Wheatland Kernels

From Wheatland Accounting Services Ltd.

Visit our website at www.wheatlandaccounting.com **Winter 2014**

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Presidents Message

Another year is behind us and the new-year has begun with several new accomplishments for Wheatland Accounting. We were very excited to say that at the 60 day point of our 90 day efficiency challenge, our team was listed in the top ten firms (7th place) for work turnaround and other measures of efficiency. Being that this challenge includes firms from Australia, New Zealand, Europe and USA we were very surprised and honored to have reached that mark! This is an indication of the dedication and enthusiasm our team members put into their work.

Another first for us was compiling and presenting a workshop on "Understanding Corporations". On two separate days in January a total of 31 people participated in our workshop, and from the evaluations that were filled out they seemed to find the subject matter very helpful. We plan to offer this workshop again towards the end of the year if anyone would have liked to participate and was unable to attend. We also hope to put together other seminars on different topics of interest to farmers for next winter as well and would appreciate your input as to what might be of interest to you.

Now we are gearing up for our 32nd tax season! I attended a taxation update seminar this last week in Saskatoon and then we have our own in house tax update for our team in early February. We encourage you to get your information to us as early as you can, as we expect to process a record number of returns again this year.

The Wheatland team wishes you a happy and prosperous new year and at this time we want to thank our clients for trusting us to advise you in accounting, planning and taxation. The highest compliment we can receive is a referral!

Kelvin Shultz RPA CAFA

Important Deadlines!

February 28
T4 & T5 Filling
March 3
RRSP Purchase
March 30
Deadline to change GST reporting period from monthly, quarterly or annually
March 31
T3 Deadline
March 31
Trust Return Filling (or 90 days from the year end of trust)
April 30
Final day to cancel or change AgriStability for 2014

Please have all personal tax documents in by April 15th to ensure your return can be completed by April 30th.

Please Forward your 2012 Notice of Assessment with your Tax Information!

Your 2012 notice of assessment will confirm RRSP contribution room, tuition, education and textbook amount carry forward, unused capital losses carried forward, TFSA contribution room, refund interest to report, and a host of other information that we may use for your 2013 return.

For new clients, the Notice of Assessment also shows the name and address on file with CRA; this will ensure we report the same information CRA has on file. RRSP contribution room can change unexpectedly when there is a Past Service Pension Adjustment (contribution room reduced) or a Pension Adjustment Reversal (contribution room increases). The Notice of Assessment will alert us to this, allowing us to update our records and advise you of your options before too much time has elapsed.

2013 Tax Changes:

Basic personal, spousal and spousal equivalent amounts increased:
Provincial—$15,241
Federal—$11,038
Child amounts Increased:
Provincial— $5,782
Federal— $2,234

Office Hours

Monday-Friday 9-5

Closed from

12:00-1:00

Clients that send in their 2013 tax information in the tax envelopes before April 1, 2014 will be entered into a draw for a $100 credit to Wheatland.

Payroll Tip:

A T4 must be filed for all individuals who received remuneration from you that is more than $500.

What are OIA and MIA and when are they used?

There are two income averaging tools available to farmers. First is the Optional Inventory Adjustment (OIA). If farm income is below the optimum amount in any year, this feature allows you to add to your income for any amount up to the value of inventory on hand. This effectively pre taxes unsold inventory, and becomes a deduction in the following year. You would use this in cases where the farm is in a loss and you have no other taxable income to apply the loss against. As well, if you don't have enough income to utilize your non-refundable tax credits you could use this adjustment to increase your income and utilize those credits. Finally, if you expect a high income next year it may be used just to top up the bottom 26% tax bracket this year, and use as a deduction in the next year when you may be at a higher rate.

The second tool is somewhat similar to OIA but instead of being optional it is mandatory to use. It is referred to as the Mandatory Inventory Adjustment (MIA). MIA only comes into play when the farm is in a loss, and you have purchased inventory on hand at the end of the year. This forces you to add purchased inventory back into income. The value of purchased inventory includes, pre purchased crop inputs, purchased livestock in your herd, purchased feed and pre purchased fuel. This feature makes it of no value to increase a loss by pre purchasing inputs or buying livestock so that you can write off your farm loss against other income. As with OIA the amount you add into income in one year will be a deduction in the next.

Do the Shares of your Farm Corporation Qualify for the Rollover and Capital Gains Exemption?

It is often quite a shock to farm couples to realize that if they deceased today, the shares of their farm corporation would not qualify to roll tax free to their children! In addition to this, they may not qualify for the capital gains exemption either. This over sight could cost their estate thousands of dollars in tax that could have been avoided.

The trap that often catches shareholders unaware is the requirement that 90% or more of the assets of the corporation must be "farming assets". I hear you say, "that would never affect me, because farming is all my corporation consists of." Be careful, as there are some hidden traps that can put your corporation offside of these very favorable tax benefits for farmers. Here are some items that are not considered "farm assets."

- Excess cash or investments over and above what is required to operate your farm.
- Land that has been rented out.
- Equipment used more than 50% of the time for custom work or rented out. e.g. sprayer, combine, seed cleaning plant, manure spreader, semi tractor and trailer.

So if the fair market value of any of the above items alone or in combination with another of these items exceeds 10% of the total value of the assets of your corporation, your shares will not be eligible for a tax-free rollover to your children. Furthermore they may also not qualify for the Capital Gains Exemption due to another set of rules quite similar to this one.

What can you do to correct this situation if it exists in your corporation? If the problem is excess cash you can do some of the following to correct this:

- If you hold a shareholder loan, you can remove these funds tax free
- File the election to pay a capital dividend out of your capital dividend account, if you have one – this is also a tax free way to get funds out of the corporation and into your hands
- Purchase farm assets, this will turn excess cash into a farming asset
- Form a holding company to hold the excess cash and investments
- If the culprit is your seed cleaning business that is used more than 50% of the time cleaning for other farmers, consider setting up another corporation for the custom seed cleaning business so that your main corporation qualifies for the rollover.

If you suspect that your corporation may not pass the 90% farming asset test, please talk to us about it so we can determine the best way to resolve the problem.