



What You Need to Know About Sharecropping

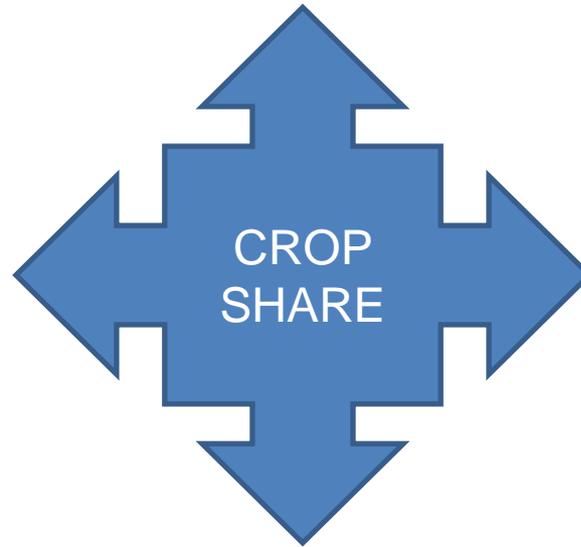


**BRITISH COLUMBIA
GRAPEGROWERS'
ASSOCIATION**

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INCOME TAX

AGRI-STABILITY /
AGRI-INVEST



BC ASSESSMENT

GST / HST

Why is it Important ?

INCOME TAX

- Tax rate (active vs. Inactive income)
- Cash-basis reporting
- Losses (restricted)
- Eligibility for lifetime capital gains exemption & inter-generational rollover

GST / HST

- Does HST apply on “rent”?

AGRI-STABILITY / AGRI-INVEST

- Program eligibility
- Farming is eligible, rent is not

BC ASSESSMENT

- Eligibility for farm status
- Rate of tax

What is a Crop Share Arrangement?

Defined a little differently depending of the purpose

- Income tax
- GST/HST
- AgriStability/AgriInvest or
- BC Assessment

Is Sharecropping Farming?

- Depends on the purpose you are looking at and the corresponding definition
- Same facts can produce a different answer for different purposes

Income Tax

CRA IT-433R

- Sharecropping is “an arrangement where a taxpayer or landlord receives from a tenant a share of crop in lieu of rent”

INCOME TAX

BUT....

CRA says sharecropping could be considered farming

IF...

the sharecropper is actually like an employee of the landowner

INCOME TAX

Employer / Employee

- Landowner still active in the operation and makes decisions
- Landowner oversees “employee”
- Landowner provides equipment and pays expenses

INCOME TAX

GST/HST

“Sharecropping is a system of agricultural production in which farmland is supplied by way of lease, licence, or similar arrangement to a tenant who farms the land, in return for a portion of the crops grown on the property. “

GST/HST Policy Statement P-253

GST / HST

Cash Rent

- = rental income
- Commercial activity
- Landowner must collect & remit HST

GST / HST

Zero-rated for HST if...

Zero-rated =

- HST applies but rate = 0%
 - Can claim ITC for GST/HST paid on related expenses
1. Lease, licence or similar arrangement;
 2. Tenant is a GST/HST registrant;
 3. Consideration (or portion thereof) is a share of the production from the land; AND
 4. Supply of the crop produced is zero-rated (agricultural produce)

GST / HST

AgriStability / AgriInvest

- No distinction between cash rent or crop share
- Considered rental income to the land owner and non-eligible UNLESS...
 - “There is a true proportional sharing of crop income and allowable expenses” (such as labour, fertilizer, chemicals)
- Tenant would be eligible if other criteria met

AGRI-STABILITY /
AGRI-INVEST

BC Assessment

- Fact Sheet “Classifying Land Leased to Farmers”
- To qualify for farm classification:
“Land leased to a farmer must make a reasonable contribution to the farm operation”
- “Income Requirement”

BC ASSESSMENT

If tenant farms other property...

- contribution of land in question to tenant's entire operation must be considered
- Tenant's entire farm must meet income requirement (see BC Assessment "Classifying Farm Land" fact sheet)

BC ASSESSMENT

If tenant does not farm other property...

The primary agricultural production of the leased property must meet the income requirement

BC ASSESSMENT

BC Assessment

- Crop share arrangements are eligible as long as other criteria are met
- Lease Agreement:
 - Must be filed with BC Assessor
 - Include legal description of land, lease commencement, termination and signing dates, size of the leased area, intended use and rent or other compensation to be paid

BC ASSESSMENT

Example #1 - Facts

Joe Merlot owns a 5 acre vineyard and has grown grapes for many years for ABC Winery. This year he has decided he is getting too old for farming on his own & has entered in to an agreement with his neighbour. The neighbour will provide most of the labour in exchange for 50% of the crop. Joe will still make most of the decisions and they will share equipment and input costs.

Example #1 - Analysis

Is Joe still farming?

- *Since Joe is still taking an active role in the vineyard management sharing proportional in costs. He would still be considered to be farming.*
- *This is a crop share for HST, so Joe will not have to collect and remit HST on the neighbour's share of the crop value (it is zero-rated).*
- *Since there is a proportional sharing of eligible income & expenses, both Joe and the neighbour should be eligible for participation in AgriStability / AgriInvest.*
- *Since the land is still being farmed, Joe's vineyard will still maintain its farm status for property tax purposes (assuming that Joe files a copy of the Agreement with the BC Assessment Branch).*

Example #2 - Facts

Alice Albertan has just purchased a house and vineyard in Naramata and needs help farming the property. She enters in to an agreement with Steve Shiraz to help teach her the viticulture in exchange for \$1,500/month and a 10% share of the crop value. Alice will pay all the expenses, provide the equipment and set Steve's hours of work.

Example # 2 - Analysis

Is Alice farming?

- *Alice is actively involved and the relationship with Steve is similar to an employee employer relationship, so a good case can be made for both income tax and AgriStability/AgriInvest purposes that Alice is farming.*
- *Assuming the income test is met, Alice's vineyard should qualify for farm status.*

Is Steve farming?

- *If Steve farms his own property, then a case can be made that the income from Alice is ancillary to his farm business and should be included in his farm income.*
- *If Steve does not do any farming, then the income is likely regular business income.*
- *Steve must charge Alice HST on the \$1,500/month, but the 10% crop share would be zero-rated since it consists of agricultural produce.*

Example # 3 - Facts

Larry Lifestyle owns an estate home surrounded by a 2 acre vineyard. He has no interest in farming, but does not like high property taxes. He agrees to lease the property to Gary Grower for \$5,000 plus 75% of the crop value. Gary will pay all input costs and use his own equipment.

Example # 3 - Analysis

Is Larry farming?

- *This very much a straight rental arrangement. The fact that Larry will receive a share of the crop in lieu of a portion of the rent does not change the nature of the arrangement - this is rental income, not farming income, to Larry.*
- *The cash portion of the rent is subject to HST. The crop share portion would be zero-rated.*
- *There is no proportional sharing of eligible expenses, so Larry would not be eligible for AgriStability or AgrilInvest.*
- *The land is being farmed, so assuming that Gary's entire operation meets the income requirement, then the vineyard portion of Larry's land should be eligible for farm status.*

Example # 3 - Analysis

Is Gary farming (assuming this is the only land he farms)?

- *Gary makes all the decisions, pays the expenses and provides the equipment. Despite the fact the crop is shared with Larry, Gary is farming for tax purposes.*
- *Gary would be eligible for AgriStability and AgriInvest. He would report 100% of the crop value as eligible income and would report both the cash rent and the value of the crop share as rent expense (an ineligible expense).*



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With almost 20 years of experience, Geoff works closely with his clients to develop tax-efficient business structures, tax-minimizing strategies and effective tax-compliance services. He also takes great pride in assisting owner-managers with the implementation of systems and strategies to help them gain control of their businesses and reduce the amount of time consumed by day-to-day operational issues.



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