (5%)
Most buildings acquired before 1988 were added to Class 3 or Class 6. If you acquired a building before 1990 that does not fall into Class 6, you can include it in Class 3 if one of the following applies:

- you acquired the building under the terms of a written agreement entered into before June 18, 1987; or
- the building was under construction by you, or for you, on June 18, 1987.

Do not transfer to Class 1 any property you previously included in Class 3. However, there is a limit to how much you can include in Class 3 for the cost of any additions or alterations made after 1987 to a Class 3 building. This limit is one of the following amounts, whichever is less:

- $500,000; and
- 25% of the building’s capital cost (including the cost of additions or alterations to the building included in Class 3, Class 6, or Class 20 before 1988).

Include the cost of any additions or alterations over this limit in Class 1.

Class 6 (10%)
Include a building in Class 6 if you acquired it before 1988 and it is made of frame, log, stucco on frame, galvanized iron, or corrugated iron. If you acquired the building after 1987, it has to be made of frame, log, stucco on frame, galvanized iron, or any corrugated metal.

In addition, one of the following conditions has to apply:

- the building is used for farming or fishing; or
- the building has no footings or other base supports below ground level.

If either of the above conditions applies, you also add to Class 6 the full cost of all additions and alterations to the building.

If neither of the above conditions applies, include the building in Class 6 if one of the following conditions applies:

- you acquired the building before 1979;
- you entered into an agreement before 1979 to acquire the building, and footings or other base supports were started before 1979; or
- you started construction of the building before 1979 (or it was started under the terms of a written agreement you entered into before 1979), and footings or other base supports of the building were started before 1979.

For additions or alterations to such a building:

- Add to Class 6:
  - all additions made before 1979; and
  - only the first $100,000 of additions or alterations made after 1978.
- Add to Class 3:
  - the part of the cost of all additions or alterations above $100,000 made after 1978 and before 1988; and
  - the part of the cost of additions or alterations above $100,000 made after 1987, but only up to $500,000 or 25% of the cost of the building, whichever is less.
- Add to Class 1 any additions or alterations above these limits.

If you need more information, see Interpretation Bulletin IT-79, Capital Cost Allowance – Buildings or Other Structures.

Other property – Class 8 (20%)
Class 8 describes property that is not included in any other class. For example, furniture, appliances, fixtures, most machinery, and equipment you use in your business are all in this class.
Storage facilities for fresh fruit and vegetables – Class 8 (20%)  
Include buildings you use to store fresh fruit or vegetables at a controlled temperature in Class 8 instead of Class 1, Class 3, or Class 6. Also include in class 8 any buildings you use to store silage.

Small tools – Class 12 (100%)  
Include small tools that cost less than $500 in Class 12. Most small tools in Class 12 are not subject to the 50% rule. They are fully deductible in the year you buy them.

Class 12 tools that are subject to the 50% rule include dies, jigs, patterns, moulds, or lasts, and the cutting or shaping part of a machine. For details, see Interpretation Bulletin IT-285, Capital Cost Allowance - General Comments.

**Note**  
If the tool costs $500 or more, include it in Class 8 with a CCA rate of 20%.

Electronic office equipment – Class 8 (20%), Class 10 (30%), Class 12 (100%), Class 45 (45%), and Class 46 (30%)  
CCA classes for electronic equipment include:

**Class 8 (20%)**  
Include in Class 8 computer software (other than systems software in Class 45), photocopiers and electronic communication equipment such as fax machines or telephone equipment.

Because this computer software and office equipment can become obsolete before you can fully deduct their cost for income tax purposes, you can elect to include the Class 8 property in a separate class. The election will only apply to each property that costs $1,000 or more. (The election does not apply to property in Class 45 and Class 46.)

This class does not change the CCA rate that applies to the properties. However, the election lets you calculate a separate CCA deduction for a five-year period. In this way, when all the property in the class is disposed of, the undepreciated capital cost (UCC) of the equipment will be fully deductible as a terminal loss. For more information on terminal losses, see “Column 5 – UCC after additions and dispositions” on page 43.

**Class 12 (100%)**  
Class 12 includes computer software that is not systems software. Software in class 12 is subject to the half-year rule.

**Class 45 (45%)**  
Include in Class 45 computer equipment and systems software acquired after March 22, 2004. 

Class 46 (30%)  
Class 46 was created for data network infrastructure equipment acquired after March 22, 2004. (Previously, data network infrastructure equipment was included in Class 8 with a 20% CCA rate.)

Passenger vehicles – Classes 10 and Class 10.1 (30%)  
Your passenger vehicle may belong to either Class 10 or Class 10.1. We define a passenger vehicle on page 32. Include your passenger vehicle in Class 10 unless it meets a Class 10.1 condition. List each Class 10.1 vehicle separately.

Include your passenger vehicle in Class 10.1 if you bought it in 2007 or 2006, and it cost more than $30,000. We consider the capital cost of that vehicle to be $30,000 plus the related GST and PST, or HST.

The $30,000 amount is the capital cost limit for a passenger vehicle. However, to determine the class to which your passenger vehicle belongs, you have to use the cost of the vehicle before you add GST and PST, or HST.

Example  
Vivienne owns a farming business. On June 21, 2007, she bought two passenger vehicles to use in her farming business. The PST rate for her province is 8%. Vivienne noted these details for 2007:

<table>
<thead>
<tr>
<th></th>
<th>Cost</th>
<th>GST</th>
<th>PST</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vehicle 1</td>
<td>$33,000</td>
<td>$1,980</td>
<td>$2,640</td>
<td>$37,620</td>
</tr>
<tr>
<td>Vehicle 2</td>
<td>$28,000</td>
<td>$1,680</td>
<td>$2,240</td>
<td>$31,920</td>
</tr>
</tbody>
</table>

Vivienne puts Vehicle 1 in Class 10.1, since she bought it in 2007, and it cost her more than $30,000. Before Vivienne enters an amount in column 3 of Area C, she has to calculate the GST and PST on $30,000. She does this as follows:

- GST at 6% of $30,000 = $1,800
- PST at 8% of $30,000 = $2,400

Therefore, Vivienne’s capital cost is $34,200 ($30,000 + $1,800 + $2,400). She enters this amount in column 3 of Area C.

Vivienne puts Vehicle 2 into Class 10, since she bought it in 2007, and it did not cost her more than $30,000. Vivienne’s capital cost is $31,920 ($28,000 + $1,680 + $2,240). She enters this amount in column 3 of Area C.

**Note**  
For this example we used 6% as the GST rate, and 8% as the PST rate. For your calculation, use the current GST rate and the current PST rate that applies in your province or territory. If you live in a province that has harmonized sales tax (HST), use the current HST rate. For more about GST/HST, see Guide RC4022, General Information for GST/HST Registrants.
Special situations

Changing from personal to business use

You may have bought a property for personal use and then started using it in your farming business in your 2007 fiscal period. When you change its use you need to determine the capital cost for business purposes.

Enter the FMV of the property in column 3 of Area C or D, whichever applies, if, at the time of change in use, the FMV of the depreciable property is less than its original cost.

When you start to use your property for your farming business, you are considered to have disposed of it. If the FMV of the property is greater than its cost, you may have a capital gain. See Chapter 7 for an explanation of capital gains.

Use the following chart to determine the amount to enter in column 3 when the FMV is more than its original cost.

<table>
<thead>
<tr>
<th>Capital cost calculation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual cost of the property $ A</td>
</tr>
<tr>
<td>FMV of the property $ B</td>
</tr>
<tr>
<td>Amount on line A $ C</td>
</tr>
<tr>
<td>Line B minus line C (if negative, enter “0”) $ D</td>
</tr>
<tr>
<td>Enter all capital gains deductions claimed for the amount on</td>
</tr>
<tr>
<td>line D $ $ E</td>
</tr>
<tr>
<td>Line D minus line E (if negative, enter “0”) $ F</td>
</tr>
<tr>
<td>$ $ F</td>
</tr>
<tr>
<td>Capital cost: Line A plus line F $ G</td>
</tr>
<tr>
<td>* Enter the amount that relates to the depreciable property only.</td>
</tr>
<tr>
<td>Enter the capital cost of the property from line G in column 3 of Area C or D.</td>
</tr>
</tbody>
</table>

We consider that you acquire the land for an amount equal to its FMV when you change its use. Include this amount on line 9923, “Total cost of all land additions in the year,” in Area G.

Example

Jennifer owns a business. She bought a car in 2007 that she uses both for personal and business use. The car cost $20,000, including all charges and taxes. Therefore, she includes the car in class 10. Her business use varies from year to year. She calculates her CCA on the car for 2007 as follows:

She enters $20,000 in column 3 and column 5 of Area C. She also enters $20,000 in column 3 of Area A. By completing the other columns in the chart, she calculates a CCA claim of $3,000. Because Jennifer used her car partly for personal use, she calculates her CCA claim as follows:

12,000 (business kilometres) × $3,000 = $2,000
18,000 (total kilometres)

Jennifer enters $2,000 on line 9936 on page 4 of Form T1163 (Statement A) or T1164 (Statement B).

Note

The capital cost limits on a Class 10.1 vehicle (a passenger vehicle) still apply when you split the capital cost between business and personal use. See “Passenger vehicles – Class 10.1” on page 46 for more details.

Grants, subsidies, and rebates

You may receive a grant, subsidy, or a rebate from a government or a government agency to buy depreciable property. When this happens, subtract the amount of the grant from the property’s capital cost. Do this before you enter the capital cost in column 3 of Area C or D.

If the rebate is more than the remaining undepreciated capital cost in the particular class, add the excess to income on line 9574 or 9575.

You may have incurred GST or HST on some of the depreciable property you acquired for your business. If so, you may have also received an input tax credit from us. The input tax credit is government assistance. Therefore, subtract it from the property’s capital cost. Do this before you enter the capital cost in column 3 of Area C or D, whichever applies. If you receive an input tax credit for a passenger vehicle you use in your business, use one of these methods:

- For a passenger vehicle you use 90% or more for your business, subtract the amount of the credit from the vehicle’s cost before you enter its capital cost in column 3 of Area C.
- For a passenger vehicle you use less than 90% for your business, do not make an adjustment in 2007. In 2008, subtract the amount of the credit from your beginning UCC.

You may get an incentive from a non-government agency to buy depreciable property. If this happens, you can either include the amount in income, or subtract the amount from the capital cost of the property.

See Interpretation Bulletin IT-273, Government Assistance – General Comments, for more details about government assistance.
Non-arm’s length transactions

When you acquire depreciable property in a non-arm’s length transaction (see the definition on page 41), there are special rules to follow to determine the property’s cost. These special rules will not apply if you get the property because of someone’s death.

You can acquire depreciable property in a non-arm’s length transaction from a:

■ resident of Canada;
■ partnership with at least one partner who is an individual resident in Canada; or
■ partnership with at least one partner that is another partnership.

If you pay more for the property than the seller paid for the same property, calculate the cost as follows:

<table>
<thead>
<tr>
<th>Capital cost calculation</th>
<th>Non-arm’s length transaction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resident of Canada</td>
<td></td>
</tr>
<tr>
<td>The seller’s cost or capital cost $ A</td>
<td></td>
</tr>
<tr>
<td>The seller’s proceeds of disposition $ B</td>
<td></td>
</tr>
<tr>
<td>Amount from line A $ C</td>
<td></td>
</tr>
<tr>
<td>Line B minus line C (if negative, enter “0”) $ D</td>
<td></td>
</tr>
<tr>
<td>Enter any capital gains deduction claimed for the amount on line D $ E</td>
<td></td>
</tr>
<tr>
<td>Line D minus line E (if negative, enter “0”) $ F</td>
<td></td>
</tr>
<tr>
<td>Capital cost $ G</td>
<td></td>
</tr>
</tbody>
</table>

Enter this amount in column 3 of either Area C or D, whichever applies.

Do not include the cost of the related land. Include the cost of the related land on line 9923, “Total cost of all land additions in the year,” in Area G.

We consider that you acquire the land for an amount equal to its FMV when you change its use. Include this amount on line 9923, “Total cost of all land additions in the year,” in Area G.

You can also buy depreciable property in a non-arm’s length transaction from:

■ a corporation or an individual who is not a resident of Canada; or
■ a partnership with no partners who are individuals resident in Canada or no partners that are members of other partnerships.

If you pay more for the property than the seller paid for the same property, calculate the capital cost as follows:

<table>
<thead>
<tr>
<th>Capital cost calculation for non-resident</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-arm’s length transaction</td>
</tr>
<tr>
<td>Non-resident of Canada</td>
</tr>
<tr>
<td>The seller’s cost or capital cost $ A</td>
</tr>
<tr>
<td>The seller’s proceeds of disposition    $ B</td>
</tr>
<tr>
<td>Amount from line A $ C</td>
</tr>
<tr>
<td>Line B minus line C (if negative, enter “0”) $ D</td>
</tr>
<tr>
<td>Capital cost $ E</td>
</tr>
</tbody>
</table>

Enter any capital gains deduction claimed for the amount on line D $ F

Enter this amount in column 3 of either Area C or D, whichever applies.

Do not include the cost of the related land. Include the cost of the related land on line 9923, “Total cost of all land additions in the year,” in Area G.

You might have bought depreciable property in a non-arm’s length transaction and paid less for it than the seller paid. If that is the case, your capital cost is the same amount as the seller paid. We consider you to have deducted as CCA the difference between what you paid and what the seller paid. Enter the amount you paid in column 3 of Area A. Enter the same amount in Area C or D, whichever applies.

Example

Bruce bought a tractor for $16,000 from his father, Paul, in his 2007 fiscal period. Paul paid $40,000 for the tractor in 1997. Since the amount Bruce paid is less than the amount Paul paid, we consider Bruce’s cost to be $40,000. We also consider Bruce to have deducted CCA of $24,000 in the past ($40,000 – $16,000).

Bruce completes the CCA chart as follows:

■ in Area C, “Details of equipment additions in the year”, he enters $40,000 in column 3, “Total cost”; and
■ in Area A, “Calculation of capital cost allowance (CCA)”, he enters $16,000 in column 3, “Cost of additions in the year”, as the addition for the 2007 fiscal period.

There is a limit on the cost of a passenger vehicle you buy in a non-arm’s length capital transaction. The cost is one of these amounts, whichever is the least:

■ the FMV when you buy it;
■ if you bought in 2007 or 2006, $30,000 plus any GST and PST, or HST you would pay on $30,000; or
■ the seller’s cost amount of the vehicle when you buy it.

The cost amount can vary, depending on what the seller used the vehicle for before you bought it. If the seller used the vehicle to earn income, the cost amount will be the undepreciated capital cost (UCC) of the vehicle when you buy it. If the seller did not use the vehicle to earn income,
the cost amount will usually be the original cost of the vehicle.

For more details on non-arm’s length transactions, see Interpretation Bulletin IT-419, Meaning of Arm’s Length.

Special rules for disposing of a building in the year

If you disposed of a building in the year, special rules may apply that change the amount you use as proceeds of disposition for capital cost purposes. This happens when you meet both of the following conditions:

■ you disposed of the building for an amount less than both its cost amount, as calculated below, and its capital cost to you; and

■ you, or a person with whom you do not deal at arm’s length (see the definition on page 41), owned the land that the building is on, or the land next to it, that was necessary for the building’s use.

Calculate the cost amount as follows:

■ If the building was the only property in the class, the cost amount is the undepreciated capital cost (UCC) of the class before you disposed of the building.

■ If there is more than one property in the same class, you have to calculate the cost amount of each building as follows:

\[
\text{cost amount of the building} = \frac{\text{capital cost of the building}}{\text{capital cost of all the properties in the class that have not been disposed of previously}} \times \text{UCC of the class of the building just before you disposed of it}
\]

Note

If any property in the class of the building that was acquired at non-arm’s length was previously used for a purpose other than gaining or producing income, or if the part of a property used for gaining or producing income has changed, the capital cost of such property has to be recalculated to determine the cost amount of the property.

If you disposed of a building under these conditions and you or a person with whom you do not deal at arm’s length disposed of the land in the same year, calculate your deemed proceeds of disposition as shown in Calculation A on this page.

If you, or a person with whom you do not deal at arm’s length, did not dispose of the land in the same year as the building, calculate your deemed proceeds of disposition as shown in Calculation B, on this page.

### Calculation A

**Land and building sold in the same year**

<table>
<thead>
<tr>
<th>Description</th>
<th>Formula</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>FMV of the building at the time you disposed of it</td>
<td>$ \text{A}</td>
<td></td>
</tr>
<tr>
<td>FMV of the land just before you disposed of it</td>
<td>$ \text{B}</td>
<td></td>
</tr>
<tr>
<td>Line A plus line B</td>
<td>$ \text{C}</td>
<td></td>
</tr>
<tr>
<td>Seller’s cost amount of the land</td>
<td>$ \text{D}</td>
<td></td>
</tr>
<tr>
<td>Total capital gains (without reserves) from any disposition of the land (such as a change in use) in the three-year period before you or a person not dealing at arm’s length with you disposed of the building, to either you or another person not dealing at arm’s length with you</td>
<td>$ \text{E}</td>
<td></td>
</tr>
<tr>
<td>Line D minus line E</td>
<td>$ \text{F}</td>
<td></td>
</tr>
<tr>
<td>Line B or line F, whichever amount is less</td>
<td>$ \text{G}</td>
<td></td>
</tr>
<tr>
<td>Line C minus line G</td>
<td>$ \text{H}</td>
<td></td>
</tr>
<tr>
<td>Cost amount of the building just before you disposed of it</td>
<td>$ \text{I}</td>
<td></td>
</tr>
<tr>
<td>Capital cost of the building just before you disposed of it</td>
<td>$ \text{J}</td>
<td></td>
</tr>
<tr>
<td>Line I or line J, whichever amount is less</td>
<td>$ \text{K}</td>
<td></td>
</tr>
<tr>
<td>Line A or line K, whichever amount is more</td>
<td>$ \text{L}</td>
<td></td>
</tr>
</tbody>
</table>

**Deemed proceeds of disposition for the building**

<table>
<thead>
<tr>
<th>Description</th>
<th>Formula</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Line H or line L, whichever amount is less (enter this amount in column 3 of Area F, and include it in column 4 of Area A)</td>
<td>$ \text{M}</td>
<td></td>
</tr>
</tbody>
</table>

**Deemed proceeds of disposition for the land**

<table>
<thead>
<tr>
<th>Description</th>
<th>Formula</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds of disposition of the building and the land</td>
<td>$ \text{N}</td>
<td></td>
</tr>
<tr>
<td>Amount from line M</td>
<td>$ \text{O}</td>
<td></td>
</tr>
<tr>
<td>Line N minus line O (include this amount on line 9924 of Area G)</td>
<td>$ \text{P}</td>
<td></td>
</tr>
</tbody>
</table>

If you have a terminal loss on the building, include it on line 9896 on page 3 of your form.
Calculation B
Land and building sold in different years

Cost amount of the building just before you disposed of it $ A
FMV of the building just before you disposed of it $ B
Line A or line B, whichever amount is more $ C
Actual proceeds of disposition, if any $ D
Line C minus line D $ E
Line E $__________ x 1/2 $ F
Amount from line D $ G

Deemed proceeds of disposition for the building
Line F plus line G (enter this amount in column 3 of Area F, and include it in column 4 of Area A) $ H

If you have a terminal loss on the building, include it on line 9896 on page 3 of your form.

Ordinarily, you can deduct all of a terminal loss, but only part of a capital loss. Calculation B ensures that you use the same factor to calculate a terminal loss for a building as you use to calculate a capital loss on land. As a result of this calculation, you add part of the amount on line E to the actual proceeds of disposition from the building (see “Terminal loss” on page 44).

Replacement property
In a few cases, you can postpone or defer adding a capital gain or recapture of CCA to income. You might sell a business property, and replace it with a similar one, or your property might be stolen, destroyed, or expropriated, and you replace it with a similar one. You can defer tax on the sale proceeds if you reinvest in replacement property within a reasonable period of time. To defer reporting the gain or recapture of CCA, you must acquire and you, or a person related to you, must use the new property for the same or a similar purpose as the old one was used for.


You can also defer a capital gain or recapture of CCA when you transfer property to a corporation, a partnership, or your child. For more details on transferring farm property to your child, see page 60.

For information on transfers to a corporation or a partnership, see:

- Information Circular IC76-19, Transfer of Property to a Corporation Under Section 85
- Interpretation Bulletin IT-291, Transfer of Property to a Corporation Under Subsection 85(1)
- Interpretation Bulletin IT-378, Winding-Up of a Partnership

Area B – Business-use-of-home expenses

Use Area B on Form T1175 to list your expenses and any amount of CCA for the business use of your home. Include these expenses and any amount of CCA for business-use-of-home expenses on line 9896 “Other (specify)” on page 4 of Form T1163 (Statement A) or Form T1164 (Statement B). You can also record any business-use-of-home expense carry forward from a previous year on the chart. This chart is for information purposes and to help you make an adjustment at line 9934 if you have a loss in the year. See page 39 for more information about this adjustment.

Area G – Details of land additions and dispositions in the year

In this area, enter the total cost of acquiring land in 2007. The cost includes the actual purchase price of the land, plus any related expenses that you should add to the capital cost of the land, such as legal fees, land transfer taxes, and mortgage fees. Enter on line 9923 the total cost of all land additions in the year. You cannot claim CCA on land. Do not enter this amount in column 3 of Area A.

Enter on line 9924 the total of all amounts you received or will receive for disposing of land in the year.

Area H – Details of quota additions and dispositions in the year

Enter on line 9929 of Form T1175 the total cost of acquiring quotas in the year.

Enter on line 9930 of Form T1175 the total of all amounts you received or will receive for disposing of quotas in the year.

Area I – Details of equity

Line 9931 – Total business liabilities

A liability is a debt or an obligation of a business. Total business liabilities are the total of all amounts your farming business owes at the end of its fiscal period. This includes accounts payable, notes payable, taxes payable, unpaid salaries, wages and benefits, interest payable, deferred or unearned revenues, loans payable, mortgages payable, or any other outstanding balance.

Line 9932 – Drawings in 2007

A drawing is any withdrawal of cash or other assets and services of a business by the proprietor or partners. This includes transactions by the proprietor or partners (or family members) such as withdrawing cash for non-business use and using business assets and services for personal use.
**Line 9933 – Capital contributions in 2007**

A capital contribution is an addition of cash or other assets you made to the farming business during its fiscal period. This includes adding personal funds to the business account, paying business debts with personal funds, and transferring personal assets to the farming business.

The following example summarizes this chapter on CCA.

**Example**

In 2007, Trevor bought a building to use for his farming business. The total cost was $95,000 (the total of the $90,000 total purchase price and the $5,000 total expenses connected with the purchase), as follows:

- **Building value**: $75,000
- **Land value**: $15,000
- **Total purchase price**: $90,000

**Expenses connected with the purchase**

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal fees</td>
<td>$3,000</td>
</tr>
<tr>
<td>Land transfer taxes</td>
<td>$2,000</td>
</tr>
<tr>
<td><strong>Total fees</strong></td>
<td>$5,000</td>
</tr>
</tbody>
</table>

Trevor’s farming business has a December 31 year-end. In 2007, Trevor’s farming income was $6,000 and his expenses were $4,900. Therefore, his net income before deducting CCA was $1,100 ($6,000 – $4,900).

Before Trevor can complete his CCA schedule, he has to calculate the capital cost of the building. Since land is not depreciable farm property, he has to calculate the part of the expenses connected with the purchase that relates only to the building. To do this, he has to use the following formula, which we explain on page 43 under the heading “Land.”

\[
\frac{75,000 \times 5,000}{90,000} = 4,166.67
\]

This $4,166.67 represents the part of the $5,000 in legal fees and land transfer taxes that relates to the purchase of the building, while the remaining $833.33 relates to the purchase of the land. Therefore, the capital cost of the building is:

- **Building value**: $75,000.00
- **Related expenses**: $4,166.67
- **Capital cost of the building**: $79,166.67

Trevor enters $79,166.67 in column 3 of Area D and $15,833.33 ($15,000 + $833.33) on line 9923 of Area G as the capital cost of the land.

**Note**

Trevor did not own farm property before 2007. Therefore, he has no UCC to enter in column 2 of Area A.

Trevor acquired his farm property in 2007. Therefore, he is subject to the 50% rule that we explain under the heading “Column 6 – Adjustment for current-year additions” on page 44.
Calculating your annual allowance and your CEC account balance at the end of your 2007 fiscal period

<table>
<thead>
<tr>
<th>Description</th>
<th>Calculations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance in the account at the start of your 2007 fiscal period</td>
<td>A</td>
</tr>
<tr>
<td>Eligible capital expenditures you made in your 2007 fiscal period</td>
<td>B</td>
</tr>
<tr>
<td>75% × line B</td>
<td>C</td>
</tr>
<tr>
<td>Line A plus line C</td>
<td>D</td>
</tr>
<tr>
<td>All the amounts you received or are entitled to receive from the sale of eligible capital property in your 2007 fiscal period</td>
<td>E</td>
</tr>
<tr>
<td>All the amounts that became receivable in your 2007 fiscal period from the sale of eligible capital properties before June 18, 1987</td>
<td>F</td>
</tr>
<tr>
<td>Line E plus line F</td>
<td>G</td>
</tr>
<tr>
<td>75% × line G</td>
<td>H</td>
</tr>
<tr>
<td>CEC account balance</td>
<td>Line D minus line H</td>
</tr>
<tr>
<td>Annual allowance 7% × line I</td>
<td>J</td>
</tr>
<tr>
<td>CEC account balance at the end of 2007</td>
<td>Line I minus line J</td>
</tr>
</tbody>
</table>

Note
An eligible capital expenditure is reduced by the amount of any government assistance received or receivable. Also, an amount forgiven (or entitled to be forgiven) on government loans for an eligible capital expenditure reduces your CEC account.

Special conditions may apply to non-arm’s length transactions. For additional information, see Interpretation Bulletin IT-123, Transactions Involving Eligible Capital Property.

If your fiscal period is less than 365 days, you have to prorate your claim. Base your claim on the number of days in your fiscal period compared to 365 days.

You can deduct an annual allowance if there is a positive balance in your CEC account at the end of your 2007 fiscal period. You can deduct up to a maximum of 7% of the balance, but you do not have to deduct the maximum annual allowance. If the balance is negative, see “Sale of eligible capital property – Fiscal period ending in 2007” on page 53.

Example
Heather started her farming business on January 1, 2007. Her business has a December 31 year-end. During 2007, she bought a milk quota for $135,000. To calculate her annual allowance and her CEC account balance at the end of her fiscal year, she completes the chart as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Calculations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at the start of her 2007 fiscal period</td>
<td>$ 0 A</td>
</tr>
<tr>
<td>Milk quota cost during her 2007 fiscal period</td>
<td>$ 135,000 B</td>
</tr>
<tr>
<td>75% × line B</td>
<td>$ 101,250 C</td>
</tr>
<tr>
<td>Line A plus line C</td>
<td>$ 101,250 D</td>
</tr>
<tr>
<td>Heather does not have any amounts on lines E to H. Therefore, her CEC account balance is the amount on line D.</td>
<td>$ 101,250 I</td>
</tr>
<tr>
<td>Her annual allowance 7% × line I</td>
<td>$ 7,087 J</td>
</tr>
<tr>
<td>Balance at the end of 2007 line I minus line J</td>
<td>$ 94,163 K</td>
</tr>
</tbody>
</table>

Election
You can elect to treat a disposition of eligible capital property (ECP) as a capital gain instead of including it in the chart “Calculating your annual allowance and your CEC account balance at the end of your 2007 fiscal period,” on this page.

If you make the election, the proceeds of disposition on lines E and F of the chart are considered to be equal to the original cost.

You can then declare a capital gain equal to your actual proceeds of disposition minus the cost of acquisition. Report the details on the “Real estate, depreciable property, and other properties” line on Schedule 3, Capital Gains (or Losses) in 2007.

You can only make this election if you meet the following conditions:
- you disposed of an ECP;
- the cost of the ECP can be determined;
- the proceeds of disposition exceed the cost;
- the ECP that you disposed of is not goodwill; and

Making the election will help you if you have capital losses to apply against your gain.

The election may also help if you are eligible to claim a capital gains deduction and you disposed of an ECP that is a qualified farm property. If you disposed of an ECP that was a qualified farm property, any deemed gain reported under the election is also considered to be from a disposition of qualified farm property. If this is the case, report the details on the “Qualified farm property” line on Schedule 3, Capital Gains (or Losses) in 2007, instead of the “Real estate, depreciable property, and other properties” line. See “Qualified farm property and cumulative capital gains deduction” on page 59. Attach a note to your income tax return stating that you are electing under subsection 14(1.01) of the Income Tax Act.
Sale of eligible capital property – Fiscal period ending in 2007

When you sell eligible capital property, you have to subtract part of the proceeds of disposition from your CEC account.

You have to do this calculation if you sell eligible capital property:

■ in your 2007 fiscal period; or

■ before June 18, 1987, and the proceeds of disposition become due to you in your 2007 fiscal period.

For 2007, the amount you have to subtract is 75% of the total of these amounts:

■ the proceeds of disposition of all eligible capital property you sell in your 2007 fiscal period (include the total amount from a sale even if you do not get any or all of the proceeds until after 2007); and

■ the amount of any proceeds that become due to you in your 2007 fiscal period from eligible capital property you sold before June 18, 1987.

If you have a negative balance in your CEC account after you subtract the required amount, you have to calculate the part of that amount to include in your farming income.

The part of the negative amount in your CEC account that exceeds the annual allowances deducted is multiplied by 2/3. To that result, you add the excess or annual allowances deducted, whichever is less. This is the amount to include in your farming income. The following example shows how to calculate the amount to include in farming income.

Example
Carol started her farming business on January 1, 2001, with a December 31 year-end. In 2001, Carol bought an egg quota for $25,000. Carol sold her farming business on September 1, 2007. She sold her egg quota for $65,000, and she does not have any other eligible capital property in her farming business. She deducted annual allowances each year as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Allowance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>$ 1,313</td>
</tr>
<tr>
<td>2002</td>
<td>$ 1,220</td>
</tr>
<tr>
<td>2003</td>
<td>$ 1,135</td>
</tr>
<tr>
<td>2004</td>
<td>$ 1,056</td>
</tr>
<tr>
<td>2005</td>
<td>$ 982</td>
</tr>
<tr>
<td>2006</td>
<td>$ 913</td>
</tr>
<tr>
<td>Total</td>
<td>$ 6,619</td>
</tr>
</tbody>
</table>

The amount included in Carol’s farming income on line 9600, “Other income,” is the total of amounts A and C:

Calculation of amount A
The lesser of i) or ii):

i) Excess amount calculated as follows:

- Proceeds of disposition: $65,000
- $65,000 × 75% = $48,750
- Plus: total annual allowances deducted = 6,619
- $55,369

- Minus: 75% of eligible capital expenditures $25,000 × 75% = $18,750
- Excess amount = $36,619

ii) Total annual allowances deducted = $6,619

The lesser of i) or ii): = $6,619

Calculation of amount B
-

Excess amount = $36,619

Minus: total annual deductions taken = $6,619

$30,000

Calculation of amount C

- Line B × 2/3 = $20,000
- Line A plus line C = $26,619

The amount Carol includes in farming income on line 9600, “Other income,” is $26,619.

If the property is considered to be a qualified farm property, part of the farming income may be eligible for the capital gains deduction. For more details, read the following section.

Farming income from the sale of eligible capital property eligible for the capital gains deduction

Part of your farming income from the sale of eligible capital property (ECP) that is qualified farm property (QFP) may be eligible for the capital gains deduction. You will find the definition of QFP on page 59. If you have more than one business, do a separate calculation for each. Complete the following chart to calculate the amount eligible for the capital gains deduction from the sale of ECP.
Farming income eligible for the capital gains deduction (continued)

All eligible capital expenditures made or incurred for QFP sold during fiscal periods ending after October 17, 2000

Outlays and expenses related to disposals described on line N not deducted in calculating income

Amount from line R \( \times \frac{1}{2} \) =

All taxable capital gains from the disposition of ECP for the farming business that is QFP for fiscal periods that began after February 1994 and ended before October 17, 2000

Farming income eligible for the capital gains deduction from the sale of ECP that is QFP for fiscal periods that began after February 22, 1994, and ended before January 1, 2007

Line T minus line V

If you are a sole proprietor, claim the amount on line Y

If you are a partner, claim your share of the amount on line Y

Enter the amount from line Z or line AA (above) on line 173 of Schedule 3, Capital Gains (or Losses) in 2007. To claim the capital gains deduction, use Form T657, Calculation of Capital Gains Deduction for 2007.

Replacement property

If you sell an eligible capital property and replace it with another one for the same or similar use, you can postpone all or part of any gain on the sale. This happens if you acquire a replacement eligible capital property within a certain period of time. To do this, you have to replace the property no later than one year after the end of the tax year in which you sell the original property. For more details, see Interpretation Bulletin IT-259, Exchange of Property.
Eligible capital property of a deceased taxpayer

At death, a taxpayer is deemed to have disposed of eligible capital property, just before death, for proceeds of disposition equal to 4/3 of the cumulative eligible capital property at that time.

The person who acquires the eligible capital property from the deceased is deemed to acquire it as stated in the previous paragraph.

For more information about eligible capital expenditures, see Interpretation Bulletin IT-123, Transactions Involving Eligible Capital Property, and Interpretation Bulletin IT-143, Meaning of Eligible Capital Expenditure.

Chapter 6 – Farm Losses

When the expenses for your farming business are more than the income for the year, you have a net operating loss. However, before you can calculate your net farm loss for the year, you may have to increase or decrease the loss by certain adjustments explained in “Line 9941 – Optional inventory adjustment – current year” and “Line 9942 – Mandatory inventory adjustment – current year” on page 36.

If you have a net farm loss for the year, read this chapter for information on how to treat your loss. For more details on farm losses, see Interpretation Bulletin IT-322, Farm Losses.

The amount of the net farm loss you can deduct depends on the nature and extent of your business. Your farm loss may be:

- fully deductible
- partly deductible (restricted farm loss)
- non-deductible

Fully deductible farm losses

If you made your living from farming, we consider farming to be your chief source of income. As long as farming was your chief source of income, you can deduct the full amount of your net farm loss from other income. Farming can still be your chief source of income even if your farm did not show a profit. Other income could come from investments, part-time employment, and so on.

To determine if farming was your chief source of income, you need to consider such factors as:

- gross income
- net income
- capital invested
- cash flow
- personal involvement
- your farm’s ability to make a profit (both actual and potential)

Restricted farm losses (partly deductible)

You may have run your farm as a business. For your farm to be considered a business, you must have carried on activities with the intention to make a profit, and there is evidence to support that intention.

Example

Rick’s farming business, which is his chief source of income, has a December 31 fiscal year-end. His farm loss before adjustments is $50,000. He wants to reduce his loss by the optional inventory adjustment (OIA). Rick kept the following records for 2007:

- Net farm loss before adjustments .................................. $ 50,000
- Optional inventory adjustment ..................................... $ 15,000
- Other income ................................................................ $ 2,000

To reduce the loss amount, Rick adds back his OIA. He determines his farm loss for 2007 as follows:

- Farm loss before adjustments ................................. ($ 50,000)
- Add optional inventory adjustment ........................... $ 15,000
- Farm loss after adjustments ................................. ($ 35,000)
- Add other income .................................................. $ 2,000
- Farm loss for 2007 ................................................... ($ 33,000)

Applying your 2007 farm loss

You can carry back your 2007 farm loss for up to 3 years. You can also carry it forward up to 20 years. In both cases, you can deduct it from your income from all sources in those years.

If you choose to carry back your 2007 farm loss to your 2004, 2005, or 2006 income tax returns, complete Form T1A, Request for Loss Carryback. File one copy of the form with your 2007 income tax return. Do not file an amended return for the year to which you apply the loss.

Applying your farm losses from years before 2007

On your 2007 income tax return, you may be able to apply farm losses you had in any year from 1997 to 2006. You can apply these losses if you did not already deduct them and you have net income in 2007. To apply these losses to 2007, you have to apply the loss from the earliest year first. Enter the amount you wish to deduct on line 252 on your income tax return.
However, if farming was not your chief source of income (for example, you did not rely on farming alone to make your living), you may be able to deduct only part of your net farm loss.

Each year you have a farm loss, check your situation carefully to see if farming was your chief source of income. It is important to do this, since a farming loss may be restricted in one year, but not in another year.

**How to calculate your restricted farm loss**

If farming was not your chief source of income and you had a net farm loss, the loss you can deduct depends on the amount of your net farm loss.

When your net farm loss is $15,000 or more, you can deduct $8,750 from your other income. The rest of your net farm loss is your restricted farm loss.

When your net farm loss is less than $15,000, the amount you can deduct from your other income is one of the following two amounts, whichever is **less:**

- A) your net farm loss for the year; or
- B) $2,500 plus $50% × (your net farm loss minus $2,500).

The amount remaining is your restricted farm loss.

**Note**

When the farm loss you deduct is different from your actual farm loss because of the restricted farm loss calculation, you should indicate this on your income tax return on the line “Farming income.” You can do this by noting “restricted farm loss,” “RFL,” or “Section 31” to the left of line 168.

**Example**

Sharon ran a cattle farm with the intention of making a profit. However, farming was not her chief source of income in 2007. In 2007, she had employment income and a net farm loss of $9,200, which she calculated on line 9946 on page 5 of Form T1163 (Statement A).

The part of Sharon’s net farm loss she can deduct from her other income in 2007 is either amount A or amount B, whichever is **less:**

- A) $9,200; or
- B) $2,500 plus $50% × ($9,200 – $2,500)

Therefore, B = ($2,500 + $3,350) = $5,850.

Since Sharon can only deduct A or B, whichever amount is **less,** she enters $5,850 on line 141 of her income tax return and deducts this amount from her other income in 2007. Her restricted farm loss is the amount that remains, which is $3,350 ($9,200 minus $5,850). Sharon prints “Section 31” to the left of line 168 on her return to show that the loss she is deducting is the result of a restricted farm loss calculation.

**Applying your 2007 restricted farm loss**

You can carry back your 2007 restricted farm loss up to 3 years and carry it forward up to 20 years.

The amount you deduct in any year cannot be more than your net farm income for that year. If you have no net farming income in any of those years, you cannot deduct any restricted farm loss.

To carry back your 2007 restricted farm loss to any of your 2004, 2005, or 2006 income tax returns, use Form T1A, Request for Loss Carryback. File one copy of the form with your 2007 return. Do not file an amended return for the year or years to which you apply the loss.

**Applying your restricted farm losses from years before 2007**

You may have net farm income in 2007. If so, you may be able to apply to your 2007 income tax return restricted farm losses you had in any year from 1997 to 2006. You can apply these losses as long as you did not already deduct them from your farm income. Also, you can only apply them up to the amount of your net farm income in 2007. You have to apply the loss from the earliest year first, before you apply the losses from other years. Claim this amount at line 252 of your income tax return.

You may have sold farmland at a time when you had restricted farm losses that you did not claim. If so, you may be able to reduce the amount of your capital gain from the sale. For more details, see “Restricted farm losses” on page 59.

**Non-deductible farm losses**

If you did not run your farm as a business, you cannot deduct any part of your net farm loss.

The size and scope of your farm may make it impossible for the farm to make a profit, either now or in the near future. In this case, you cannot deduct your farm loss. We consider this kind of farm to be personal. Therefore, any farm expenses are personal expenses and non-deductible.

**Non-capital loss**

You may have incurred a loss in 2007 from a business other than farming. If this loss is more than your other income for the year, you may have a non-capital loss. To calculate your 2007 non-capital loss, use Form T1A, Request for Loss Carryback.

You can carry back your 2007 non-capital loss up to 3 years. You can carry forward non-capital losses incurred up to March 22, 2004 for up to 7 years. Non-capital losses incurred after 2005 can be carried forward up to 20 years.

If you choose to carry back your 2007 non-capital loss to your 2004, 2005, or 2006 income tax returns, complete Form T1A. File one copy of the form with your 2007 income tax return. Do not file an amended return for the year to which you apply the loss.

For more details about non-capital losses, see Interpretation Bulletin IT-232, Losses – Their Deductibility in the Loss Year or in Other Years.
Chapter 7 – Capital Gains

This chapter explains the capital gains rules for people who farm. We cover the general capital gains rules in Guide T4037, Capital Gains.

Throughout this chapter, we use the terms sell, sold, buy, or bought. These words describe most capital transactions. However, the information in this chapter also applies to deemed dispositions or acquisitions. When reading this chapter, you can use the terms sold instead of disposed of, and bought instead of acquired, if they more clearly describe your situation.

List the dispositions of all your properties on Schedule 3, Capital Gains (or Losses) in 2007. You can get this schedule and other forms and publications from our Web site at www.cra.gc.ca/forms, or by calling us at 1-800-959-2221.

You may be a partner in a partnership that provides you with a T5013 slip, Statement of Partnership Income, or T5013A slip, Statement of Partnership Income for Tax Shelters and Renounced Resource Expenses. If the partnership has a capital gain, the partnership will allocate part of that gain to you. The gain will be reported on the partnership’s financial statements or on your T5013 or T5013A slip.

What is a capital gain?

You have a capital gain when you sell, or are considered to have sold, a capital property for more than its adjusted cost base plus the outlays or expenses you incurred to sell the property. To calculate your capital gain, subtract the adjusted cost base of your property from the proceeds of disposition. From this amount, subtract any outlays or expenses you incurred when selling your property.

In most cases, capital property includes land, buildings, and equipment that you used in your farming business. Therefore, capital property includes depreciable and non-depreciable property.

You have to include your taxable capital gain in income. Not all your capital gain is taxable. For 2007, generally, your taxable capital gain is one-half of your capital gain.

A disposition of depreciable property may result in a recapture of capital cost allowance (CCA). We explain recapture on page 43.

What is a capital loss?

You have a capital loss when you sell, or are considered to have sold, non-depreciable capital property for less than its adjusted cost base plus the outlays or expenses you incurred to sell the property. To calculate your capital loss, subtract the adjusted cost base of your property from the proceeds of disposition. From this amount, subtract any outlays or expenses you incurred when selling your property.

Not all your capital loss is deductible. For 2007, your allowable capital loss is one-half of your capital loss. You can only deduct an allowable capital loss from a taxable capital gain.

A loss on a disposition of depreciable property may only result in a terminal loss. We explain terminal loss on page 44.

Definitions

Before you can determine your capital gain or capital loss, you will need to know the following terms.

Proceeds of disposition – In most cases, this means the sale price of the property (see page 41).

Adjusted cost base (ACB) – The ACB is the original cost of the property (including amounts you paid to buy it, such as commissions and legal fees). ACB includes other costs such as the cost of any additions, or the cost to renovate or improve the property.

Outlays and expenses – These are amounts you incurred to sell your property. They include costs such as commissions, surveyors’ fees, transfer taxes, and advertising costs.

Fair market value (FMV) – This is generally the highest dollar value you can get for your property. We define this term on page 41.

How to calculate your capital gain or loss

To calculate your capital gain or loss, use the following formula:

\[ \text{Proceeds of disposition} - \text{Adjusted cost base} - \text{Outlays and expenses} = \text{capital gain (loss)} \]

Note

You have to calculate the capital gain or loss on each property separately.

Did you sell capital property in 2007 that you owned before 1972?

If you did, you have to apply a special set of rules when you calculate your capital gain or loss, since you did not have to pay tax on capital gains before 1972. To help you calculate your gain or loss from the sale of property you owned before 1972, use Form T1105, Supplementary Schedule for Dispositions of Capital Property Acquired Before 1972.

Disposing of farmland that includes your principal residence

Your home is most often your principal residence. If your home was your principal residence for every year you owned it, you generally do not pay tax on any capital gains when you dispose of it. Therefore, if you sold farmland that included your home in 2007, only part of the gain is taxable.

You can choose one of two methods to determine your taxable capital gain. Try both methods to see which one is best for you.
We usually consider approximately one acre of land on which your residence is situated to be part of your principal residence. We will allow you more if you can prove that you needed more land to use and enjoy your principal residence.

**Method 1**

Separately calculate the capital gain on your principal residence and each of your farm properties. To do this, apportion the proceeds of disposition, the ACB, and any outlays and expenses between your principal residence and each of your farm properties.

Then, calculate the **taxable** capital gain on your principal residence, if any, and each of the farm properties.

Value the land that is part of your principal residence at one of the following two amounts, whichever is **more**:

- the FMV of the land; or
- the FMV of a comparable residential building site in the area.

**Example**

On February 1, 2007, Helena sold her 32-acre farm, which included her principal residence. One acre of land is part of her principal residence. Helena has these details:

<table>
<thead>
<tr>
<th>Value of land when she bought her farm</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>FMV of similar farmland per acre</td>
<td>$3,750</td>
</tr>
<tr>
<td>FMV of a typical residential building site in the area</td>
<td>$15,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Value of land when she sold her farm</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>FMV of similar farmland per acre</td>
<td>$6,250</td>
</tr>
<tr>
<td>FMV of a typical residential building site in the area</td>
<td>$25,000</td>
</tr>
</tbody>
</table>

**Adjusted cost base (ACB) – actual purchase price**

<table>
<thead>
<tr>
<th>Land</th>
<th>$120,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>House</td>
<td>$60,000</td>
</tr>
<tr>
<td>Barn</td>
<td>$16,000</td>
</tr>
<tr>
<td>Silo</td>
<td>$4,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$200,000</strong></td>
</tr>
</tbody>
</table>

**Proceeds of disposition – actual sale price**

<table>
<thead>
<tr>
<th>Land</th>
<th>$200,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>House</td>
<td>$75,000</td>
</tr>
<tr>
<td>Barn</td>
<td>$20,000</td>
</tr>
<tr>
<td>Silo</td>
<td>$5,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$300,000</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Proceeds of disposition</th>
<th>Principal residence</th>
<th>Farm properties</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>$25,000*</td>
<td>$175,000</td>
<td>$200,000</td>
</tr>
<tr>
<td>House</td>
<td>75,000</td>
<td></td>
<td>$75,000</td>
</tr>
<tr>
<td>Barn</td>
<td></td>
<td>20,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Silo</td>
<td></td>
<td>5,000</td>
<td>5,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$100,000</strong></td>
<td><strong>$200,000</strong></td>
<td><strong>$300,000</strong></td>
</tr>
</tbody>
</table>

**Minus ACB**

<table>
<thead>
<tr>
<th>Land</th>
<th>$15,000*</th>
<th>$105,000</th>
<th>$120,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>House</td>
<td>60,000</td>
<td></td>
<td>60,000</td>
</tr>
<tr>
<td>Barn</td>
<td>16,000</td>
<td>16,000</td>
<td></td>
</tr>
<tr>
<td>Silo</td>
<td>4,000</td>
<td>4,000</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$75,000</strong></td>
<td><strong>$125,000</strong></td>
<td><strong>$200,000</strong></td>
</tr>
</tbody>
</table>

| Gain on sale                          | $25,000  | $75,000  | $100,000 |

| Minus:                                 |         |         |         |
| Gain on principal residence**          | 25,000  |         | 25,000  |

| Capital gain                           | $0      | $75,000  | $75,000  |

**Taxable capital gain**

\[(1/2 \times $75,000)\] \[= \$37,500\]

* Helena uses the value of a typical residential building site for the land that is part of her principal residence, since the FMV of a typical site in the area is more than the FMV of one acre of farmland.

** Because Helena’s home was her principal residence during all the years she owned it, the capital gain is not taxable.

**Note**

If your home was **not** your principal residence for every year you owned it, there could be a capital gain on it that you have to include in your income. Form T2091(IND), *Designation of a Property as a Principal Residence by an Individual (Other Than a Personal Trust)*, will help you calculate the number of years for which you are entitled to designate your home as your principal residence and calculate the part of your gain, if any, that is taxable.

**Method 2**

Determine the capital gain on your land and your principal residence. Then subtract $1,000 from the gain. Subtract an additional $1,000 for each year after 1971 that the property was your principal residence and you were a resident of Canada. Using Method 2, you can reduce a gain to nil, but you cannot create a loss.

To calculate your capital gain, use the following formula:

\[
\begin{align*}
\text{Proceeds of disposition} & \quad \text{A} \\
\text{Adjusted cost base} & \quad \text{B} \\
\text{A minus B} & \quad \text{C} \\
\text{Outlays and expenses} & \quad \text{D} \\
\text{Capital gain before reduction} (\text{C minus D}) & \quad \text{E} \\
\text{Method 2 reduction} & \quad \text{F} \\
\text{Capital gain after reduction} (\text{E minus F}) & \quad \text{G}
\end{align*}
\]

**Note**

Transfer the entries on lines A, B, D, and G to the relevant columns on Schedule 3, *Capital Gains (or Losses)* in 2007, under “Qualified farm property” or “Real estate, depreciable property, and other properties”.
If you choose this method, attach a letter to your income tax return that includes the following information:

- a statement that you sold your farm and are electing under subparagraph 40(2)(c)(ii) of the Income Tax Act;
- a description of the property you sold; and
- the number of years after 1971 that the farmhouse was your principal residence while you were a resident of Canada (if you purchased your farm after 1971, give the date you purchased it).

As proof of the value of your property, regardless of which method you choose, keep documents that have the following information:

- a description of the farm, including the size of the buildings and construction type;
- the cost of the property and date of purchase;
- the cost of any additions or improvements you made to the property;
- the assessment for property tax purposes;
- any insurance coverage;
- the type of land (arable, bush, or scrub); and
- the type of farm operation.

If you need more details, see Interpretation Bulletin IT-120, Principal Residence.

## Restricted farm losses

You may have a capital gain from farmland you sell in 2007. You may also have restricted farm losses from previous years that you have not yet used. In this case, you can deduct part of these losses from the gain. The part you can deduct is the property taxes and the interest on money you borrowed to buy the land, if you included these amounts in the calculation of the restricted farm loss in question.

You cannot use the restricted farm loss to create or increase a capital loss on the sale of your farmland.

### Qualified farm property and cumulative capital gains deduction

If you have a taxable capital gain from the sale of qualified farm property, you may be able to claim a capital gains deduction. We explain qualified farm property on this page.

For dispositions of qualified farm property made after March 18, 2007, the 2007 federal budget proposes to increase the lifetime capital gains exemption (LCGE) from $500,000 to $750,000.

For details on how to calculate your capital gains deduction, get Form T657, Calculation of Capital Gains Deduction for 2007, and Form T936, Calculation of Cumulative Net Investment Loss (CNIL) to December 31, 2007.

You may be a partner in a partnership that sold capital property. In this case, the partnership includes any taxable capital gain in its income. However, as a partner, you can only claim the capital gains deduction for your share of the gain on qualified farm property.

### What is qualified farm property?

Qualified farm property is certain property you, your spouse or common-law partner own. It is also certain property owned by a family-farm partnership in which you, your spouse or common-law partner holds an interest. We define spouse and common-law partner in the “Identification” area of your General Income Tax and Benefit Guide.

Qualified farm property includes:

- a share of the capital stock of a family-farm corporation that you, your spouse, or common-law partner owns
- an interest in a family-farm partnership that you, your spouse, or common-law partner owns
- real property, such as land and buildings
- eligible capital property, such as milk and egg quotas

### Real property or eligible capital property as qualified farm property

Real property or eligible capital property is qualified farm property only if it is used to carry on a farming business in Canada by any one of the following:

- you, your spouse or common-law partner, or any of your parents or children (we define children on this page);
- the beneficiary of a personal trust, or the spouse or common-law partner, parent, or child of such a beneficiary;
- a family-farm corporation where any of the above persons owns a share of the corporation; or
- a family-farm partnership where any of the above persons (except a family-farm corporation) owns an interest in the partnership.

You may have bought or entered into an agreement to buy real or eligible capital property before June 18, 1987. We consider you to have used this property in carrying on a farming business in Canada by any one of these conditions:

- In the year you disposed of it, the property or the one it replaced was used principally in a farming business in Canada by any of the above persons, a family-farm partnership, a corporation, or by a personal trust from which one of the above individuals acquired the property.
- The property, or the property it replaced, was used principally in a farming business in Canada for at least five years by any of the above persons, a family farm partnership, a corporation, or by a personal trust from which one of the above individuals acquired the property. During this time, the property was owned by any of the above persons or a family-farm partnership or corporation.
We will also consider other real or eligible capital property to be used to carry on a farming business in Canada if you meet the following conditions:

- throughout the 24 months before the sale, you, your spouse or common-law partner, any of your children, parents, a personal trust from which one of these persons acquired the property, or a family-farm partnership (in which any of these persons has an interest) must have owned the property; and

- you meet one of the following two conditions:
  - the property, or the property it replaced, was used mainly in a farming business in Canada in which any of the above persons was actively engaged on a regular and ongoing basis. Also, in any 24 months of ownership, the person’s gross income from the farming business was larger than the person’s income from all other sources in the year; or
  - a family-farm partnership or corporation used the property for at least 24 months, mainly to carry on a farming business in Canada. Also, during this time, you, your spouse or common-law partner, any of your children, or your parents must have been actively engaged on a regular and ongoing basis in the farming business.

**Transfer of farm property to a child**

You may be able to transfer Canadian farm property to your child. When you do this, you can postpone tax on any taxable capital gain and any recapture of capital cost allowance until the child sells the property. To do this, both these conditions have to be met:

- Your child is a resident of Canada just before the transfer.
- The farm property was, immediately before the transfer, land in Canada of a prescribed class owned by you, or any eligible capital property in respect of a farming business carried on in Canada, and used mainly in a farming business in which you, your spouse or common-law partner, or any of your children were actively engaged on a regular and ongoing basis before the transfer.

Your children include:

- your natural child, your adopted child, or your spouse or common-law partner’s child
- your 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 control

The following types of property qualify for this transfer:

- farmland
- depreciable property, including buildings
- eligible capital property

Furthermore, a share of the capital stock of a family-farm corporation and an interest in a family-farm partnership also qualify for this transfer if your child is a resident of Canada just before the transfer.

For depreciable property, the transfer price can be any amount between its undepreciated capital cost (UCC) and its FMV. For land, the transfer price can be any amount between its adjusted cost base (ACB) and its FMV. For eligible capital property, the transfer price can be any amount between:

- its FMV; and
- \( \frac{4}{3} \times \frac{\text{eligible capital property from the farming business}}{\text{eligible capital property from the farming business}} \times \text{FMV of all your property} \)

**Example**

Wade wants to transfer these farm properties to Vicky, his 19-year-old daughter.

<table>
<thead>
<tr>
<th>Property</th>
<th>ACB</th>
<th>FMV at the time of transfer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>$85,000</td>
<td>$100,000</td>
</tr>
<tr>
<td>Combine</td>
<td>$9,000</td>
<td>$7,840</td>
</tr>
</tbody>
</table>

Therefore, Wade can transfer:

- the land at any amount between $85,000 (ACB) and $100,000 (FMV); and
- the combine at any amount between $7,840 (UCC) and $9,000 (FMV).

If Wade chooses to transfer the land at its ACB and the combine at its UCC, he postpones any taxable capital gain and any recapture of CCA. Also, if he does this, we consider that Vicky acquires the land at $85,000 and the combine at $7,840. When Vicky disposes of the land and the combine, she includes in her income any taxable capital gain and recapture that Wade postpones.

For more details and information about transfers of eligible capital property, see Interpretation Bulletin IT-268, *Inter Vivos Transfer of Farm Property to Child*.

**Transfer of farm property to a child if a parent dies in the year**

We allow a tax-free transfer of a deceased taxpayer’s Canadian farm property to a child if both of these conditions are met:

- The child was resident in Canada just before the parent’s death.
- The property was used mainly in a farming business on a regular and ongoing basis by the deceased, the deceased’s spouse or common-law partner, or any of the children before the parent’s death.
The following types of farm property qualify for this transfer:

- land and buildings, or other depreciable property used in a farming business;
- eligible capital property for a farming business; and
- a share of the capital stock of a family-farm corporation, and an interest in a family-farm partnership, if the child was resident in Canada just before the parent’s death and the property transfers to the child no later than 36 months after the parent’s death. In some cases, we may allow the transfer, even if it took place later than 36 months after the parent’s death.

For most property, the transfer price can be any amount between the ACB and its FMV.

For depreciable property, the transfer price can be an amount between the property’s FMV and a special amount. For more information, see Chapter 4, “Deemed Disposition of Property” in Guide T4011, *Preparing Returns for Deceased Persons*.

The deceased’s legal representative will choose the amount in the year of death. We consider that the child acquires these properties at the amount chosen.

Similar rules apply for property that a deceased person leased to the family-farm corporation or partnership.

For eligible capital property, the transfer amount is equal to 4/3 of the cumulative eligible capital at that time. See “Eligible capital property of a deceased taxpayer” on page 55.

If a child gets a farm from a parent and the child later dies, the property can be transferred to the surviving parent, based on the same rules.

Shares or other property of a family-farm holding corporation can also be transferred based on the same rules from a spouse or common-law partner trust to a child of the settlor. The settlor is the person who sets up a trust, or the person who transfers property to a trust.

For more details on these transfers, see Interpretation Bulletin IT-349, *Intergenerational Transfers of Farm Property on Death*.

**Transfer of farm property to a spouse or common-law partner**

A farmer can transfer farm property to a spouse or common-law partner or to a spouse or common-law partner trust during the farmer’s lifetime. At the time of the transfer, the farmer can postpone any taxable capital gain or recapture of CCA.

If the spouse or common-law partner later disposes of the property, the farmer generally has to report any taxable capital gain, not the spouse or common-law partner. This rule applies to transfers made after 1971 where the farmer is living when the spouse or common-law partner sells the property. However, there are exceptions to this rule. For more details, see Interpretation Bulletin IT-511, *Interspousal and Certain Other Transfers and Loans of Property*.

A transfer of farm property can also occur after the farmer dies. For more information, see Chapter 4, “Deemed Disposition of Property,” in Guide T4011, *Preparing Returns for Deceased Persons*.

The rollover provisions available for farm property are now extended to land and depreciable property used principally in a woodlot farming business. They will apply where the deceased, the deceased’s spouse or common-law partner, or any of the deceased’s children were engaged in the woodlot operation as required by a prescribed forest management plan for the woodlot. These provisions apply to transfers of property that occur after December 10, 2001.

**Other special rules**

You may also be able to postpone paying tax on capital gains in the following situations.

**Reserves**

When you dispose of a capital property, you usually receive full payment at that time. However, sometimes you receive the amount over a number of years. Generally, a reserve allows you to defer reporting part of the capital gain to the year in which you receive the proceeds. For example, you may sell a capital property for $50,000 and receive $10,000 at the time of the sale. You receive the remaining $40,000 over four years. In this situation, you can claim a reserve. However, there is a limit to the number of years you can do this. For more information on reserves, see Guide T4037, *Capital Gains*, and Form T2017, *Summary of Reserves on Dispositions of Capital Property*.

**Exchanges or expropriations of property**

There are special rules that apply when you dispose of a property and replace it with a similar one, or when someone expropriates your property. For more details, see Interpretation Bulletin IT-259, *Exchange of Property*. You may also want to see Interpretation Bulletin IT-491, *Former Business Property*, and its Special Release.
## Commodity List

<table>
<thead>
<tr>
<th>COMMODITY</th>
<th>CODE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GRAINS, OILSEEDS, AND SPECIAL CROPS</strong></td>
<td></td>
</tr>
<tr>
<td>Barley (seed)</td>
<td>003</td>
</tr>
<tr>
<td>Barley (feed)</td>
<td>018</td>
</tr>
<tr>
<td>Beans (dry edible)</td>
<td>004</td>
</tr>
<tr>
<td>Borage</td>
<td>006</td>
</tr>
<tr>
<td>Buckwheat</td>
<td>007</td>
</tr>
<tr>
<td>Canadian Wheat Board payments</td>
<td>002</td>
</tr>
<tr>
<td>Canary seed</td>
<td>008</td>
</tr>
<tr>
<td>Canola</td>
<td>010</td>
</tr>
<tr>
<td>Chick peas/garbanzo beans</td>
<td>023</td>
</tr>
<tr>
<td>Corn (seed)</td>
<td>011</td>
</tr>
<tr>
<td>Corn (feed)</td>
<td>019</td>
</tr>
<tr>
<td>Faba beans</td>
<td>012</td>
</tr>
<tr>
<td>Field peas (seed)</td>
<td>013</td>
</tr>
<tr>
<td>Field peas (feed)</td>
<td>022</td>
</tr>
<tr>
<td>Flaxseed</td>
<td>014</td>
</tr>
<tr>
<td>Forage (including pellets, silage)</td>
<td>264</td>
</tr>
<tr>
<td>Forage seed</td>
<td>015</td>
</tr>
<tr>
<td>Grain (pellets, screenings, silage)</td>
<td>039</td>
</tr>
<tr>
<td>Hemp</td>
<td>030</td>
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<tr>
<td>Khorasan wheat/kamut</td>
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<tr>
<td>Lathyrus</td>
<td>040</td>
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<tr>
<td>Lentils</td>
<td>041</td>
</tr>
<tr>
<td>Lupins</td>
<td>042</td>
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<tr>
<td>Millet</td>
<td>043</td>
</tr>
<tr>
<td>Mustard seed</td>
<td>044</td>
</tr>
<tr>
<td>Oats (seed)</td>
<td>045</td>
</tr>
<tr>
<td>Oats (feed)</td>
<td>020</td>
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<tr>
<td>Oilseed radish</td>
<td>038</td>
</tr>
<tr>
<td>Prepared feed and protein supplements</td>
<td>046</td>
</tr>
<tr>
<td>Quinoa</td>
<td>047</td>
</tr>
<tr>
<td>Rice</td>
<td>048</td>
</tr>
<tr>
<td>Rice, wild</td>
<td>270</td>
</tr>
<tr>
<td>Rye</td>
<td>049</td>
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<tr>
<td>Safflower</td>
<td>050</td>
</tr>
<tr>
<td>Soybeans, including canatto, nato (seed)</td>
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</tr>
<tr>
<td>Soybeans, including canatto, nato (feed)</td>
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</tr>
<tr>
<td>Spelt</td>
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</tr>
<tr>
<td>Straw</td>
<td>267</td>
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<tr>
<td>Sugar beets (including molasses)</td>
<td>268</td>
</tr>
<tr>
<td>Sunflowers</td>
<td>054</td>
</tr>
<tr>
<td>Tobacco</td>
<td>269</td>
</tr>
<tr>
<td>Triticale</td>
<td>055</td>
</tr>
<tr>
<td>Vegetable seed (seed production only)</td>
<td>051</td>
</tr>
<tr>
<td>Wheat (seed)</td>
<td>056</td>
</tr>
<tr>
<td>Wheat (feed)</td>
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</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>COMMODITY</th>
<th>CODE</th>
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</thead>
<tbody>
<tr>
<td><strong>EDIBLE HORTICULTURE</strong></td>
<td></td>
</tr>
<tr>
<td>Apples and by-products</td>
<td>060</td>
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<tr>
<td><strong>Berries</strong></td>
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</tr>
<tr>
<td>Black/red currants</td>
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<tr>
<td>Blackberries</td>
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<tr>
<td>Blueberries</td>
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<tr>
<td>Cranberries</td>
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<tr>
<td>Gooseberries</td>
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<tr>
<td>Loganberries</td>
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<td>Raspberries</td>
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<tr>
<td>Saskatoon berries</td>
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<td>Strawberries</td>
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<tr>
<td>Tame elderberries</td>
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<tr>
<td><strong>Fruit</strong></td>
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<tr>
<td>Fruit juice (except apple)</td>
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<tr>
<td>Grapefruit</td>
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<tr>
<td>Grapes</td>
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<tr>
<td>Kiwi fruit</td>
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<td>Lemons</td>
<td>085</td>
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<tr>
<td>Oranges</td>
<td>086</td>
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<tr>
<td>Watermelons</td>
<td>087</td>
</tr>
<tr>
<td>Wine (except apple)</td>
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<tr>
<td><strong>Fruit – Tender</strong></td>
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</tr>
<tr>
<td>Apricots</td>
<td>091</td>
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<tr>
<td>Cherries (sweet, sour)</td>
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<tr>
<td>Nectarines</td>
<td>093</td>
</tr>
<tr>
<td>Peaches</td>
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<tr>
<td>Pears</td>
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<tr>
<td>Plums</td>
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<tr>
<td>Prunes</td>
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</tr>
<tr>
<td><strong>Herbs and Spices</strong></td>
<td></td>
</tr>
<tr>
<td>Anise</td>
<td>101</td>
</tr>
<tr>
<td>Basil</td>
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<td>Caraway seed</td>
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<td>Chives</td>
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<td>Dill</td>
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<td>Fenugreek</td>
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<td>Ginseng</td>
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<td>Marjoram</td>
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<td>Scorzonera</td>
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<td>Summer savory</td>
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<td>Tarragon</td>
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<td>Thymol</td>
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<td>Watercress</td>
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<td>Medicinal herbs</td>
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</tr>
<tr>
<td>Borage (herb)</td>
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<tr>
<td>Mushrooms (including spawn)</td>
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<tr>
<td>Nuts (all)</td>
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<tr>
<td>Potatoes and by-products</td>
<td>147</td>
</tr>
<tr>
<td>Potatoes (for potato chips)</td>
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</tr>
<tr>
<td>Potatoes (feed)</td>
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</tr>
<tr>
<td>Vegetables – Field fresh</td>
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</tr>
<tr>
<td>Artichokes</td>
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<td>Asparagus</td>
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<td>Bok choi</td>
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<td>Broccoflower</td>
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<td>Broccoli</td>
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<tr>
<td>Brussels sprouts</td>
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<tr>
<td>Cabbage (green, red)</td>
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<tr>
<td>Cantaloupe</td>
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<tr>
<td>Carrots</td>
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<td>Cauliflower</td>
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<td>Celery</td>
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<tr>
<td>Chinese cabbage</td>
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<td>Chinese vegetables</td>
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<td>Collards</td>
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<td>Cucumbers</td>
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<td>Eggplant</td>
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<td>Endive</td>
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<tr>
<td>Fiddleheads</td>
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<td>Melons</td>
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<tr>
<td>Mustard leaves</td>
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<tr>
<td>Onions</td>
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<td>Onions (yellow seeded)</td>
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<tr>
<td>Onion sets</td>
<td>189</td>
</tr>
<tr>
<td>Parsnip</td>
<td>190</td>
</tr>
<tr>
<td>Peppers (red, green, or sweet)</td>
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<td>Pumpkins</td>
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<tr>
<td>Radish</td>
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<td>Rhubarb</td>
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<tr>
<td>Rocket</td>
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<td>Romaine lettuce</td>
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<td>Rutabagas</td>
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<td>Shallots</td>
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<td>Snap beans</td>
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<td>Spanish onions</td>
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<td>Spinach</td>
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<td>Squash</td>
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<td>Sweet corn</td>
<td>203</td>
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<tr>
<td>Sweet peas</td>
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<td>Sweet potatoes/yams</td>
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<td>Swiss chard</td>
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<td>Tomatoes</td>
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<td>Turnips</td>
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<td>Vegetable marrow</td>
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<tr>
<td>Wax beans</td>
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<tr>
<td>Weeds (edible)</td>
<td>211</td>
</tr>
<tr>
<td>Witloof chicory</td>
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</tr>
<tr>
<td>Zucchini</td>
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<tr>
<td>Vegetables – Field processing</td>
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<tr>
<td>Adzuki beans</td>
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<tr>
<td>Baby carrots</td>
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</tr>
<tr>
<td>Broad beans</td>
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</tr>
<tr>
<td>Cabbage (for coleslaw only)</td>
<td>297</td>
</tr>
<tr>
<td>Cabbage</td>
<td>298</td>
</tr>
<tr>
<td>Carrots</td>
<td>219</td>
</tr>
<tr>
<td>Cauliflower</td>
<td>299</td>
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<tr>
<td>Chick peas/garbanzo beans</td>
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<tr>
<td>Cucumbers</td>
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<tr>
<td>Gherkins</td>
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</tr>
<tr>
<td>Green beans</td>
<td>222</td>
</tr>
<tr>
<td>Green peas</td>
<td>223</td>
</tr>
<tr>
<td>Jacob beans</td>
<td>224</td>
</tr>
<tr>
<td>Lima beans</td>
<td>225</td>
</tr>
<tr>
<td>Mung beans</td>
<td>226</td>
</tr>
<tr>
<td>Okra</td>
<td>227</td>
</tr>
<tr>
<td>Peppers</td>
<td>301</td>
</tr>
<tr>
<td>Pumpkins</td>
<td>302</td>
</tr>
<tr>
<td>Red beets</td>
<td>303</td>
</tr>
<tr>
<td>Snap beans</td>
<td>228</td>
</tr>
<tr>
<td>Soldier beans</td>
<td>229</td>
</tr>
<tr>
<td>Squash</td>
<td>304</td>
</tr>
<tr>
<td>Sweet corn</td>
<td>305</td>
</tr>
<tr>
<td>Stevia</td>
<td>230</td>
</tr>
<tr>
<td>COMMODITY</td>
<td>CODE</td>
</tr>
<tr>
<td>------------------------------------------------</td>
<td>------</td>
</tr>
<tr>
<td><strong>EDIBLE HORTICULTURE (continued)</strong></td>
<td></td>
</tr>
<tr>
<td>Tomatoes</td>
<td>231</td>
</tr>
<tr>
<td>Wax beans</td>
<td>306</td>
</tr>
<tr>
<td><strong>Vegetables – Greenhouse</strong></td>
<td></td>
</tr>
<tr>
<td>Cherry tomatoes</td>
<td>233</td>
</tr>
<tr>
<td>Cucumbers</td>
<td>234</td>
</tr>
<tr>
<td>Lettuce</td>
<td>235</td>
</tr>
<tr>
<td>Peppers</td>
<td>236</td>
</tr>
<tr>
<td>Tomatoes</td>
<td>237</td>
</tr>
<tr>
<td><strong>NON-EDIBLE HORTICULTURE</strong></td>
<td></td>
</tr>
<tr>
<td>Bedding plants</td>
<td>132</td>
</tr>
<tr>
<td>Flowers and ornamental foliage</td>
<td>133</td>
</tr>
<tr>
<td>Fruits and vegetables (non-edible)</td>
<td>134</td>
</tr>
<tr>
<td>Seeds and bulbs</td>
<td>135</td>
</tr>
<tr>
<td>Shrubs</td>
<td>136</td>
</tr>
<tr>
<td>Sod (peat-moss-based)</td>
<td>137</td>
</tr>
<tr>
<td>Sod (mineral-based)</td>
<td>141</td>
</tr>
<tr>
<td>Trees (cultivated Christmas)</td>
<td>138</td>
</tr>
<tr>
<td>Trees (fruit and ornamental)</td>
<td>139</td>
</tr>
<tr>
<td><strong>POULTRY</strong></td>
<td></td>
</tr>
<tr>
<td>Chickens</td>
<td></td>
</tr>
<tr>
<td>Pullets for meat production</td>
<td>360</td>
</tr>
<tr>
<td>Broilers</td>
<td>361</td>
</tr>
<tr>
<td>Roasters</td>
<td>362</td>
</tr>
<tr>
<td>Pullets for egg production</td>
<td>365</td>
</tr>
<tr>
<td>Chicken eggs</td>
<td></td>
</tr>
<tr>
<td>Chicken eggs for consumption</td>
<td>343</td>
</tr>
<tr>
<td>Broiler chicken hatching eggs</td>
<td>344</td>
</tr>
<tr>
<td><strong>Commercial game birds</strong></td>
<td></td>
</tr>
<tr>
<td>Ducks (including eggs)</td>
<td>332</td>
</tr>
<tr>
<td>Geese (including eggs)</td>
<td>333</td>
</tr>
<tr>
<td>Turkeys</td>
<td>334</td>
</tr>
<tr>
<td>Turkey eggs</td>
<td>342</td>
</tr>
<tr>
<td><strong>CATTLE AND CALVES (including hides)</strong></td>
<td></td>
</tr>
<tr>
<td>Slaughter cattle</td>
<td></td>
</tr>
<tr>
<td>Cattle raised from birth</td>
<td>702</td>
</tr>
<tr>
<td>Cows and bulls</td>
<td>706</td>
</tr>
<tr>
<td>Grain-fed veal</td>
<td>704</td>
</tr>
<tr>
<td>Purchased cattle</td>
<td>700</td>
</tr>
<tr>
<td>Feeder cattle</td>
<td></td>
</tr>
<tr>
<td>Cattle raised from birth</td>
<td>710</td>
</tr>
<tr>
<td>Purchased cattle</td>
<td>708</td>
</tr>
<tr>
<td><strong>Calves</strong></td>
<td></td>
</tr>
<tr>
<td>Calf sales (excluding purebreds)</td>
<td>712</td>
</tr>
<tr>
<td>Bull semen, cattle embryos</td>
<td>712</td>
</tr>
<tr>
<td>Non-purebred breeding stock (sold for breeding purposes)</td>
<td>712</td>
</tr>
<tr>
<td><strong>Purebreds</strong></td>
<td></td>
</tr>
<tr>
<td>Purebred cattle</td>
<td>718</td>
</tr>
</tbody>
</table>

**Note**
For information on any commodities not included in this listing, contact your Administration.
See the following lists to determine the correct code to be used for recording the payment type on Form T1163 (Statement A) or Form T1164 (Statement B).

Payments received from Program Payment List A as compensation for commodity income or loss are included in calculating your AgriStability program year production margin.

<table>
<thead>
<tr>
<th>PROGRAM PAYMENT</th>
<th>CODE</th>
</tr>
</thead>
<tbody>
<tr>
<td>BC Cull Animal Program</td>
<td>457</td>
</tr>
<tr>
<td>BC Livestock Drought Assistance Program (LDAP)</td>
<td>569</td>
</tr>
<tr>
<td>BC Negative Margin Insurance Pilot Program</td>
<td>497</td>
</tr>
<tr>
<td>BC Steer and Heifer Market Transition Program</td>
<td>496</td>
</tr>
<tr>
<td>Bovine Spongiform Encephalopathy Recovery Program (BSE)</td>
<td>468</td>
</tr>
<tr>
<td>Canadian Food Inspection Agency Compensation – non-supply managed commodities (CFIA)</td>
<td>469</td>
</tr>
<tr>
<td>Canadian Food Inspection Agency – supply managed commodities (CFIA)</td>
<td>479</td>
</tr>
<tr>
<td>Cost of Production COP</td>
<td>426</td>
</tr>
<tr>
<td>Crop Cover Protection Program</td>
<td>473</td>
</tr>
<tr>
<td>Crop/Hail insurance</td>
<td></td>
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<tr>
<td>Grains, oilseeds, and special crops</td>
<td>401</td>
</tr>
<tr>
<td>Edible horticulture crops</td>
<td>402</td>
</tr>
<tr>
<td>Non-edible horticulture crops</td>
<td>470</td>
</tr>
<tr>
<td>Other commodities, including livestock</td>
<td>463</td>
</tr>
<tr>
<td>Farm Income Payment Direct (FIP)</td>
<td>485</td>
</tr>
<tr>
<td>Farm Income Payment General (FIP)</td>
<td>484</td>
</tr>
<tr>
<td>Fed Cattle Set-Aside Program (all provinces)</td>
<td>483</td>
</tr>
<tr>
<td>Feeder Calf Set-Aside Program (all provinces)</td>
<td>482</td>
</tr>
<tr>
<td>Grain and Oilseed Program Payment (GOPP)</td>
<td>486</td>
</tr>
<tr>
<td>Insurance proceeds for allowable expense items</td>
<td>406</td>
</tr>
<tr>
<td>Manitoba Assiniboine Valley Producers Flood Assistance Program</td>
<td>564</td>
</tr>
<tr>
<td>Manitoba Cull Cow Program</td>
<td>492</td>
</tr>
<tr>
<td>Manitoba Drought Assistance Program</td>
<td>489</td>
</tr>
<tr>
<td>Manitoba Feeder Assistance Program</td>
<td>480</td>
</tr>
<tr>
<td>Manitoba Other Ruminant Industry Transitional Program</td>
<td>488</td>
</tr>
<tr>
<td>Manitoba Slaughter Deficiency Program</td>
<td>481</td>
</tr>
<tr>
<td>Nova Scotia Modified BSE Recovery Program</td>
<td>491</td>
</tr>
<tr>
<td>Nova Scotia Ruminant Industry Support Program</td>
<td>487</td>
</tr>
<tr>
<td>Ontario Juice Grape Transition Program</td>
<td>551</td>
</tr>
<tr>
<td>Ontario Special Beekeepers Fund</td>
<td>552</td>
</tr>
<tr>
<td>Saskatchewan Cull Animal Program</td>
<td>494</td>
</tr>
<tr>
<td>Saskatchewan Herd Retention Program</td>
<td>493</td>
</tr>
<tr>
<td>Saskatchewan Unseeded Acreage Support Program</td>
<td>477</td>
</tr>
<tr>
<td>Transitional Industry Support Program (TISP)</td>
<td>498</td>
</tr>
<tr>
<td>Waterfowl/Wildlife Damage Compensation</td>
<td></td>
</tr>
<tr>
<td>Grains, oilseeds, and special crops</td>
<td>418</td>
</tr>
<tr>
<td>Horticulture</td>
<td>419</td>
</tr>
<tr>
<td>Other commodities</td>
<td>425</td>
</tr>
</tbody>
</table>
Payments received from Program Payment List B as compensation for commodity income or loss are NOT included in calculating your AgriStability program year margin.

<table>
<thead>
<tr>
<th>PROGRAM PAYMENT</th>
<th>CODE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alberta Revenue Insurance Coverage</td>
<td>456</td>
</tr>
<tr>
<td>Alberta Spring Price Endorsement</td>
<td>495</td>
</tr>
<tr>
<td>Alternate Land Use Services ALUS</td>
<td>557</td>
</tr>
<tr>
<td>Canada/Manitoba Farm Stewardship Program</td>
<td>563</td>
</tr>
<tr>
<td>Canada–Ontario Grain and Oilseed Payment</td>
<td>410</td>
</tr>
<tr>
<td>Canada–Ontario Grain Stabilization Payment</td>
<td>410</td>
</tr>
<tr>
<td>Canadian Agricultural Skills Service CASS</td>
<td>561</td>
</tr>
<tr>
<td>Canadian Farm Business Advisory Service CFBAS</td>
<td>562</td>
</tr>
<tr>
<td>Canadian Farm Families Options Program</td>
<td>420</td>
</tr>
<tr>
<td>CAIS Inventory Transition Initiative (CITI)</td>
<td>421</td>
</tr>
<tr>
<td>Dairy subsidies</td>
<td>435</td>
</tr>
<tr>
<td>Green Plan, Farm-Based Program</td>
<td></td>
</tr>
<tr>
<td>Permanent cover practices</td>
<td>466</td>
</tr>
<tr>
<td>Industry Transition Production Assistance Program</td>
<td>478</td>
</tr>
<tr>
<td>Manitoba Farmland School Tax Rebate Program</td>
<td>556</td>
</tr>
<tr>
<td>Market Revenue Insurance (MRI)</td>
<td></td>
</tr>
<tr>
<td>Grains, oilseeds, and special crops</td>
<td>410</td>
</tr>
<tr>
<td>Edible horticulture crops</td>
<td>411</td>
</tr>
<tr>
<td>Non-edible horticulture crops</td>
<td>474</td>
</tr>
<tr>
<td>Nova Scotia Hog Transition Program</td>
<td>555</td>
</tr>
<tr>
<td>Nova Scotia Margin Enhancement Program</td>
<td>554</td>
</tr>
<tr>
<td>Ontario Cost Recognition Top-Up</td>
<td>553</td>
</tr>
<tr>
<td>Ontario Edible Horticulture Crop Payment</td>
<td>475</td>
</tr>
<tr>
<td>Ontario Grain and Oilseed Program Payment</td>
<td>471</td>
</tr>
<tr>
<td>Ontario Inventory Transition Payment</td>
<td>441</td>
</tr>
<tr>
<td>Ontario Risk Management Program</td>
<td>565</td>
</tr>
<tr>
<td>Production Insurance premium adjustment (PI)</td>
<td>499</td>
</tr>
<tr>
<td>Special Farm Assistance</td>
<td>560</td>
</tr>
<tr>
<td>Transitional Financial Assistance Program (TFA)</td>
<td>427</td>
</tr>
<tr>
<td>Young Farmer Rebate</td>
<td>559</td>
</tr>
</tbody>
</table>
Capital Cost Allowance (CCA) Rates

In this list, you will find the more common depreciable properties a farming business may use. The CCA rates appear at the end of the list. For details on the CCA rates for Class 13, Class14, Class34, Class 43.1, and Part XVII of the Income Tax Act, call our Business Enquiries line at 1-800-959-5525.

Depreciable property | Class No. | Depreciable property | Class No.
Aircraft — Acquired before May 26, 1976 | 16 | Harness | 10
Aircraft — Acquired after May 25, 1976 | 9 | Harrows | 8
Automobiles | 10 | Hay balers and stookers | 8
Bee equipment | 8 | Drawn | 8
Boats and component parts | 7 | Self-propelled | 10
Breakwaters | 3 | Hay loaders | 8
Cement or stone | 3 | Ice machines | 8
Wood | 6 | Incubators | 8
Brooders | 8 | Irrigation equipment — Overhead | 8
Buildings and component parts | 8 | Irrigation ponds | 6
Wood, galvanized, or portable | 6 | Leasehold interest | 13
Other: | | Manure spreaders | 8
Acquired after 1978 and before 1988 | 1 | Milking machines | 8
Acquired after 1987** | 1 | Mixers | 8
Agricultural buildings | 25% | Mowers | 8
Acquired before 2005 | 10 | Nets | 8
Agricultural equipment | 3 | Office equipment including photocopiers, fax machines | 8
Acquired after 1978 and before 1988* | 3 | Outboard motors | 10
Acquired after 1978 and before 1988 | 3 | Passenger vehicles (see Chapter 3) | 10 or 10.1
Aircraft — Acquired after May 25, 1976 | 9 | Piping — Permanent | 2
Aircraft — Acquired after May 25, 1976 | 9 | Planters — All types | 8
Aircraft — Acquired after March 22, 2004 | 45 | Ploughs | 8
Aircraft software | 45 | Pumps | 8
Air conditioners | 8 | Rakes | 8
Acquired after March 22, 2004 | 45 | Roads or other surface areas — Paved or concrete | 17
Engines | 8 | Silo fillers | 8
Stations | 8 | Silos | 8
Engines | 8 | Sleighs | 10
Stationary | 8 | Sprayers | 8
Engines | 8 | Stable cleaners | 8
Stationary | 8 | Stalk cutters | 8
Elevators | 8 | Swathers | 8
Drills — All types | 8 |
Drills | 8 |
Drills — All types | 8 |
Dugouts, dikes, and lagoons | 3 |
Dugouts, dikes, and lagoons | 3 |
Electric generating equipment — portable | 8 |
Electric motors | 8 |
Electric motors | 8 |
Engine equipment | 6 |
Engine equipment | 6 |
Forage harvesters | 8 |
Forage harvesters | 8 |
Graders — Fruit or vegetable | 8 |
Graders — Fruit or vegetable | 8 |
Grain-drying equipment | 8 |
Grain-drying equipment | 8 |
Grain handling equipment | 8 |
Grain handling equipment | 8 |
Grain separators | 8 |
Grain separators | 8 |
Grain storage building | 6 |
Grain storage building | 6 |
Wood, galvanized steel | 6 |
Wood, galvanized steel | 6 |
Other | 1 |
Other | 1 |
Greenhouses (all except as noted below) | 8 |
Greenhouses (all except as noted below) | 8 |
Greenhouses of rigid frames covered with replaceable flexible plastic | 8 |
Greenhouses of rigid frames covered with replaceable flexible plastic | 8 |
Grinder | 8 |
Grinder | 8 |
* You may add to or alter a Class 3 building after 1987. In this case, there is a limit on the amount you can include in Class 3. The most you can include in Class 3 is the lower of $500,000 or 25% of the building’s cost on December 31, 1987. In Class 1, include any costs you incur that are over this limit. ** See page 45 for information on proposed changes to Class 1 rates.

Class | Rates | Class | Rates
Class 1 | 4% | Class 10 | 30%
Class 2 | 6% | Class 10.1 | 30%
Class 3 | 5% | Class 12 | 100%
Class 6 | 10% | Class 16 | 40%
Class 7 | 15% | Class 17 | 8%
Class 8 | 20% | Class 45 | 45%
Class 9 | 25% | Class 46 | 30%

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For instructions on how to complete the following charts, see page 36 in Chapter 3.

Chart 1
Cash cost of purchased inventory
Enter the amount you paid by the end of the 2007 fiscal period for the specified animals you bought:

<table>
<thead>
<tr>
<th>Fiscal period</th>
<th>Cash cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>■ in your 2007 fiscal period</td>
<td>$ _______ A</td>
</tr>
<tr>
<td>■ in your 2006 fiscal period</td>
<td>$ _______ B</td>
</tr>
<tr>
<td>■ in your 2005 fiscal period</td>
<td>$ _______ C</td>
</tr>
<tr>
<td>■ in your 2004 fiscal period</td>
<td>$ _______ D</td>
</tr>
<tr>
<td>■ before your 2004 fiscal period</td>
<td>$ _______ E</td>
</tr>
</tbody>
</table>

Enter the amount you paid by the end of your 2007 fiscal period for all other inventory you bought:

<table>
<thead>
<tr>
<th>Fiscal period</th>
<th>Cash cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>■ in your 2007 fiscal period</td>
<td>$ _______ F</td>
</tr>
<tr>
<td>■ in your 2006 fiscal period</td>
<td>$ _______ G</td>
</tr>
<tr>
<td>■ in your 2005 fiscal period</td>
<td>$ _______ H</td>
</tr>
<tr>
<td>■ in your 2004 fiscal period</td>
<td>$ _______ I</td>
</tr>
<tr>
<td>■ before your 2004 fiscal period</td>
<td>$ _______ J</td>
</tr>
</tbody>
</table>

Chart 2
Value of purchased inventory for specified animals

Inventory bought in your 2007 fiscal period
Enter an amount that is not more than the amount on line A but not less than 70% of this amount. $ _______ K

Inventory bought in your 2006 fiscal period
Enter an amount that is not more than the amount on line B, but not less than 70% of the total of the value at the end of your 2006 fiscal period plus any amounts you paid in your 2007 fiscal period toward the purchase price. $ _______ L

Inventory bought in your 2005 fiscal period
Enter an amount that is not more than the amount on line C, but not less than 70% of the total of the value at the end of your 2006 fiscal period plus any amounts you paid in your 2007 fiscal period toward the purchase price. $ _______ M

Inventory bought in your 2004 fiscal period
Enter an amount that is not more than the amount on line D, but not less than 70% of the total of the value at the end of your 2006 fiscal period plus any amounts you paid in your 2007 fiscal period toward the purchase price. $ _______ N

Inventory bought before your 2004 fiscal period
Enter an amount that is not more than the amount on line E, but not less than 70% of the total of the value at the end of your 2006 fiscal period plus any amounts you paid in your 2007 fiscal period toward the purchase price. $ _______ O

Chart 3
Value of purchased inventory for all other inventory

<table>
<thead>
<tr>
<th>Inventory bought</th>
<th>Value of inventory</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007 fiscal period</td>
<td>Enter the amount on line F or the fair market value, whichever is less. $ _______ P</td>
</tr>
<tr>
<td>2006 fiscal period</td>
<td>Enter the amount on line G or the fair market value, whichever is less. $ _______ Q</td>
</tr>
<tr>
<td>2005 fiscal period</td>
<td>Enter the amount on line H or the fair market value, whichever is less. $ _______ R</td>
</tr>
<tr>
<td>2004 fiscal period</td>
<td>Enter the amount on line I or the fair market value, whichever is less. $ _______ S</td>
</tr>
<tr>
<td>Before 2004 fiscal period</td>
<td>Enter the amount on line J or the fair market value, whichever is less. $ _______ T</td>
</tr>
</tbody>
</table>

Chart 4
Calculation of MIA

Enter the amount of your net loss from line 9969 of Form T1163 (Statement A) or T1164. $ _______ U

Enter the value of your inventory from Chart 2 and Chart 3:

<table>
<thead>
<tr>
<th>Inventory</th>
<th>Value of inventory</th>
</tr>
</thead>
</table>
| K | $ _______
| L | $ _______
| M | $ _______
| N | $ _______
| O | $ _______
| P | $ _______
| Q | $ _______
| R | $ _______
| S | $ _______
| T | $ _______

Total value of inventory $ _______ $ _______ V

MIA – enter the amount on line U or line V, whichever is less. $ _______ W
Farm goods and services subject to GST or HST include:
- crop dusting;
- contract work, including field clearing, tilling, harvesting done by one farmer on behalf of another;
- road-clearing services;
- stud or artificial insemination services;
- storing goods (i.e., storing grain in a grain elevator);
- beeswax;
- maple sugar candy;
- canary seed, lawn seed, and flower seed;
- bedding plants, sod, cut flowers, living trees, and firewood;
- furs, animal hides, and dead animals not suitable for human consumption;
- fertilizer in bulk quantities of less than 500 kg, or any quantities of soil or soil mixture whether or not it contains fertilizer;
- gravel, stones, rock, soil, and soil additives;
- livestock or poultry not normally raised as food or to produce food for human consumption (i.e., horses, mules, rabbits, exhibition poultry, and mink); and
- processed wool, feathers, and down.

Many farm products and purchases, such as milk sales and feeder-cattle purchases, are taxable, but at 0%. We refer to these as zero-rated. You do not pay GST/HST when you buy these products and you do not charge GST/HST when you sell them to your customers.

**Zero-rated** farm products are:
- fruit and vegetables;
- grains or seeds in their natural state, treated for seeding purposes or irradiated for storage purposes, hay or silage, or other fodder crops, when they are sold in quantities larger than ordinarily offered for sale to consumers, except grains and seeds sold to use as feed for wild birds or pet food;
- feed sold by a feedlot operator, as long as the price is separately identified on the invoice or written agreement;
- hops, barley, flaxseed, straw, sugar cane, or sugar beets;
- livestock such as cattle, hogs, poultry, bees, or sheep that are raised or kept to produce food, or to be used as food, for human consumption, or to produce wool;
- poultry or fish eggs that are produced for hatching;
- rabbits, except those that are to be sold as pets;
- frozen, salted, smoked, dried, scaled, eviscerated or filleted fish, or seafood sold for human consumption;
- fertilizer sold in individual bags of at least 25 kg when the total quantity is at least 500 kg;
- wool that is not further processed than washed; and
- tobacco leaves that are not further processed than dried and sorted.

**Zero-rated** farm purchases are:
- large farm tractors (60 PTO hp. and over);
- pull and self-propelled combines, swathers, and wind-rowers;
- headers for combines, forage harvesters, swathers or wind-rowers;
- combine or forage harvester pickups;
- forage harvesters, and self-propelled, tractor-mounted, or pull-type mechanical fruit or vegetable pickers or harvesters;
- mouldboard and disc ploughs (3 or more furrows), and chisel ploughs and subsoil chisels (at least 8 feet or 2.44 metres);
- discers, rod weeder, or bean rods (at least 8 feet or 2.44 metres);
- field and row crop cultivators (at least 8 feet or 2.44 metres);
- combination discer-cultivators (at least 8 feet or 2.44 metres);
- roto tillers and roto vators (at least 6 feet or 1.83 metres);
- harrows sold in complete units and pulverizers (at least 8 feet or 2.44 metres);
- land packers, mulchers, and rotary hoes (at least 8 feet or 2.44 metres);
- airflow seeders, grain and seed drills (at least 8 feet or 2.44 metres), and farm-type row-crop or toolbar seeders or planters designed to seed two or more rows at a time;
- mow conditioners, hay balers, hay cubers, hay rakes, hay conditioners, hay crushers, hay crimpers, hay tedders, swath turners, and wind-row turners;
- bale throwers, elevators, or conveyors, silage baggers and round bale wrapping machines;
- grain bins or tanks with a capacity of 181 m$^3$ or less (5,000 bushels);
- transportable grain augers, utility augers, elevators and transportable conveyors with belts less than 76.2 cm (30 inches) wide and 0.48 cm (3/16 inch) thick;
- bin sweep or cleaner attachments for portable grain augers;
- tractor-powered pneumatic grain conveyors;
- feed mills, including roller mills and hammer mills;
- feed mixers, grinders, grinder mixers, and tub grinders;
- ensilage mixers, and self-propelled feed or ensilage carts;
- grain toasters to use in livestock feed production;
- grain dryers;
- farm bulk milk coolers;
- assembled and fully operational milking systems or individual components of these systems;
- automated and computerized farm livestock or poultry feeding systems or individual components of these systems;
- self-propelled, tractor-mounted, or pull-type agricultural wagons or trailers designed for off-road handling and transporting of grain, forage, livestock feed, or fertilizer, and to be used at speeds not exceeding 40 km per hour;
- mechanical rock or stone pickers, rock or root rakes, and rock or root wind-rowers, forage blowers, silo unloaders, and shredders with an operational width of at least 3.66 m or 12 feet;
- tractor-mounted, self-propelled, or pull-type field sprayers with tank capacities of at least 300 litres or 66 gallons;
- granular fertilizer or pesticide applicators with an operational capacity of at least 0.2265 m$^3$ or 8 cubic feet;
- liquid box, tank, or flail manure spreaders and injection systems for liquid manure spreaders;
- leafcutter bees;
- complete feeds, supplements, micro-premixes, macro-premixes, and mineral feeds other than trace mineral salt feeds, labelled in accordance with the Feeds Regulations, and designed for rabbits or a specific type of farm livestock, fish, or poultry ordinarily raised or kept for human consumption or to produce wool, and sold in bulk quantities or bags of 20 kg or more;
- feed sold in bulk quantities or bags of 20 kg or more and designed for ostriches, rheas, emus, or bees;
- food processing by-products sold in bulk quantities or bags of 20 kg or more and used as feed or as ingredients in feed for farm livestock, fish, or poultry that is ordinarily raised or kept for human consumption or to produce wool, or for rabbits, ostriches, rheas, emus, or bees;
- pesticides used for agricultural purposes labelled by the Pest Control Products Regulations and not designed for domestic use;
- sales of quotas between farmers for zero-rated products (including dairy, turkey, chicken, eggs, and tobacco leaves); and
- farmland rented to a registrant under a sharecropping arrangement, where a share of the production that is zero-rated is part of the price (any other extra payments are taxable).

GST/HST registrants can claim an input tax credit for the GST/HST they paid or owe for expenses used to provide taxable goods and services at the rates of 0%, 6%, and 14% (0%, 7%, and 15% before July 1, 2006).

A limited number of goods and services you purchase are exempt from GST/HST. Since you do not pay GST/HST on these goods and services, there is no input tax credit to claim.

Examples of exempt goods and services include:
- insurance services sold by insurance companies, agents, or brokers;
- most services provided by financial institutions, such as arranging loans or mortgages; and
- most health, medical, and dental services.

For more information about GST/HST, see Guide RC4022, General Information for GST/HST Registrants.
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