



Canada Revenue  
Agency

Agence du revenu  
du Canada

# Farming Income

Includes Form T2042

# 2015

## Is this guide for you?

Use this guide if you earned income as a **sole proprietor (unincorporated, self-employed individual)** farmer or as a partner of a farming partnership. It will help you calculate the farming income to report on your 2015 income tax return.

If you are participating in the AgriStability and AgriInvest programs, you have to use the applicable guide:

- If you are an AgriStability and AgriInvest participant in Quebec, use this guide for your income tax return and contact La Financière agricole du Québec at **1-800-749-3646** about AgriStability and AgriInvest participation.

- If you are an AgriStability and AgriInvest participant in Alberta, Ontario, Saskatchewan, or Prince Edward Island, use Guide RC4060, *Farming Income and the AgriStability and AgriInvest Programs*.
- If you are an AgriStability and AgriInvest participant in the rest of Canada, use Guide RC4408, *Farming Income and the AgriStability and AgriInvest Programs Harmonized Guide*.

Throughout this guide, we refer to other guides, forms, income tax folios, archived interpretation bulletins, and information circulars. Generally, if you need any of these, go to [www.cra.gc.ca/forms](http://www.cra.gc.ca/forms). You may want to bookmark this address for easier access to our website in the future. For more information on archived content of interpretation bulletins, go to [www.cra.gc.ca/menu/rchvt-eng.html](http://www.cra.gc.ca/menu/rchvt-eng.html).

Unless otherwise noted, all legislative references are to the *Income Tax Act* and the *Income Tax Regulations*.

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This guide uses plain language to explain the most common tax situations. If you need help after you read this guide, call our Business Enquiries line at **1-800-959-5525**.

La version française de ce guide est intitulée *Revenus d'agriculture*.

## What's new for 2015?

### Lifetime capital gains exemption

The lifetime capital gains exemption (LCGE) for qualified farm or fishing property (QFFP) sold after April 20, 2015, increases to \$1,000,000. For more information, see "Cumulative capital gains deduction" on page 51.

### Agricultural cooperatives

The temporary deferral of tax on patronage dividends paid by an agricultural cooperative corporation in the form of eligible shares is extended in respect of eligible shares issued before 2021.

### Small business job credit

A new Small business job credit (SBJC) will refund small businesses that pay total employment insurance (EI) premiums of \$15,000 or less to lower their premiums by nearly 15% in 2015 and 2016 tax years. The CRA will calculate the credit once the employer's T4 information return for the relevant year has been processed. For more information on this tax measure, go to [www.cra.gc.ca/sbjc](http://www.cra.gc.ca/sbjc).

# Table of contents

	Page		Page
<b>Definitions</b> .....	5	Replacement property .....	47
<b>Chapter 1 – General information</b> .....	6	Eligible capital property of a deceased taxpayer .....	47
Farming income .....	6	<b>Chapter 6 – Farm losses</b> .....	47
How to report your farming income .....	6	Non-deductible farm losses .....	47
Business records .....	8	Fully deductible farm losses .....	47
Benefits of keeping complete and organized records .....	8	Restricted farm losses (partly deductible) .....	48
Consequences of not keeping adequate records .....	8	Non-capital losses .....	49
Income records .....	8	<b>Chapter 7 – Capital gains</b> .....	49
Expense records .....	8	Restricted farm losses .....	51
Time limits for keeping records .....	8	Qualified farm or fishing property and cumulative capital gains deduction .....	51
Instalment payment .....	9	What is qualified farm or fishing property? .....	51
Dates to remember .....	9	Cumulative capital gains deduction .....	51
Employment Insurance (EI) benefits for self-employed persons .....	9	Real property or eligible capital property .....	52
Goods and services tax/harmonized sales tax (GST/HST) registration .....	9	Transfer of farm property to a child .....	52
What is a partnership? .....	10	Transfer of farm property to a child if a parent dies in the year .....	53
<b>Chapter 2 – Income from farming</b> .....	11	Transfer of farm property to a spouse or common-law partner .....	54
Sole proprietorships .....	11	Other special rules .....	54
Partnerships .....	11	Reserves .....	54
How to fill in Form T2042, <i>Statement of Farming Activities</i> .....	12	Exchanges or expropriations of property .....	54
Identification .....	12	Information reporting of tax avoidance transactions .....	54
Internet business activities .....	13	<b>Capital cost allowance (CCA) rates</b> .....	56
Farming income .....	13	<b>How to calculate the mandatory inventory adjustment (MIA)</b> .....	57
<b>Chapter 3 – Expenses</b> .....	17	<b>GST/HST</b> .....	58
Details of other partners .....	32	<b>Online services</b> .....	60
Details of equity .....	32	My Account .....	60
<b>Chapter 4 – Capital cost allowance (CCA)</b> .....	32	MyCRA – the web app for individual taxpayers on the go .....	60
What is CCA? .....	32	Handling business taxes online .....	60
Available for use rules .....	32	Receiving your CRA mail online .....	60
How much CCA you can claim .....	33	Authorizing the withdrawal of a pre-determined amount from your bank account .....	60
How to calculate your CCA .....	33	Electronic payments .....	60
Classes of depreciable property .....	36	<b>For more information</b> .....	61
Special situations .....	39	What if you need help? .....	61
Personal use of property .....	39	Direct deposit .....	61
Changing from personal to business use .....	39	Forms and publications .....	61
Grants, subsidies, and rebates .....	40	Electronic mailing lists .....	61
Non-arm’s length transactions .....	40	Tax Information Phone Service (TIPS) .....	61
Special rules for disposing of a building in the year ..	41	Teletypewriter (TTY) users .....	61
Replacement property .....	43	Service complaints .....	61
<b>Chapter 5 – Eligible capital expenditures</b> .....	43	Reprisal complaint .....	61
What is an eligible capital expenditure? .....	43	Tax information videos .....	61
What is an annual allowance? .....	44	<b>Index</b> .....	62
What is a cumulative eligible capital (CEC) account? .....	44		
How to calculate your annual allowance .....	44		
Sale of eligible capital property – 2015 fiscal period .....	44		
Farming income from the sale of eligible capital property eligible for the capital gains deduction .....	45		
Election .....	47		

## Definitions

**Arm's length** – refers to a relationship or a transaction between persons who act in their separate interests. An arm's length transaction is generally a transaction that reflects ordinary commercial dealings between parties acting in their separate interests.

"Related persons" are not considered to deal with each other at arm's length. Related persons include individuals connected by blood relationship, marriage, common-law partnership or adoption (legal or in fact). A corporation and another person or two corporations may also be related persons.

"Unrelated persons" may not be dealing with each other at arm's length at a particular time. Each case will depend upon its own facts. The following criteria will be considered to determine whether parties to a transaction are not dealing at arm's length:

- whether there is a common mind which directs the bargaining for the parties to a transaction;
- whether the parties to a transaction act in concert without separate interests; "acting in concert" means, for example, that parties act with considerable interdependence on a transaction of common interest; or
- whether there is de facto control of one party by the other because of, for example, advantage, authority or influence.

For more information, see Income Tax Folio S1-F5-C1, *Related persons and dealing at arm's length*.

**Available for use** – generally, the **earlier of**:

- the time the property is first used by the claimant to earn income; and
- the time the property is delivered or is made available to the claimant and is capable of producing a saleable product or service.

For more information, see "Available for use rules" on page 32.

**Capital cost** – the amount on which you first claim capital cost allowance (CCA). The capital cost of a property is usually the total of:

- the purchase price (not including the cost of land, which is not depreciable);
- the part of your legal, accounting, engineering, installation, and other fees that relate to buying or constructing the property (not including the part that applies to land);
- the cost of any additions or improvements you made to the property after you acquired it, if you did not claim these costs as a current expense (such as modifications to accommodate persons with disabilities); and
- for a building, soft costs (such as interest, legal and accounting fees, and property taxes) related to the period you are constructing, renovating, or altering the building, if these expenses have not been deducted as current expenses.

**Capital cost allowance (CCA)** – the deduction you can claim over a period of several years for the cost of depreciable property, that is, property that wears out or becomes obsolete over time like a building, furniture, or equipment, you use in your business or professional activities.

**Depreciable property** – the property on which you can claim CCA. It is usually capital property income from a business or property. The capital cost can be written off as CCA over a number of years. You usually group depreciable properties into classes. Diggers, drills, and tools that cost \$500 or more belong in Class 8. You have to base your CCA claim on the rate assigned to each class of property.

**Fair market value (FMV)** – 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.

**Motor vehicle** – an automotive vehicle designed or adapted for use on highways and streets. A motor vehicle does not include a trolley bus or a vehicle designed or adapted to be operated only on rails.

**Non-arm's length** – generally refers to a relationship or transaction between persons who are related to each other.

However, a non-arm's length relationship might also exist between unrelated individuals, partnerships or corporations, depending on the circumstances. For more information, see the definition of "arm's length."

**Passenger vehicle** – a motor vehicle designed or adapted primarily to carry people on highways and streets. It seats a driver and no more than eight passengers. Most cars, station wagons, vans, and some pick-up trucks are passenger vehicles. They are subject to the limits for CCA, interest, and leasing. A passenger vehicle does **not** include:

- an ambulance;
- a clearly marked police or 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 used 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 and that, in the tax year you bought or leased it, was used more than 50% to transport goods and equipment to earn income;
- a van, pick-up truck, or similar vehicle that, in the tax 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 to earn or produce income at a

remote work location or at a special work site that is at least 30 kilometres from the nearest community with a population of at least 40,000; and

- a clearly marked emergency medical service vehicle used to carry paramedics and their emergency medical equipment.

**Proceeds of disposition** – the amounts you receive, or that we consider you to have received, when you dispose of your property (usually the selling price of the property). Proceeds of disposition is also defined to include, amongst other things, compensation received for property that has been expropriated, destroyed, or stolen.

**Undepreciated capital cost (UCC)** – generally, the amount left after you deduct CCA from the capital cost of a depreciable property. Each year, the CCA you claim reduces the UCC of the property.

## Chapter 1 – General information

### 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; and
- operating a feedlot.

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

- raising fish;
- market gardening;
- operating a nursery or greenhouse; and
- 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).

Generally, farming income does **not** include income you earned from working as an employee in a farming business, from trapping or from sharecropping. For more information on sharecropping arrangements, see the latest Interpretation Bulletin IT-433R, *Farming or Fishing-Use of Cash Method*. For partnerships or joint ventures, see Income Tax Folio S4-F16-C1, *What is a partnership?*

#### Note

Include all your income when you calculate it for tax purposes. If you fail to report all your income, you may pay 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 on your income tax return. The penalty is 50% of the tax attributable to the omission or false statement (minimum \$100).

#### You were asking?

- Q. When does a farming business start? Can I deduct the costs I incurred 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.

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 even if, despite all your efforts, your business wound up. However, 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 your business to have begun. In that case, you cannot deduct any of the costs you have incurred.

For more information about the start of a business, see the latest archived Interpretation Bulletin IT-364, *Commencement of Business Operations*, or go to [www.cra.gc.ca/smallbusiness](http://www.cra.gc.ca/smallbusiness).

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

### How to 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 see “Reporting partnership income” on page 10.

## Fiscal period

Report your farming income based on a fiscal period. A **fiscal period** is the time covered from the day your farming business starts its business year, to the day it 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 another method of reporting business income that allows you to have a fiscal period that does not end on December 31. If your fiscal year-end is not December 31, see Guide RC4015, *Reconciliation of Business Income for Tax Purposes*, to calculate the amount of business income to report on your 2015 income tax return. The publication includes Form T1139, *Reconciliation of 2015 Business Income for Tax Purposes*.

If you filed Form T1139 with your 2014 income tax return, generally you have to file one again for 2015.

## Reporting methods

You can report your farming income using the cash method or the accrual method of accounting.

## Cash method

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, see “Prepaid expenses” on page 19.

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 and the cheque is payable before the debt is due, include the amount in your income on one of the following dates, whichever is earlier:

- the date the debt is payable; or
- the date you cash or deposit the cheque.

### Note

The preceding 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 in a farming business, do not include inventory when you calculate your income. There are, however, two exceptions to this rule.

For more information, see “Line 9941 – Optional inventory adjustment included in 2015” on page 28 and “Line 9942 – Mandatory inventory adjustment included in 2015” on page 28.

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

## Accrual 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.

For special rules, see “Prepaid expenses” on page 19.

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 methods to value your inventory:

- value all inventory at its **fair market value** (FMV) (see “Definitions” on page 5). Use either the price you would pay to replace an item or the amount you would get if you sold an item;
- value individual items at cost or FMV, whichever is less. You can value items by group when you cannot easily tell one item from another. Cost is the price you incur for an item, plus any expenses you incur bringing an item to your business location and putting it in a condition so that it can be used in the business; or
- value livestock according to the unit price base. For this method, fill in 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 2015 fiscal period is the same as the value at the end of your 2014 fiscal period. In your first year of operating a farming business, you will not have an opening inventory at the start of your fiscal period.

For more information on inventories, see the latest archived Interpretation Bulletin IT-473R, *Inventory Valuation*.

### Note

If you use the accrual method to calculate your farming income, calculate your cost of goods sold on a separate piece of paper. Form T2042 does not have a line to calculate this amount.

## Changing your method of reporting income

If you decide to change your method of reporting income from the **accrual method** to the **cash method**, simply use the cash method when you file your next income tax return. Make sure you include a statement that shows each adjustment made 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 must receive permission from your tax services office. Ask for this change in writing before the date you have to file 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 file your income tax return using the accrual method, make sure you include a

statement that shows each adjustment made to your income and expenses.

## Business records

You are required by law to keep records of all your transactions to be able to support your income and expense claims. A record is defined to include; an account, an agreement, a book, a chart or table, a diagram, a form, an image, an invoice, a letter, a map, a memorandum, a plan, a return, a statement, a telegram, a voucher, and any other thing containing information, whether in writing or in any other form.

Keep a record of your daily income and expenses. We do not issue record books nor suggest any type of book or set of books. There are many record books and bookkeeping systems available; you can use a book that has columns and separate pages for income and expenses.

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

### Note

Do not send your records with your income tax return. However, do keep them in case we ask to see them at a later date.

## Benefits of keeping complete and organized records

You can benefit from keeping complete and organized records. For example:

- When you earn income from many places, good records help you identify the source of income. If you keep proper records, you may be able to prove that some income is not from your business, or that it is not taxable.
- Keeping good records will remind you of expenses you can deduct when it is time to do your income tax return.
- Good records will keep you better informed about the past and present financial position of your business.
- Good records can help you budget, spot trends in your business, and get loans from banks and other lenders.
- Good records can prevent problems you may run into if we audit your income tax returns.

## Consequences of not keeping adequate records

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 disallow expenses you deducted if you are unable to support them.

There are penalties for not keeping adequate records, for not giving the CRA access to your records when requested, and for not giving information to CRA officials when asked.

## 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. Support all income entries with original documents.

Original documents include 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 or other vouchers when you buy something for your business. When you buy merchandise 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 buyer; and
- a full description of the goods or services.

### You were asking?

**Q.** What should I do if there is no description on a receipt?

**A.** When you buy something, make sure the seller describes the item. However, sometimes there is no description on the receipt, as with a cash register tape. In this case, you should write what the item is on the receipt or in your expense records.

**Q.** What should I do if a supplier does not want to give me a receipt?

**A.** When you buy something, make sure you get a receipt. Suppliers who are GST/HST registrants are required to provide receipts. Farmers must obtain documentation to support the transactions they enter in their books and records. Your transactions may be denied if you do not have the proper documentation to support your purchases. For more information, see Guide RC4022, *General Information for GST/HST Registrants*.

Keep a record of the properties you bought and sold. This record should show who sold you the property, the cost, and the date you bought it. This information will help you calculate your CCA and other amounts. Chapter 4 explains how to calculate CCA.

If you sell or trade a property, show the date you sold or traded it and the amount of the payment or credit from the sale or trade-in.

## Time limits for keeping records

Depending on the situation, keep your records for the following lengths of time:

- if you filed your income tax return on time, a minimum of six years after the end of the tax year to which they relate;
- if you filed your income tax return late, six years from the date you file your return; or
- if you filed an objection or appeal, keep them 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 information, see the Information Circular IC78-10R5, *Books and Records Retention/Destruction*. If you want to destroy your records before the minimum six-year period is over, you must first get written permission from 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, go to [www.cra.gc.ca/records](http://www.cra.gc.ca/records).

## Instalment payment

As a self-employed farmer, you may have to pay an instalment payment due December 31, 2016. In most cases, we will send you an instalment reminder showing an instalment amount we have calculated for you. However, there are different methods that can be used to calculate instalment payments.

You may have to pay interest and a penalty if you do not pay the full instalment amount owed on time.

For more information on instalment payments or instalment interest charges, go to [www.cra.gc.ca/instalments](http://www.cra.gc.ca/instalments).

### Note

If any of the dates mentioned above fall on a Saturday, a Sunday, or a statutory holiday, you have until the next business day to make your instalment payments.

## Dates to remember

**February 29, 2016** – If you have employees, file your 2015 T4 *Summary* and T4A *Summary*. Also, give your employees their copies of the T4 and T4A slips.

**March 31, 2016** – Most farm partnerships file a partnership information return. However, there are exceptions, see Guide T4068, *Guide for the Partnership Information Return (T5013 Forms)*.

**April 30, 2016** – Pay any balance owing for 2015. Also, file your 2015 income tax return if the expenditures of your business are mainly the cost or the **capital cost** (see “Definitions” on page 5) of tax shelter investments.

**June 15, 2016** – File your 2015 income tax return if you have self-employed farming income, or if you are the spouse or common-law partner of someone who does, unless your business expenditures are mainly the cost or the capital cost of tax shelter investments. Remember to pay any balance owing due April 30, 2016, to avoid interest charges.

**December 31, 2016** – Pay your instalment payment if you meet the following conditions:

- your main source of income in 2016 is self-employment income from farming; and
- your net tax owing is more than \$3,000 in each of 2014, 2015, and 2016 (\$1,800 if you live in Quebec on December 31 for any of those years).

For more information on paying your income tax by instalments, go to [www.cra.gc.ca/instalments](http://www.cra.gc.ca/instalments).

### Note

If any of the dates mentioned above fall on a Saturday, Sunday, or a statutory holiday, you have until the next business day to file your return or make your payment.

## Employment Insurance (EI) benefits for self-employed persons

Beginning in the year you register to participate in the EI program, your EI premiums will be calculated on your income tax return for that year. If you register in 2015 to participate in this program, premiums for 2015 will be calculated on your 2015 income tax return and will be payable by April 30, 2016.

Subsequently, if you pay your income tax by instalment, EI premiums may be included in your instalment payments.

When you register for the EI program, EI premiums will be payable on your self-employment income for the entire year, regardless of the date you register. For example, whether you register in April 2015 or December 2015, you will pay EI premiums on your self-employment income for the entire 2015 year.

EI premiums are payable on the amount of your self-employment earnings up to an annual maximum amount. The annual maximum amount for 2015 is \$49,500.

For more information, visit [www.servicecanada.gc.ca](http://www.servicecanada.gc.ca).

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

Generally, you must register for the GST/HST if your worldwide gross revenues from your taxable supplies of property and services are more than \$30,000 in a single calendar quarter or over four consecutive calendar quarters. Taxable supplies of property and services include those that are subject to GST/HST at the applicable rate, those that are taxed at 0% (zero-rated), and those from all your associates. Do not include in your calculation any revenues from sales of capital property, supplies of financial services, and goodwill from the sale of a business.

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

For information about GST/HST taxable farm goods and services, zero-rated farm products, and zero-rated farm purchases, see page 58. For more information on GST/HST, go to [www.cra.gc.ca/gsthst](http://www.cra.gc.ca/gsthst).

For more information, see the GST/HST Memoranda Series, 2-1 *Required registration*.

## The GST/HST Registry

The GST/HST Registry is an online service that allows you to verify a business GST/HST registration number which helps make sure that claims submitted for input tax credits include only the GST/HST charged by suppliers who are

registered for GST/HST purposes. For more information, go to [www.cra.gc.ca/gsthstregistry](http://www.cra.gc.ca/gsthstregistry).

You can verify the Quebec Sales Tax (QST) registration number at [www.revenuquebec.ca/en/sept/services/sgp\\_validation\\_tvq/default.aspx](http://www.revenuquebec.ca/en/sept/services/sgp_validation_tvq/default.aspx).

## What is a partnership?

Under Canadian provincial and territorial common law statutes, a partnership is defined as the relation (or relationship) that subsists (or exists) between persons carrying on a business in common with a view to profit. You can have a partnership without a written agreement. To help you decide if you are a partner in a certain business, determine the type and extent of your involvement in the business and check your province or territory's laws.

When you form, change, or dissolve a relationship that may be a partnership, consider:

- whether the relationship is a partnership;
- the special rules about capital gains or losses and the recapture of CCA that apply when you transfer properties to a partnership;
- the special rules that apply when you dissolve a partnership; and
- the special rules that apply when you dispose of your interest in a partnership.

For more information about partnerships, see Income tax Folio S4-F16-C1, *What is a Partnership?*

## Limited partnership

A limited partnership is a partnership comprised of one or more general partners and one or more limited partners. Unlike a limited partner, a general partner has unlimited liability. However, in general terms, the liability of a limited partner is only limited if that partner is a passive partner that does not participate in running the business.

## Reporting partnership income

A partnership does not generally pay income tax on its income or file an income tax return. Instead, each partner files an income tax return to report his or her share of the partnership's net income or loss. This requirement is the same whether the share of income was received in cash or as a credit to the partner's capital account.

## Partnership losses

If a partnership has a loss from carrying on business in a taxation year, this loss is allocated to the partners. In general, the amount of business loss allocated to a particular partner is either netted against the partner's income from other sources to arrive at net income for the year or is included in determining the partner's non-capital loss for the year, as the case may be.

The loss carry forward period is 20 years for:

- non-capital losses, farm losses, restricted farm losses, and life insurer's Canadian life investment losses incurred; and

- investment tax credits earned for scientific research and experimental development.

## Filing requirements for partnerships

Under subsection 229(1) of the Regulations, all partnerships that carry on business in Canada or are Canadian partnerships or specified investment flow-through (SIFT) partnerships must file a partnership return. However, under CRA administrative policy, certain partnerships that carry on business in Canada or are Canadian partnerships are not required to file a partnership return.

A partnership that carries on a business in Canada, or a Canadian partnership with Canadian or foreign operations or investments, has to file a T5013 partnership information return for each of its fiscal periods, if:

- at the end of the fiscal period, the partnership has an absolute value of revenues plus an absolute value of expenses of more than \$2 million, or has more than \$5 million in assets; or
- at any time during the fiscal period:
  - the partnership is a tiered partnership (for example, the partnership has another partnership as a partner or is itself a partner in another partnership);
  - the partnership has a partner that is a corporation or a trust;
  - the partnership invested in flow-through shares of a principal-business corporation that incurred Canadian resource expenses and renounced those expenses to the partnership; or
  - the Minister of National Revenue requests one in writing.

For more information about the partnership information return and any other filing exemptions, go to [www.cra.gc.ca/partnership](http://www.cra.gc.ca/partnership) or see Guide T4068, *Guide for the Partnership Information Return (T5013 Forms)*.

## Capital cost allowance (CCA)

A partnership can own **depreciable property** (see "Definitions" on page 5) and claim CCA on it. However, individual partners cannot claim CCA on property the partnership owns.

From the capital cost of depreciable property, subtract 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. You must also reduce the capital cost by any type of government assistance received. Box 040 of your slip, Form T5013, *Statement of Partnership Income* shows the amount of CCA the partnership claimed on your behalf. This amount has already been deducted from your business income in box 116 of the T5013 slip. Do not deduct this amount again.

For more information on CCA and the adjustments to capital cost, see Chapter 4.

Any recapture of CCA or terminal loss on the sale of a partnership's depreciable property is included in the partnership's income or loss for the year that is allocated to the partners. Any taxable capital gain on the sale of a

partnership's depreciable property is also allocated to the partners.

For more information about capital gains and losses, as well as recapture and terminal losses, see Chapter 4.

### Eligible capital expenditures

A partnership can own eligible capital property and deduct an annual allowance. Any income from the sale of eligible capital property owned by the partnership is income of the partnership. Under certain conditions, a partnership can elect to, in effect, recognize a capital gain on the disposition of eligible capital property as if the property were ordinary non-depreciable capital property. For more information, see "Election" in Chapter 5 and Guide T4068, *Guide for the Partnership Information Return (T5013 Forms)*.

### GST/HST rebate for partners

If you are an individual who is a member of a partnership, you may be able to get a rebate for the GST/HST you paid on certain expenses. The rebate is based on the GST/HST you paid on expenses you deducted from your share of the partnership income on your income tax return. However, special rules apply if your partnership paid you an allowance for those expenses.

As an individual who is a member of a partnership, you may qualify for the GST/HST partner rebate if:

- the partnership is a GST/HST registrant; and
- you personally paid GST/HST on expenses that:
  - you did not incur on behalf of the partnership; and
  - you deducted from your share of the partnership income on your income tax return.

However, special rules apply if the partnership reimbursed you these costs.

We base the rebate on the amount of the expenses subject to GST/HST you deducted on your income tax return. Examples of expenses subject to GST/HST are vehicle costs and certain business-use-of-home expenses.

You can also get a GST/HST rebate calculated on the CCA you claimed on certain types of property. For example, you can claim CCA for a vehicle you bought to earn partnership income if you paid GST/HST when you bought it.

Use the "Other amounts deductible from your share of net partnership income (loss)" chart of Form T2042, *Statement of Farming Activities*, to claim expenses for which the partnership did not reimburse you or any other deductible amounts.

For more information, see "Line 9943 – Other amounts deductible from your share of net partnership income (loss)" on page 31.

#### Note

Enter the amount of the GST/HST rebate for partners that relates to eligible expenses other than CCA at line 9974 of Form T2042. In Area A of Form T2042, reduce the UCC for the beginning of 2016 by the portion of the rebate that relates to the eligible CCA.

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

### Investment tax credit (ITC)

An investment tax credit (ITC) lets you subtract part of the cost of some types of property you acquired or expenditures you incurred from the taxes you owe. You may be able to claim this tax credit in 2015 if you acquired qualifying property, incurred qualifying expenditures, monies paid to agricultural organizations through check-offs, levies or cash assistance, or were allocated renounced Canadian exploration expenses. You may also be able to claim this tax credit in 2015 if you have unused ITCs from previous years. For more information about ITCs, see Form T2038(IND), *Investment Tax Credit (Individuals)*.

## Chapter 2 – Income from farming

### Sole proprietorships

If you are a sole proprietor of a farming business, fill in all of the applicable areas and lines on Form T2042, *Statement of Farming Activities*.

### Partnerships

The details of your farming activities you have to give us depend on the type of partnership you are in. If you are a partner in a partnership that **has** to file a partnership information return, fill in Form T2042 as follows:

- Fill in the "Identification" section.
- Enter the amount from box 125 of your T5013 slip at line 168 of your income tax return. Enter the amount from box 124 (or box 101 if a limited partnership) of your T5013 slip at amount d of Form T2042.
- Fill in the "Other amounts deductible from your share of net partnership income (loss)" chart to claim any expenses for which the partnership did not reimburse you, or other amounts you may be able to deduct. Also, fill in the "Calculating business-use-of-home expenses" chart if it applies to you. For more information, see "Line 9945 – Business-use-of-home expenses" on page 31.
- Enter your share of the net income or loss from the farming business at line 9946, "Your net income (loss)." If you did not make any adjustments to the amount in box 124 (or box 101 if a limited partnership) of your T5013 slip, the amount you enter at line 9946 will be the same as the amount you entered at amount d.

If you are a partner in a partnership that does **not** have to file a partnership information return, fill in Form T2042 as follows:

- Fill in the "Identification" section.
- Fill in the "Income" section to report the partnership's business income.
- Fill in the "Net Income (loss) before adjustments" section.

- Fill in the “Other amounts deductible from your share of net partnership income (loss)” chart to claim any expenses for which the partnership did not reimburse you or any other amounts you may be able to deduct. Also, fill in the “Calculating business-use-of-home expenses” chart if it applies to you. For more information, see page 31.

- Fill in the “Details of other partners” chart.

To see if your partnership has to file a partnership information return, see “Filing requirements for partnerships” on page 10.

## How to fill in Form T2042, Statement of Farming Activities

In the middle of this guide, you will find two copies of Form T2042, *Statement of Farming Activities*. This form can help you calculate your income and expenses for income tax purposes. We encourage you to use it; however, we will continue to accept other types of financial statements.

You have to fill in a separate form for **each** business you operate. For more information about the tax consequences of operating more than one business, see the latest archived Interpretation Bulletin IT-206R, *Separate Businesses*.

File your completed Form T2042 with your income tax return.

### Note

If you are participating in the AgriStability and AgriInvest do not use Form T2042. Instead, use one of the following:

Form T1163, *STATEMENT A – AgriStability and AgriInvest Programs Information and Statement of Farming Activities for Individuals*;

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

Form T1273, *STATEMENT A – Harmonized AgriStability and AgriInvest Programs Information and Statement of Farming Activities for Individuals*; or

Form T1274, *STATEMENT B – Harmonized AgriStability and AgriInvest Programs Information and Statement of Farming Activities for Additional Farming Operations*.

If you are participating in AgriStability and AgriInvest and want to calculate your CCA and business-use-of-home expenses, use Form T1175, *FARMING – Calculation of Capital Cost Allowance (CCA) and Business-use-of-home Expenses*.

The forms are included in the applicable AgriStability and AgriInvest Programs guides. If you need one of the AgriStability and AgriInvest Programs guides, go to [www.cra.gc.ca/forms](http://www.cra.gc.ca/forms) or call 1-800-959-5525.

## Identification

Fill in all the lines that apply to your farming business.

Enter your Program account number (15 characters), assigned by the CRA, in the appropriate area.

Indicate the period your business year covered, which is your fiscal period. For an explanation of fiscal period, see page 7.

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 combination farming code from the list.

The following is a list of codes that apply to farming activities:

### Livestock farm

112110	Beef cattle ranching and farming, including feedlots
112120	Dairy cattle and milk production
112210	Hog and pig farming
112310	Chicken egg production
112320	Broiler and other meat-type chicken production
112330	Turkey production
112340	Poultry hatcheries
112391	Combination poultry and egg production
112399	All other poultry production
112410	Sheep farming
112420	Goat farming
112510	Aquaculture
112991	Animal combination farming
115210	Support activities for animal production

### Other animal specialties farm

112910	Apiculture
112920	Horse and other equine production
112930	Fur-bearing animal and rabbit production
112999	All other miscellaneous animal production

### Field-crop farm

111110	Soybean farming
111120	Oilseed (except soybean) farming
111130	Dry pea and bean farming
111140	Wheat farming
111150	Corn farming
111190	Other grain farming
111211	Potato farming
111219	Other vegetables (except potato) and melon farming
111330	Non-citrus fruit and tree nut farming

- 111411 Mushroom production
- 111419 Other food crops grown under cover
- 111421 Nursery and tree production
- 111422 Floriculture production
- 111910 Tobacco farming
- 111940 Hay farming
- 111993 Fruit and vegetable combination farming
- 111994 Maple syrup and products production
- 111999 All other miscellaneous crop farming
- 115110 Support activities for crop production

For a farming partnership, identify your percentage of the partnership and enter the 9-digit Partnership Business Number from the T5013 slip you received, if applicable.

Enter the name and address of the person or firm that prepared your Form T2042.

If you have a tax shelter, enter the identification number in the appropriate box.

If you are claiming a deduction or losses for 2015, attach to your income tax return any applicable T5003 slip, *Statement of Tax Shelter Information*, and a completed Form T5004, *Claim for Tax Shelter Loss or Deduction*. For more information on tax shelters, go to [www.cra.gc.ca/taxshelters](http://www.cra.gc.ca/taxshelters).

#### Note

The identification number issued for this tax shelter must be included in any income tax return filed by the investor. Issuance of the identification number is for administrative purposes only and does not, in any way, confirm the entitlement of an investor to claim any tax benefits associated with the tax shelter.

#### Tax tip

For more information about protecting yourself against tax schemes, go to [www.cra.gc.ca/alert](http://www.cra.gc.ca/alert).

## Internet business activities

You may earn income from your webpages or websites:

- by selling goods and services on your own page(s) or site(s). You may have a shopping cart and process payment transactions yourself or using a third party service.
- if your site does not support transactions but your customers call, fill in and submit a form, or email you to make a purchase order, booking, etc.
- by selling goods and services on auction, marketplace or similar sites operated by others.
- if earning income from advertising, income programs or traffic your site generates. This would include:
  - static advertisements placed on your site for other businesses;
  - affiliate programs;
  - advertising programs such as GoogleAdSense or Microsoft adCentre; or

- other types of traffic programs.

Enter the number of webpages and websites your business earns income from.

Enter the address(es) of your page(s) and site(s) in the fields provided. If you have more than five sites, enter the addresses of those generating the most Internet income.

If you don't have a website but you have created a profile or other page describing your business on blogs, auction, market place or any other portal or directory site(s), then enter the address(es) of the page(s) if they generate income.

Enter the percentage of Internet generated income. If you do not know the exact percentage, provide an estimate.

## Farming income

### Lines 9370 to 9378 (inclusive)

Enter the income from the sale of your grains and oilseeds—whether sold directly or through an agency—on the appropriate lines 9371 to 9378. If you have other income from grains and oilseeds not listed at lines 9371 to 9378, enter the amount at line 9370.

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.

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. Because you received a payment at the time you received the ticket, you have to include this amount in income.

If you received a **deferred cash purchase ticket**, you may be able to defer the income until the following tax year. You can do this if the ticket indicated payment after the end of the tax year in which you delivered the grain. This carryover of income is only allowable in specific situations. For more information, see the latest archived Interpretation Bulletin IT-184R, *Deferred cash purchase tickets issued for grain*.

### Cash advances

Under the *Agricultural Marketing Programs Act*, you may be able to get 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, include the full amount from the sale of your crops in your income for the tax year in which the sale occurs.

### Lines 9421 to 9424 (inclusive)

Enter the total income from the sale of the identified produce on the applicable line. Whether you sold produce directly or through an agency, include in income all the amounts you received from these sales.

Do not include amounts received from the sale of greenhouse vegetables. For more information, see line 9425.

### Line 9420 – Other crops

Enter the total income from the sale of pulse crops, sugar beets, hops, or any other crops you have not identified on another line.

### Line 9425 – Greenhouse and nursery products

Enter the total income from the sale of such things as ornamental plants, shrubs, trees, cut and field-grown flowers, rooted cuttings, seeds and bulbs, sod and turf, and greenhouse vegetables.

### Line 9426 – Forage crops or seeds

Enter the total income from the sale of hay, alfalfa, clover and clover seed, alsike, timothy, fescue, grass seed, or any other forage crops or seeds.

### Lines 9471 to 9474 (inclusive) – Livestock sold

Enter the total income from the sale of the identified livestock on the applicable line. In some cases, you can defer including some amounts in income, as explained below. 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. Also they do not apply in the year of the farmer's death.

### Line 9470 – Other animal specialties

Enter on this line the total income from the sale of any other livestock not specifically identified on another line (for example, the sale of horses, ponies, goats or llamas). Include amounts from the sale of fur-bearing animals you raised in captivity, such as fox, chinchilla, mink, or rabbit, as well as income from an apiary operation.

### 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 2015 fiscal period to a later fiscal period. To be able to do this, you must meet the following **two** conditions:

- your farming business was located in a PDR at some time during your 2015 fiscal period; and
- you reduced, by sale or other means, the number of breeding animals in your breeding herds by at least 15%.

For a list of PDRs, contact us at **1-800-959-5525** or Agriculture and Agri-Food Canada (AAFC) at the telephone numbers in the government section of your telephone book. For a list of the prescribed regions of drought, flood or excessive moisture, see "Designations" at [www.agr.gc.ca/eng/?id=1326403245181](http://www.agr.gc.ca/eng/?id=1326403245181).

### Prescribed flood region (PFR)

Eligible farmers who dispose of breeding livestock in a tax year because of flood or excessive moisture will be permitted to exclude a portion of the sale proceeds from their incomes until the following tax year or a later tax year if the condition persists. You may want to file your return based on the legislation in the same manner as you would for a prescribed drought region.

For a list of the prescribed regions of flood or excessive moisture, see "Designations" at [www.agr.gc.ca/eng/?id=1326403245181](http://www.agr.gc.ca/eng/?id=1326403245181).

### Income deferral

The following animals kept for breeding that are over 12 months of age are considered breeding animals eligible for the income deferral:

- bovine cattle;
- bison;
- goats;
- sheep;
- deer, elk, and other similar grazing ungulates; and
- horses you breed to produce pregnant mare's urine that you sell.

Eligibility for the income deferral includes:

- all horses over 12 months of age kept for breeding; and
- breeding bees not used mainly to pollinate plants in greenhouses and larvae of such bees. For the purposes of the income deferral rule, breeding bee stock is defined as follows:
  - at any time, a reasonable estimate of the quantity of your breeding bees held at that time in the course of carrying on a farming business using a unit of measurement that is accepted as an industry standard.

The unit of measurement at the end of the year is the same as that used for the beginning of the year. A formula is used to calculate what you can defer for breeding bees.

To determine the size of your breeding herd at the end of your 2015 fiscal period, fill in 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 2015 fiscal year) have given birth? \_\_\_\_\_ **1**

How many of your female bovine cattle over 12 months of age (held at the end of your 2015 fiscal year) have **never** given birth? \_\_\_\_\_ **2**

Enter one half of the amount from line 1 \_\_\_\_\_ **3**

Enter either the amount from line 2 or line 3, whichever is less \_\_\_\_\_ **4**

### Part 2

How many breeding animals did you have at the end of your 2015 fiscal period? \_\_\_\_\_ **5**

Enter the amount from line 2 \_\_\_\_\_ **6**

Enter the amount from line 4 \_\_\_\_\_ **7**

Line 6 **minus** line 7 \_\_\_\_\_ **8**

Number of breeding animals in your breeding herd at the end of your 2015 fiscal period: line 5 **minus** line 8 \_\_\_\_\_ **9**

If the amount from line **9** is **not** more than 85% of the total number of animals in your breeding herd at the end of your 2014 fiscal year, you can defer part of the income received in 2015 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 2015 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 information on reserves, see the latest archived Interpretation Bulletin IT-154R, *Special reserves*.

When you have determined your sales of breeding animals, **subtract** from this amount the cost of breeding animals you bought in your 2015 fiscal period. The result is your net sales amount.

You then determine how much you can defer as follows:

- if the amount at line 9 is more than 70% and not more than 85% of your breeding herd at the end of your 2014 fiscal period, you can defer up to 30% of your net sales amount; or
- if the amount at line 9 is between 0% and 70% of your breeding herd at the end of your 2014 fiscal period, you can defer up to 90% of your net sales amount.

You do not have to defer all of this income. You can include any part of it in your 2015 income. However, the deferred income must be reported in the fiscal period that ends in:

- the year beginning after the period or periods when the region stops being a PDR or PFR;

- 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.

However, as long as your farming business was in a PDR/PFR at any time in your 2015 fiscal period, you do not have to include income you deferred in earlier years.

### Line 9476 – Milk and cream (not including dairy subsidies) and Line 9477 – Eggs

On the applicable line, enter the total income from selling eggs, milk, and cream. Do not include any amount you received as dairy subsidies. Include these in your 2015 fiscal period, on line 9541.

### Line 9520 – Other commodities

On this line, enter the total income from selling any other commodity not specifically identified on another line. Other commodities include the sale of semen, stud services, embryo transplants, artificial insemination, and pregnant mares' urine. Also include amounts from the sale of maple products, mushrooms, and ginseng.

### Program payments

You should receive an AGR-1 slip, *Statement of Farm Support Payments*, to identify your 2015 taxable farm-support payments 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.

You have to include in income all taxable farm-support payments you received in your 2015 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 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 you earned during your normal fiscal period. For example, if your farming business has a fiscal period ending on June 30, 2015, 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, 2015, include only \$6,000 in your income for your 2015 fiscal period. Include the remaining \$4,000 in your next fiscal period. However, include the AGR-1 slip issued for the 2015 calendar year with your 2015 income tax return or partnership information return.

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

### Line 9541 – Dairy subsidies

Enter the dairy or milk subsidies you received.

## Line 9542 – Crop insurance

Enter any insurance proceeds you received from federal, provincial, or joint federal/provincial programs for loss of crops.

## Line 9540 – Other payments

Include the total income you received from all other stabilization and farm-subsidy programs made to farm producers under federal, provincial, municipal, or joint programs.

### Disaster assistance program payments

Enter any payments you received from federal or provincial disaster assistance programs. These include the following:

- the Agricultural Income Disaster Assistance (AIDA) Program in Saskatchewan, Manitoba, Nova Scotia, Newfoundland and Labrador, New Brunswick, Prince Edward Island, and Quebec;
- the Canadian Farm Income Program (CFIP) in Saskatchewan, Manitoba, Nova Scotia, Newfoundland and Labrador, New Brunswick, Prince Edward Island, and Quebec;
- the Whole Farm Insurance Pilot (WFIP) Program in British Columbia;
- the Farm Income Disaster Program (FIDP) in Alberta; and
- the Ontario Whole Farm Relief Program (OWFRP) and the Ontario Farm Income Disaster Program (OFIDP) in Ontario.

### Destroying livestock

You have to include in income any payments you received under the *Health of Animals Act* for destroying animals. 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 2015 fiscal period. If you deferred payments in your 2014 fiscal period, you have to include the deferred amounts as income in 2015.

## Line 9570 – Rebates

Enter the amount of the rebate, grant, or assistance you received on this line. Before doing so, reduce any related expense or the capital cost of a related depreciable asset by the amount of the rebate, grant, or assistance you received. For more information, see “Grants, subsidies, and rebates” on page 40. For more information about GST/HST rebates, go to [www.cra.gc.ca/gsthst](http://www.cra.gc.ca/gsthst).

## Line 9601 – Custom or contract work, and machine rentals

Enter the total of your incidental farming income from such things as custom or contract work, hauling, custom trucking, harvesting, combining, crop dusting or spraying, seeding, drying, packing, cleaning, treating seeds, and renting farm machinery.

## Line 9604 – Insurance proceeds

Enter the amount of any insurance proceeds you received as compensation for loss or damage to certain types of property. For example, you may have received insurance proceeds for damage to a building due to fire, or for the loss of livestock to disease.

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

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

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. Claim a deduction for the same amount in the “Other expenses” area of Form T2042. 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 of the insurance proceeds on repairs within a reasonable length of time, we consider the amounts you did not spend to be proceeds of disposition. Report these amounts in column 4 of Area A of Form T2042. For more information, see “Column 4 – Proceeds of disposition in the year” on page 35.

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 this line. For more information, see Chapter 4. For information on how insurance affects the adjusted cost base of capital property, see Chapter 7.

Do not include insurance proceeds from federal, provincial, or municipal government programs. For information on government insurance programs, see lines 9540 and 9542 above.

## Line 9605 – Patronage dividends

Report patronage dividends (other than those for consumer goods or services) that are 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 to be disposed of. The balance of the shares could then be carried forward and sheltered until actual or deemed disposition.

The temporary deferral of tax on patronage dividends paid by an agricultural cooperative corporation in the form of eligible shares is extended in respect of eligible shares issued before 2021.

## Line 9600 – Other income

Enter the total of any other farming income you have not specifically identified on another line. The following paragraphs identify some of these income items.



### Wood sales (including stumpage)

If you operated or regularly harvested a woodlot, include in your income the amounts from the sale of trees, lumber, logs, poles, or firewood.

From this income, you can deduct a type of capital cost allowance known as a depletion allowance. For more information, see the latest archived Interpretation Bulletin IT-481-CONSOLID, *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 information on capital gains and losses, see Chapter 7 of this guide and Guide T4037, *Capital Gains*.

For more information on the sale of wood, see the latest archived Interpretation Bulletin IT-373R2-CONSOLID, *Woodlots*.

### Gifts

In your income, include the FMV (see “Definitions” on page 5) of livestock or other items you gave away you would normally have sold.

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

### 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 him or her something you produced on your farm instead of money. When you do this, include the FMV of the goods or services in income. Deduct the same amount as an expense.

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

If you were a landlord renting out land involved in sharecropping, we consider any payment in kind you received to be rental income.

### Surface rental for petroleum or natural gas exploration

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 payment will be considered as payment for property for income tax purposes. This may result in either a capital gain or loss. For information about capital gains, see Chapter 7.

### Rental income

Except for the surface rental previously explained, 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*.

If you were a landlord renting out land involved in sharecropping, we consider the payments you received, whether in kind or cash, to be rental income for tax purposes.

### 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.

To find out if you have any recapture of CCA fill in the applicable areas on Form T2042. For more information, see Chapter 4.

### Miscellaneous

Include in your income amounts you receive from the sale of soil, sand, gravel, or stone. For some of these items, you can claim a depletion allowance.

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

Include in your income prizes you won from fairs or farming exhibitions. For more information, see Income Tax Folio S3-F9-C1, *Lottery Winnings, Miscellaneous Receipts, and Income (and Losses) from Crime*.

### Line 9659 – Gross income

Gross farming income is your total farming income before you deduct expenses. Enter your gross farming income on line 168 of your income tax return.

## Chapter 3 – Expenses

This chapter discusses the more common expenses you might incur to earn income from your business activities. Incur means you paid or will pay the expense.

### 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 determining whether the expense is capital or current. To determine 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		
Criteria	Capital expenses	Current expenses
<b>Does the expense provide a lasting benefit?</b>	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.	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.
<b>Does the expense maintain or improve the property?</b>	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.	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.
<b>Is the expense for a part of a property or for a separate asset?</b>	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.	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.
<b>What is the value of the expense?</b> (Use this test only if you cannot determine whether an expense is capital or current by considering the three previous tests.)	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.	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.
<b>Is the expense for repairs to used property you acquired to put it in suitable condition for use?</b>	The cost of repairing used property 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.	Where the repairs were for ordinary maintenance of a property you already had in your business, the expense is usually current.
<b>Is the expense for repairs made to an asset in order to sell it?</b>	The cost of repairs made in anticipation of selling a property, or as a condition of sale, is regarded as a capital expense.	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.

For more information, see “Chapter 4 – Capital cost allowance (CCA)” and the latest archived Interpretation Bulletin IT-128R, *Capital cost allowance – Depreciable property*.

You cannot claim expenses you incur to buy capital property. However, as a rule, you can deduct any reasonable current expense you incur to earn farming income. The deductible expenses include any GST/HST you incur on these expenses less the amount of any input tax credit claimed. Also, since you cannot deduct personal expenses, enter only the business part of expenses on Form T2042.

**Note**

When you claim the GST/HST you paid on your business expenses as an input tax credit, reduce the amounts of the business expenses you show on Form T2042 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. Similarly, subtract any rebate, grant, or assistance from the expense to which it applies. Enter the net figure on the proper

line. Any such assistance you claim for the purchase of depreciable property used in your business will affect your claim for CCA. If you cannot apply the rebate, grant, or assistance you received to reduce a particular expense, or to reduce an asset’s capital cost, include the total on line 9570, “Rebates” on Form T2042. For more information, see “Grants, subsidies, and rebates” on page 40.

“Enter business part only” on Form T2042, means you do not include any of the following in your expenses:

- salary or wages (including drawings) paid to self, partner(s), or both;
- the cost of saleable goods or services you, your family, or your partners and their families used or consumed (including items such as dairy products, eggs, fruit, vegetables, poultry, and meat);

- donations to charities and political contributions;
- interest and penalties you paid on your income tax;
- most life insurance premiums (for more information on a limited exception, see line 9804 on page 21);
- the part of any expenses that can be attributed to non-business use of business property; and
- most fines and penalties imposed, under the law of Canada or a province or a foreign country.

### Prepaid expenses

A prepaid expense is an expense you paid for ahead of time. Under the **accrual method** of accounting, claim the expense you prepay in the year or years in which you get the related benefit. Suppose your fiscal year-end is December 31, 2015. On June 30, 2015, you prepay the rent on your building for a full year (July 1, 2015, to June 30, 2016). You can only deduct one-half of this rent as an expense in 2015. You can deduct the other half as an expense in 2016.

Under the **cash method** of accounting, 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.

If you paid \$600 for a three-year service contract for office equipment in 2015, you can deduct \$400 in 2015. This represents the part of the expense that applies to 2015 and 2016. On your 2017 income tax return, you could then deduct the balance of \$200 for the part of the prepaid lease that applies to 2017.

For more information, see the latest archived Interpretation Bulletin IT-417R2, *Prepaid Expenses and Deferred Charges*.

### Line 9661 – Containers and twine

Enter the total amount you paid for materials to package, contain, or ship your farm produce or products. If you operated a nursery or greenhouse, deduct the cost of your containers and pots for the plants you sold.

### Line 9662 – Fertilizers and lime

Enter the total amount you paid for fertilizers and lime you used in your farming business.

### Line 9663 – Pesticides (herbicides, insecticides, fungicides)

Enter the total amount you paid for herbicides, insecticides, and fungicides.

### Line 9664 – Seeds and plants

Enter the total amount you paid for seeds and plants. Do not include the cost of seeds and plants you used in your personal vegetable or flower garden.

### Line 9711 – Feed, supplements, straw, and bedding

Enter the total amount you paid for feed, supplements, straw, and bedding you purchased for your farming business. You cannot deduct the value of the feed, straw, or bedding you grew.

### Line 9712 – Livestock purchased

Enter the amount you paid for all livestock you purchased.

### 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, stud service and semen, embryo transplants, disease testing, and neutering or spaying.

### Machinery expenses

The expense of operating and maintaining your machinery is the total of line 9760 and line 9764 below.

### Line 9760 – Repairs, licences, and 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 “Line 9604 – Insurance proceeds” on page 16.

### Line 9764 – Gasoline, diesel fuel, and oil

Enter the total amount you paid for fuel and lubricants for your machinery.

### Line 9795 – Building and fence repairs

Deduct repairs to fences and all buildings you used for farming, except your farmhouse. Do not include the value of your own labour. If the expenditure improved a fence or building beyond its original condition, the costs are capital expenditures. Add the expenditure to the cost of the asset on your CCA charts on Form T2042. CCA charts are explained in Chapter 4.

For more information on capital expenditures, see the latest archived Interpretation Bulletin IT-128R, *Capital cost allowance – Depreciable property*.

If you used your farmhouse for business reasons, see “Line 9945 – Business-use-of-home expenses” on page 31.

#### Note

You may have received insurance proceeds to pay for the cost of 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. However, you have to include the insurance proceeds as income on line 9604. If you did not spend all of the insurance proceeds on repairs within a reasonable length of time, include the unexpended excess as proceeds of disposition in column 4 of “Area A – Calculation of capital cost allowance (CCA)”

on Form T2042. For more information, see “Column 4 – Proceeds of disposition in the year” on page 35.

### **Line 9796 – Clearing, levelling, and draining land**

Enter the total of 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 plowing of the land for farm use;
- building an unpaved road; and
- installing land drainage.

You do not have to deduct all of the costs in the year you paid them. If you paid all of 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 costs mentioned above. Instead, you may be able to:

- add these costs to the cost of the land; or
- add these costs to the cost of the building if you plan to build on the land right away; or
- include these costs under Class 8 in the CCA charts on Form T776, *Statement of Real Estate Rentals* if you installed a tile, plastic, or concrete land drainage system. In this case, you also need to add the costs for a tile, plastic or concrete land drainage system to Class 8 on your CCA charts on Form T2042. For more information, see Chapter 4.

For more information, see the latest archived Interpretation Bulletin IT-485, *Cost of clearing or levelling land*.

### **Improving land**

You cannot deduct the cost of a paved road. Instead, you have to add this cost to Class 17 of your CCA charts on Form T2042. For more information, see Chapter 4.

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 Cooperative Associations Act* to build a distribution system under a gas service contract.

### **Line 9797 – Crop insurance**

Enter the amount of deductible premiums to the Crop Insurance Program. Do not include any premiums for private, business-related, or motor vehicle insurance. For information on other types of insurance, see line 9760 on page 19, line 9804 on page 21, and line 9819 on page 22.

### **Line 9798 – Custom or contract work, and machinery rental**

Enter the expenses you incurred for custom and contract work, and machinery rental. For example, you may 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 may have also contracted someone to do your harvesting, combining, crop dusting, or seed cleaning.

### **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.

The business part of your electricity expense will depend on how much electricity is used for the barns and shops. Because the electricity for the farmhouse is a personal expense, you cannot deduct it unless you meet the conditions explained at “Line 9945 – Business-use-of-home expenses” on page 31.

Do not include on Form T2042 the electricity expense for a house you rented to someone else. This is a rental expense, which you enter on Form T776, *Statement of Real Estate Rentals*. You can get Form T776 in Guide T4036, *Rental Income*.

### **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 relate 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.

The business part of your heating fuel expense will depend on how much heating fuel is used for the barns and shops. Because the heating fuel for the farmhouse is a personal expense, you cannot deduct it unless you meet the conditions explained at “Line 9945 – Business-use-of-home expenses” on page 31.

Do not include on Form T2042 the heating fuel expenses for a house you rented to someone else. This is a rental expense, which you enter on Form T776. You can get Form T776 in Guide T4036.

## Line 9803 – Insurance program overpayment recapture

Enter the amount of any insurance program overpayment recapture you incurred. You should receive an AGR-1 slip, *Statement of Farm-Support Payments*, identifying the amount of the recapture in box 17.

## Line 9804 – Insurance

Enter the amount of business-related insurance premiums you paid to insure your farm buildings, farm equipment (excluding machinery and motor vehicles), livestock, and business interruption.

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 information, see the archived Interpretation Bulletin IT-309R2, *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 information, see “Line 9945 – Business-use-of-home expenses” on page 31 and “Line 9819 – Motor vehicle expenses” on page 22.

## Line 9805 – Interest

You can deduct interest you incurred on money borrowed for farming business purposes or to acquire property for farming business purposes.

However, there are limits on:

- the interest you can deduct on money you borrowed to buy a passenger vehicle. For more information, see “Line 9819 – Motor vehicle expenses” on page 22.
- the amount of interest you can deduct for vacant land. Usually, you can only deduct interest up to the amount of income from the land that remains after you deduct all other expenses. You cannot use any remaining amounts of interest to create or increase a loss, and you cannot deduct them from other sources of income.

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

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

## Line 9808 – Office expenses

You can deduct the cost of office expenses. These include small items such as pens, pencils, paper clips, stationery, and stamps. Office expenses do not include items such as calculators, filing cabinets, chairs, and desks. These are

capital items. For more information on capital property, see Chapter 5.

## Line 9809 – Legal and accounting fees

Deduct the fees you incurred for external professional advice or services, including consulting fees.

You can deduct accounting and legal fees you incur to get advice and help in keeping your records. You can also deduct fees you incur for preparing and filing your income tax and GST/HST returns.

You can deduct accounting or legal fees you paid to have an objection or appeal prepared against an assessment for income tax, Canada Pension Plan or Quebec Pension Plan contributions, or Employment Insurance premiums. However, the full amount of these deductible fees must first be reduced by any reimbursement of these fees you have received. Report the difference on line 232 of your income tax return. If you received a reimbursement in 2015 for the types of fees you deducted in a previous year, report the amount you received on line 130 of your 2015 income tax return.

You cannot deduct legal and other fees you incur to buy capital property. Instead, add these fees to the cost of the property. For more information on capital property, see Chapter 5.

For more information, see the archived Interpretation Bulletin IT-99R5-CONSOLID, *Legal and Accounting Fees*.

## Line 9810 – Property taxes

Enter the 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 explained at “Line 9945 – Business-use-of-home expenses” on page 31.

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, and pasture)

You can deduct rent incurred for land, buildings, and pasture used in your farming business.

If you farmed on a sharecrop basis and paid your landlord a share of the crop, you can do **one** of the following:

- Add to your income the FMV (see “Definitions” on page 5) of the crops given to your landlord. Deduct the same amount as a rent expense.
- Do not include the FMV in income and do not deduct the amount as a rent expense.

## Line 9814 – Salaries, wages, and benefits (including employer’s contributions)

You can deduct employees’ gross salaries and other benefits you incurred. Do not deduct salaries or drawings paid or payable to yourself or a partner. For more information, see “Details of equity” on page 32.

The Canada Pension Plan (CPP) is for all workers, including the self-employed. Employers, employees, and most self-employed individuals have to contribute to the CPP. The CPP can provide basic benefits when you retire or if you become disabled. When you die, the CPP can provide benefits to your surviving spouse or common-law partner and dependent children under the age of 25. For more information on contributions and benefits, visit the Service Canada website at [www.servicecanada.gc.ca](http://www.servicecanada.gc.ca).

Quebec workers including the self-employed are covered under the Quebec Pension Plan (QPP).

As the employer, you can deduct your part of CPP or QPP contributions, Employment Insurance premiums, Provincial Parental Insurance Plan (PPIP) premiums (the PPIP is an income replacement plan for residents of Quebec—for details, contact Revenu Québec), and workers' compensation amounts payable on employees' remuneration. For information on making payroll deductions, go to [www.cra.gc.ca/payroll](http://www.cra.gc.ca/payroll).

You can also deduct any insurance premiums you pay for an employee for a sickness, an accident, a disability, or an income insurance plan.

You can deduct the salary you pay to your child, as long as you meet **all** these conditions:

- you pay the salary;
- the work your child does is necessary for earning farming income; and
- the salary is reasonable when you consider your child's age, and the amount you pay is what you would pay someone else.

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

Instead of cash, you may pay your child with a product from your business. When you do this, claim the value of the product as an expense and add to your gross sales an amount equal to the value of the product. Your child has to include the value of the product in his or her income.

You can also deduct the salary you pay to your spouse or common-law partner by using the same rules that apply to paying your child.

Report the salaries you pay to your children and spouse or common-law partner on T4 slips, the same as you would for other employees. However, you cannot claim the value of board and lodging you provide to your dependent children and spouse or common-law partner as an expense.

For more information, see Guide RC4120, *Employers' Guide—Filing the T4 Slip and Summary*.

## **Line 9819 – Motor vehicle expenses (not including CCA)**

You can deduct expenses you incur to run a motor vehicle you use to earn farming income. Fill in "Chart A – Motor

vehicle expenses" of Form T2042. The chart will help you calculate the amount of motor vehicle expenses you can deduct. If you are a partner in a business partnership and you incur motor vehicle expenses for the business through the use of your personal vehicle, you can claim those business related expenses on "Line 9943 – Other amounts deductible from your share of net partnership income (loss)" of Form T2042. For more information, see page 31.

### **Keeping records**

You can deduct motor vehicle expenses only when they are reasonable and you have receipts to support them. To get the full benefit of your claim for each vehicle, keep a record of the total kilometres you drive and the kilometres you drive to earn farming income. For each business trip, list the date, destination, purpose, and number of kilometres you drive. Record the odometer reading of each vehicle at the start and end of the fiscal period.

If you change motor vehicles during the fiscal period, record the dates of the changes and the odometer readings when you buy, sell, or trade the vehicles.

### **Simplified logbook for motor vehicle expense provisions**

Following a Federal initiative to reduce the paper burden on businesses, you can choose to maintain a full logbook for one complete year to establish a base year's business use of a vehicle.

After one complete year of keeping a logbook to establish the base year, you can use a three-month sample logbook to extrapolate business use for the entire year, as long as the usage is within the same range (within 10%) of the results of the base year. Businesses will have to show that the use of the vehicle in the base year remains representative of its normal use.

For more information about the sample logbook policy, go to [www.cra.gc.ca/autolog](http://www.cra.gc.ca/autolog).

### **What type of vehicle do you own?**

The kind of vehicle you own can affect the expenses you can deduct. For income tax purposes, there are two definitions of vehicles (see "Definitions" on page 5) you should know about. They are:

- motor vehicles; and
- passenger vehicles.

If you own or lease a passenger vehicle, there may be a limit on the amounts you can deduct for CCA, interest, and leasing costs. We explain the CCA limits in Chapter 4. You will find the limits on interest and leasing costs later in this section.

The following chart will help you to determine if you have a motor vehicle or a passenger vehicle. 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.

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

### Deductible expenses

The types of expenses you can claim on line 9819 include:

- licence and registration fees;
- fuel costs;
- insurance;
- interest on money borrowed to buy a motor vehicle;
- maintenance and repairs; and
- leasing costs.

You can also claim CCA, but you enter this amount on line 9936. For more information about CCA, see Chapter 4.

### Business use of a motor vehicle

If you use a motor vehicle for business and personal use, you can deduct only the part of the expenses you paid to earn income. However, you can deduct the full amount of parking fees related to your business activities and supplementary business insurance for your motor vehicle. Farming business use includes trips to pick up parts or farm supplies, and to deliver grain. If you did not live on your farm, the travel between the farm and your home is not considered business travel.

To support the amount you can deduct, keep a record of the total kilometres you drive and the kilometres you drive to earn income.

### 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 2015 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  
 Interest (on loan to buy truck)..... \$ 1,900  
 Licence and registration fees ..... \$ 100  
 Total expenses for the truck..... \$ 7,000

This is how Murray determines the motor vehicle expenses he can deduct in his 2015 fiscal period:

$\frac{27,000 \text{ (farming business kilometres)}}{30,000 \text{ (total kilometres)}} \times \$7,000 = \$6,300$

Murray can deduct \$6,300 on line 9819 of Form T2042 as motor vehicle expenses for his 2015 fiscal period.

If you received insurance proceeds to help pay for repairs, see "Line 9604 – Insurance proceeds" on page 16.

### Joint ownership of a passenger vehicle

If you and another person own or lease a passenger vehicle, the limits on CCA, interest, and leasing costs still apply. As a joint owner, the total amount you or any other owners deduct cannot be more than the amount one person owning or leasing the vehicle could deduct.

### More than one vehicle

If you use more than one motor vehicle for your farming business, for each vehicle keep a separate record that shows the total personal-use kilometres and farming business kilometres you drive, as well as the cost to run and maintain each vehicle. Calculate each vehicle's expenses separately.

For more information, see the latest archived Interpretation Bulletin IT-521R, *Motor Vehicle Expenses Claimed by Self-Employed Individuals*.

## Interest

You can deduct interest on the money you borrow to buy a motor vehicle or passenger vehicle you use to earn farming income. Include the interest as an expense when you calculate your allowable motor vehicle expenses.

When you use a passenger vehicle to earn income, there is a limit on the amount of interest you can deduct. To calculate the interest you can deduct, fill in “Chart B – Available interest expense for passenger vehicles” of Form T2042.

### Example

Heather’s farming business has a December 31 year-end. On January 1, 2015, 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 2015 fiscal period was \$2,200. Since the car that Heather bought is a passenger vehicle, there is a limit on the interest she can deduct. Heather’s available interest is the lesser of:

- \$2,200 (the total interest she paid in her 2015 fiscal period); or
- \$3,650 (\$10 × 365 days).

Heather’s records for her 2015 fiscal period:

Farming business kilometres .....	20,000 km
Total kilometres .....	25,000 km

### Expenses:

Gasoline and oil .....	\$2,000
Repairs and maintenance .....	\$1,000
Insurance.....	\$1,900
Interest (on loan to buy vehicle) .....	\$2,200
Licence and registration.....	\$ 60
Total vehicle expenses.....	<u>\$7,160</u>

Heather determines the motor vehicle expenses she can deduct in her 2015 fiscal period:

$$\frac{20,000 \text{ (farming business kilometres)}}{25,000 \text{ (total kilometres)}} \times \$7,160 = \$5,728$$

Heather can deduct \$5,728 on line 9819 of Form T2042 as motor vehicle expenses for her 2015 fiscal period.

## Leasing costs for a passenger vehicle

You can deduct costs you incur to lease a motor vehicle you use to earn farming income. Include these amounts on line 9819.

When you use a passenger vehicle to earn farming income, there is a limit on the amount of the leasing costs you can deduct. To calculate your eligible leasing costs, fill in the chart “Chart C – Eligible leasing costs for passenger vehicles” of Form T2042.

If the lease agreement for your passenger vehicle includes such items as insurance, maintenance, and taxes, include them as part of the lease charges on line 1 of Chart C.

## Note

Generally, leases include taxes (GST/HST or PST), but not items such as insurance and maintenance. You have to pay these amounts separately. Include the taxes on line 1 of Chart C, and list the items like insurance and maintenance on the appropriate lines of “Chart A – Motor vehicle expenses.”

For your 2015 fiscal period, use the GST rate of 5% or the HST rate of your specific province to fill in Chart C.

The following example shows how to calculate the eligible leasing costs. Use Chart C of Form T2042 to help you understand the following example.

### Example

On July 1, 2015, 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 5%. Meadow entered the following for 2015:

Monthly lease payment .....	\$ 500
Lease payments for 2015 .....	\$ 3,000
Manufacturer’s suggested list price.....	\$ 33,000
Number of days in 2015 she leased the car.....	184
GST and PST on \$30,000.....	\$ 3,900
GST and PST on \$35,294.....	\$ 4,588
GST and PST on \$800.....	\$ 104

Total lease charges incurred in  
2015 fiscal period for the vehicle ..... \$ 3,000 1

Total lease payments deducted in  
fiscal periods before 2015 for the vehicle ..... \$ 0 2

Total number of days the vehicle was  
leased in 2015 and previous fiscal periods..... 184 3

Manufacturer’s list price ..... \$ 33,000 4

The amount on line 4 or  
\$39,882 (\$35,294 + \$4,588), whichever is more  
\$39,882 × 85%..... \$ 33,900 5

(\$904 × 184) ÷ 30 ..... \$ 5,545 6

(\$33,900 × \$3,000) ÷ \$33,900 ..... \$ 3,000 7

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

## 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 so, 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** of the following apply:

- one or more deposits were made for the leased passenger vehicle;



- one or more deposits are refundable; and
- the total of the deposits is more than \$1,000.

For more information, see the latest archived Interpretation Bulletin IT-521R, *Motor Vehicle Expenses Claimed by Self-Employed Individuals*.

### Line 9820 – Small tools

If a tool costs you less than \$500, you can deduct its full cost. If it costs you \$500 or more, add the cost to your CCA schedule as Class 8 property. For more information, see Chapter 4.

#### Note

Small tools that cost less than \$500 are fully deductible in the year of purchase. You may claim them as an expense at line 9820 or claim CCA by including them in Class 12 (with a CCA rate of 100%). Either method is acceptable, but do not claim the amount twice. For more information on CCA, see Chapter 4.

### Line 9937 – Mandatory inventory adjustment included in 2014

If you included an amount for the mandatory inventory adjustment (MIA) on line 9942 in your 2014 fiscal period, deduct the amount as an expense in your 2015 fiscal period. Do not include the valuation of inventories if you are using the accrual method of accounting. For more information about the accrual method, see “Reporting methods” on page 7.

For more information on MIA, see line 9942 on page 28.

### Line 9938 – Optional inventory adjustment included in 2014

If you included an amount for the optional inventory adjustment (OIA) on line 9941 in your 2014 fiscal period, deduct the amount as an expense in your 2015 fiscal period. Do not include the valuation of inventories if you are using the accrual method of accounting. For more information about the accrual method, see “Reporting methods” on page 7.

For more information on OIA, see line 9941 on page 28.

### Line 9790 – Other expenses

There are expenses you can incur to earn farming income other than those listed on Form T2042. We cover some of them in the following sections. Enter on this line the total of other expenses you incurred to earn income, as long as you did not include them on a previous line. You do not have to list these expenses on the form.

You can pay some of your expenses by having them deducted from your cash grain tickets or grain stabilization payments. These expenses include seed, feed, sprays, or fertilizers. You can deduct these expenses if you include in your income the gross amount of the grain sale or stabilization payment.

#### Disability-related modifications

You can deduct outlays and expenses you incur for eligible disability-related modifications made to a building in the

year you paid them, instead of adding them to the capital cost of your building. Eligible disability-related modifications include changes you make to accommodate wheelchairs. For more information, see Guide T4002, *Business and Professional Income*.

#### Payment in kind

If you made a payment in kind for a farming business expense, include the FMV of the good or service in income. Deduct the same amount as an expense. For more information, see “Payment in kind” on page 17.

#### Leasing costs

Deduct the lease payments you incurred in the year for property used in your business. If you lease a passenger vehicle, see “Line 9819 – Motor vehicle expenses” on page 22.

If you entered into a lease agreement, you can elect 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 you:

- bought the property rather than leased it; and
- borrowed an amount equal to the FMV of the leased property.

You can deduct the interest part of the payment as an expense. You can also claim CCA on the property.

You can make this choice as long as the property qualified and the total FMV of all the property leased is more than \$25,000. For example, a combine leased with a FMV of \$35,000 qualifies. However, office furniture and vehicles often do not qualify.

To treat your lease this way, file **one** of these 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*.

#### Advertising

Deduct the cost of any advertising done for your farming business.

#### Telephone expenses

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.

If you have a separate telephone used in your farming business for business calls only, you can deduct its basic monthly rate.

#### Memberships and subscriptions

Enter the amount of fees you incurred for memberships in farming organizations and for subscriptions to farming publications used in your farming activities.

## Freight and trucking

Deduct the expenses you incurred for delivery, shipping, trucking, and other distribution costs related to your farming business.

## Premiums to a private health services plan (PHSP)

You can deduct premiums paid to a private health services plan (PHSP) if you meet the following conditions:

- your **net income from self-employment** (excluding losses and PHSP deductions) for the current or previous year is more than 50% of your **total income\***; or
- your **income from sources other than self-employment\*\*** is \$10,000 or less for the current or previous year;
- you are actively engaged in your farming business on a regular and continuous basis, individually or as a partner; and
- the premiums are paid to insure yourself, your spouse or common-law partner, or any member of your household.

\* For the purposes of this claim, calculate your **total income** as follows:

- the amount from line 150 of your 2014 or 2015 income tax return, whichever applies, before you deduct any amounts for PHSPs; **minus**
- the amount you entered on lines 207, 212, 217, 221, 229, 231, and 232 on your 2014 or 2015 income tax return, whichever applies.

\*\*For the purposes of this claim, calculate your income from sources **other than self-employment** as follows:

- the amount from line 150 of your 2014 or 2015 income tax return, whichever applies, before you deduct any amounts for PHSPs; **minus**
- the amount you entered on lines 135, 137, 139, 141, 143 (excluding business losses that reduced the net amount reported on those lines), 207, 212, 217, 221, 229, 231, and 232 of your 2014 or 2015 income tax return, whichever applies.

You cannot claim a deduction for PHSP premiums if another person deducted the amount, or if you or anyone else claimed the premiums as a medical expense. For your premiums to be deductible, your PHSP coverage has to be paid under a contract with one of the following:

- an insurance company;
- a trust company;
- a person or partnership in the business of administering PHSPs;
- a tax-exempt trade union of which you or the majority of your employees are members; or
- a tax-exempt business organization or a tax-exempt professional organization of which you are a member.

For more information on PHSPs, see the latest archived Interpretation Bulletin IT-339R2, *Meaning of 'private health services plan' (1988 and subsequent taxation years)*.

For the purposes of this claim, the following terms apply:

- **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.
- **Qualified employees** are arm's length, full-time employees who have three months service since they last became employed with a business carried on by you, a business in which you are a majority interest partner, or a business carried on by a corporation affiliated with you. Temporary or seasonal workers are not qualified employees.
- **Insurable persons** are people to whom coverage is extended and who are either:
  - 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 for part of the year. Find the section that describes your situation.

### Note

All PHSP deduction limits, including calculated limits, must include all applicable taxes as part of the total dollar amount.

## If you did not have any employees throughout 2015

Your PHSP deduction is restricted by an annual dollar limit. The limit is a maximum of:

- \$1,500 for yourself;
- \$1,500 for your spouse or common-law partner and each household member that is 18 years of age or older at the start of the period they were insured; and
- \$750 for each household member under the age of 18 at the start of the period.

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

$\frac{A}{365} \times (B + C)$ , where:

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

### Example 1

Edwin was a sole proprietor who ran his farm alone in 2015. He had no employees and did not insure any of his household members. Edwin paid \$2,000 for PHSP coverage in 2015. His coverage lasted from July 1 to December 31, 2015 (a total of 184 days).

Edwin's maximum allowable PHSP deduction is calculated as follows:

$$\frac{184}{365} \times \$1,500 = \$756$$

Even though Edwin paid \$2,000 in premiums in 2015, he can only deduct \$756 because the annual limit is \$1,500 and he was only insured for 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 2015. 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:

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

### If you had employees throughout 2015

If you had at least one **qualified employee** (see the definition on page 26) throughout all of 2015, 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.

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

For each of your qualified employees, calculate the following:

$X \times Y = Z$ , where:

X equals the amount you would pay to provide yourself, your spouse or common-law partner, and your household members with coverage equal 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; and

Z equals your limit based on that particular employee.

### Example

You have one qualified employee. To provide yourself with coverage equivalent to his or hers, 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:

$$\$1,800 (\text{amount } X) \times 60\% (\text{amount } Y) = \$1,080 (\text{amount } Z)$$

The maximum you can claim is \$1,080, if you had 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 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 you pay.

Name of employee	Cost of equivalent coverage for yourself	% of the employee's premium you pay
Jack	\$1,500	20%
Jill	\$1,800	50%
Sue	\$1,400	40%

You have to do the following three calculations:

Jack:  $\$1,500 (X) \times 20\% (Y) = \$300 (Z)$

Jill:  $\$1,800 (X) \times 50\% (Y) = \$900 (Z)$

Sue:  $\$1,400 (X) \times 40\% (Y) = \$560 (Z)$

Your limit is \$300, the least of the amounts 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. However, you may be able to claim them as medical expenses.

If you had employees throughout 2015 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:

$$\frac{A}{365} \times (B + C), \text{ where:}$$

A is the number of days during the period of the year you insured yourself and your household members, if applicable, but insured less than 50% of your employees;

B equals  $\$1,500 \times$  the number of household members 18 years of age or older insured during that period; and

C equals  $\$750 \times$  the number of household members under the age of 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  $X \times Y = Z$  formula in the previous example. If you did not have at least one qualified employee, the limit in Amount 1 will apply.

### If you had employees for part of the year

If you had at least one qualified employee for part of the year and your insurable arm's length employees represented at least 50% of all the insurable persons in your business, calculate your limit for **that** period by using the  $X \times Y = Z$  formula at "If you had employees throughout 2015."

For the rest of the year you had no employees or your insurable **arm's length** employees represented less than 50% of all the insurable persons in your business, your deduction limit for that remaining period is the **lesser of** Amount 1 and Amount 2, calculated in the same way as in the previous section.

### Undeducted premiums

If you deduct only part of your PHSP premium at line 9804, and you paid the premium in the year, you can include the undeducted balance when you calculate your non-refundable medical expense tax credit. For more information, see "Line 330" in your *General Income Tax and Benefit Guide*.

## Line 9935 – Allowance on eligible capital property

We explain how to determine this allowance in Chapter 5.

## Line 9936 – Capital cost allowance (CCA)

Enter the amount of CCA you calculated on the charts found on Form T2042. For more information on how to fill in these charts, see Chapter 4.

## Line 9898 – Total farm expenses

Enter the total of lines 9790, 9935, and 9936. Enter the business part only.

## Line 9899 – Net income (loss) before adjustments

Enter the gross income minus the total farming expenses. If you have a loss, enter the amount in brackets. If you are a partner in a partnership, this amount is the net farming income of all partners.

## Line 9941 – Optional inventory adjustment included in 2015

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 FMV of your inventory minus the mandatory inventory adjustment (MIA). You can only make the OIA if you use the cash

method. For the meaning of inventory and FMV, see "Line 9942" below.

For the OIA, unlike for the MIA, the inventory does **not** have to be purchased inventory. It is the entire inventory you still have at the end of your 2015 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 included in 2015

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 2015 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;
- you have a net loss on line 9899 of Form T2042; and
- you bought inventory and still have it at the end of your 2015 fiscal period. This does not refer only to inventory you bought in 2015. It includes inventory you had previously bought and still owned at the end of your 2015 fiscal period.

Your MIA is the **lesser of**:

- the net loss before adjustments on line 9899; and
- the value of the purchased inventory you still have at the end of your 2015 fiscal period.

To calculate your MIA, fill in charts 1, 2, 3, and 4 on page 57. Once you have completed chart 4, enter the amount on line 9942. For more information, see the latest archived Interpretation Bulletin IT-526, *Farming – Cash method inventory adjustments*.

In your 2016 fiscal period, deduct the MIA you added to your net loss in your 2015 fiscal period.

### Note

If you bought a specified animal (as defined below) in a **non-arm's length transaction** (see "Definitions" on page 5), we consider you bought the animal in the same year and at the same price for which the seller bought it. A non-arm's length transaction is, for example, a transaction between members of a family, such as a husband and wife, or a parent and child.

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 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 and feed; or
- in the process of being produced, such as standing crops, or feeder livestock.

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

**Purchased inventory** is inventory you have bought and paid for.

**Specified animals** are horses. You may also elect to designate 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 designate the animal this way. If you indicate on your return that it is a specified animal, we will continue to consider it as such until you sell it.

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

**Fair market value (FMV)** 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.

### Value of your purchased inventory

To value your purchased inventory, read the text that follows and the example of how to fill in the MIA charts. There are blank charts for you to use on page 57 of this guide. Keep these charts as part of your records.

Except for specified animals, you have to value any purchased inventory you acquired before or during your 2015 fiscal period at the lesser of:

- the cash cost; or
- the FMV.

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

Value the specified animals you acquired **in** your 2015 fiscal period and still have at the end of this period at one of the following amounts:

- the cash cost;
- 70% of the cash cost; or
- any amount between these two amounts.

Value the specified animals you acquired **before** your 2015 fiscal period and still have at the end of this period at one of the following amounts:

- the cash cost;
- 70% of:
  - the value of the specified animals for MIA purposes as determined at the end of your 2014 fiscal period; **plus**
  - any amounts you paid in your 2015 fiscal period toward the purchase price; or
- any amount between these two amounts.

### Example

Doug started his farming business in 2012 and uses the cash method to report his income. His year-end is December 31. Doug shows a net loss of \$55,000 in 2015 on line 9899. Doug has purchased inventory at the end of his 2015 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 2015 fiscal period.

#### Livestock

Year of purchase	Cost of purchase	Amount paid by end of 2015 fiscal period
2015	\$30,000	\$25,000
2014	\$26,000	\$26,000*
2013	\$22,000	\$22,000
2012	\$20,000	\$20,000

\* For livestock bought in his 2014 fiscal period, Doug paid \$19,000 in 2014 and \$7,000 in 2015.

Doug's other inventory is fertilizer, seed, and fuel. The cash cost is the same as the FMV value for this inventory. Its value is as follows:

- bought in his 2015 fiscal period: \$15,000
- bought in his 2014 fiscal period: \$ 6,000
- bought in his 2013 fiscal period: \$ 5,000

At the end of his 2015 fiscal period, Doug did not have any other inventory that he bought before his 2012 fiscal period.

Doug has registered his livestock under the *Animal Pedigree Act*. He wants to designate 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 2015 fiscal period for the specified animals he bought:	
Fiscal period	Cash cost
■ in his 2015 fiscal period	\$ <u>25,000</u> 1
■ in his 2014 fiscal period	\$ <u>26,000</u> 2
■ in his 2013 fiscal period	\$ <u>22,000</u> 3
■ in his 2012 fiscal period	\$ <u>20,000</u> 4
■ before his 2012 fiscal period	\$ <u>    0</u> 5
Doug enters the amount he paid by the end of his 2015 fiscal period for all other inventory he bought:	
■ in his 2015 fiscal period	\$ <u>15,000</u> 6
■ in his 2014 fiscal period	\$ <u> 6,000</u> 7
■ in his 2013 fiscal period	\$ <u> 5,000</u> 8
■ in his 2012 fiscal period	\$ <u>    0</u> 9
■ before his 2012 fiscal period	\$ <u>    0</u> 10

Doug now knows that 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 2015 fiscal period. To do this, he completes charts 2, 3, and 4 as follows:

<b>Chart 2</b>	
<b>Value of purchased inventory for specified animals</b>	
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.	
<b>Inventory bought in his 2015 fiscal period</b>	
Doug enters an amount that is not more than the amount on line 1, but not less than 70% of this amount.	a) \$ <u>20,000</u> 11
<b>Inventory bought in his 2014 fiscal period</b>	
Doug enters an amount that is not more than the amount on line 2, but not less than 70% of the total of the value at the end of his 2014 fiscal period, plus any amounts he paid in his 2015 fiscal period toward the purchase price.	b) \$ <u>14,210</u> 12
<b>Inventory bought in his 2013 fiscal period</b>	
Doug enters an amount that is not more than the amount on line 3, but not less than 70% of the total of the value at the end of his 2014 fiscal period, plus any amounts he paid in his 2015 fiscal period toward the purchase price.	c) \$ <u>7,546</u> 13
<b>Inventory bought in his 2012 fiscal period</b>	
Doug enters an amount that is not more than the amount on line 4, but not less than 70% of the total of the value at the end of his 2014 fiscal period, plus any amounts he paid in his 2015 fiscal period toward the purchase price.	d) \$ <u>4,802</u> 14
<b>Inventory bought before his 2012 fiscal period</b>	e) \$ <u>0</u> 15

- 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 2014 fiscal period at 70% of the cash cost. Therefore, the value of this inventory at the end of his 2014 fiscal period was \$13,300 ( $\$19,000 \times 70\%$ ). Remember, Doug paid \$19,000 for these specified animals in 2014. He paid \$7,000 in 2015.
- For his 2015 fiscal period, Doug chose to value the inventory that he bought in his 2014 fiscal period at 70% of the total of the value at the end of the 2014 fiscal period plus any amounts that he paid in his 2015 fiscal period toward the purchase price. Therefore, the amount that he enters on line 12 is \$14,210 [ $70\% \times (\$13,300 + \$7,000)$ ]. 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 that he bought in his 2013 fiscal period at 70% of the cash cost. Therefore, the value of this inventory at the end of his 2013 fiscal period was \$15,400 ( $\$22,000 \times 70\%$ ).

For his 2014 fiscal period, Doug chose to value the inventory that he bought in his 2013 fiscal period at 70% of the total of the value at the end of his 2013 fiscal period. Therefore, the value of this inventory at the end of his 2014 fiscal period was \$10,780 ( $\$15,400 \times 70\%$ ).

For his 2015 fiscal period, Doug chose to value the inventory that he bought in his 2013 fiscal period at 70% of the total of the value at the end of his 2014 fiscal period. Therefore, the amount he enters on line 13 is \$7,546 ( $\$10,780 \times 70\%$ ). 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 that he bought in his 2012 fiscal period at 70% of the cash cost. Therefore, the value of this inventory at the end of his 2012 fiscal period was \$14,000 ( $\$20,000 \times 70\%$ ).

For his 2013 fiscal period, Doug chose to value the inventory that he bought in his 2012 fiscal period at 70% of the total of the value at the end of his 2012 fiscal period. Therefore, the value of this inventory at the end of his 2013 fiscal period was \$9,800 ( $\$14,000 \times 70\%$ ).

For his 2014 fiscal period, Doug chose to value the inventory that he bought in his 2012 fiscal period at 70% of the total of the value at the end of his 2013 fiscal period. Therefore, the value of this inventory at the end of his 2014 fiscal period was \$6,860 ( $\$9,800 \times 70\%$ ).

For his 2015 fiscal period, Doug chose to value the inventory that he bought in his 2012 fiscal period at 70% of the total of the value at the end of his 2014 fiscal period. Therefore, the amount he enters on line 14 is \$4,802 ( $\$6,860 \times 70\%$ ). 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 2012 fiscal period.

<b>Chart 3</b>	
<b>Value of purchased inventory for all other inventory</b>	
<b>Inventory bought in his 2015 fiscal period:</b>	
Doug enters the amount from line 6 or the fair market value, whichever is less.	\$ <u>15,000</u> 16
<b>Inventory bought in his 2014 fiscal period:</b>	
Doug enters the amount from line 7 or the fair market value, whichever is less.	\$ <u>6,000</u> 17
<b>Inventory bought in his 2013 fiscal period:</b>	
Doug enters the amount from line 8 or the fair market value, whichever is less.	\$ <u>5,000</u> 18
<b>Inventory bought in his 2012 fiscal period:</b>	
Doug enters the amount from line 9 or the fair market value, whichever is less.	\$ <u>0</u> 19
<b>Inventory bought before his 2012 fiscal period:</b>	
Doug enters the amount from line 10 or the fair market value, whichever is less.	\$ <u>0</u> 20

**Chart 4  
Calculation of MIA**

Doug enters the amount of his net loss from <b>line 9899</b> of Form T2042.	\$	<u>55,000</u>	<b>21</b>
Doug enters the value of his inventory from charts 2 and 3:			
■ the amount on line 11	\$	<u>20,000</u>	
■ the amount on line 12		<u>14,210</u>	
■ the amount on line 13		<u>7,546</u>	
■ the amount on line 14		<u>4,802</u>	
■ the amount on line 15		<u>0</u>	
■ the amount on line 16		<u>15,000</u>	
■ the amount on line 17		<u>6,000</u>	
■ the amount on line 18		<u>5,000</u>	
■ the amount on line 19		<u>0</u>	
■ the amount on line 20		<u>0</u>	
Total value of inventory	\$	<u>72,558</u>	<b>22</b>
MIA – Doug enters the amount on line 21 or line 22, whichever is less.	\$	<u>55,000</u>	<b>23</b>

The MIA that Doug uses for his 2015 fiscal period will be the same amount that he deducts from his farming income when he calculates his income for his next fiscal period.

Enter the figure from line 23 of chart 4 on line 9942 of Form T2042.

### Your share of amount c

Enter your share of the total of lines 9899, 9941, and 9942 of Form T2042. This is the amount left after you subtract the amounts that the other partners are responsible for reporting. On the “Details of other partners” chart of Form T2042, indicate the full names and addresses of the other partners, as well as a breakdown of their shares of the income and their percentages of the partnership.

### Line 9974 – GST/HST rebate for partners received in the year

If you received a GST/HST rebate for partners, report the amount of the rebate that relates to eligible expenses other than CCA on line 9974 of Form T2042 in the year you receive it.

Enter the total of amounts d and line 9974 at amount e.

### Line 9943 – Other amounts deductible from your share of net partnership income (loss)

If you are a partner in a business partnership and you incur motor vehicle expenses for the business using your personal vehicle, you can claim those expenses related to the business on this line. The expenses must not have been claimed anywhere else on the form.

Claim this amount only if the partnership did not repay you for these expenses. The limits discussed earlier in this chapter also apply to these expenses.

Fill in the “Other amounts deductible from your share of net partnership income (loss)” chart of Form T2042 to list the other amounts you can deduct from your share of the partnership’s net income or loss.

### Line 9945 – Business-use-of-home expenses

You can deduct expenses for the business use of a work space in your home, if you meet **one** of the following conditions:

- it 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 clients or customers.

You can deduct part of your maintenance costs such as heating, home insurance, electricity, and cleaning materials. You can also deduct part of your property taxes, mortgage interest, and CCA. To calculate the part you can deduct, use a reasonable basis, such as the area of the workspace divided by the total area of your home.

If you use part of your home for both your business and personal living, calculate how many hours in the day you use the rooms for your business, and then divide that amount by 24 hours. Multiply the result by the business part of your total home expenses. This will give you the household cost you can deduct. If you run the business for only part of the week or year, reduce your claim accordingly.

For more information, see the latest archived Interpretation Bulletin IT-514, *Work Space in Home Expenses*.

The capital gain and recapture rules will apply if you deduct CCA on the business-use part of your home and you later sell your home. For more information about these rules, see chapters 4 and 7 as well as Guide T4037, *Capital Gains*.

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

The amount you can deduct for business-use-of-home expenses cannot be more than your net income from the farming business before you deduct these expenses. In other words, you cannot use these expenses to increase or create a business loss. You can deduct the **lesser of** the following amounts:

- any amount you carry forward from your 2014 fiscal period **plus** the business-use-of-home expenses you incur in 2015; and
- the net income amount at amount g of Form T2042.

In your next fiscal period you can use any expense you could not deduct in 2015, as long as you meet one of the previous two conditions. The same rules apply.

You can use the “Calculating business-use-of-home expenses” chart of Form T2042 to calculate your allowable claim for business-use-of-home expenses. Enter at line 9945 your share of the amount from line 3 of the chart. The expenses you claim on line 9945 cannot be claimed anywhere else on Form T2042.

## Line 9946 – Your net income (loss)

Enter your net farming income or loss on this line, and also on line 141 of your income tax return. If you have a loss, enter the amount in brackets. For more information about losses, see Chapter 6.

### Note

You may have to adjust the figure from line 9946 before entering it on your income tax return. You may have filed Form T1139, *Reconciliation of 2014 Business Income for Tax Purposes*, with your 2014 income tax return. If so, you may have to fill in the same form for 2015.

To find out if you have to file Form T1139, and calculate the amount of farming income to report on your 2015 income tax return, see Guide RC4015, *Reconciliation of Business Income for Tax Purposes*. The guide includes Form T1139.

## Details of other partners

If you are a partner in a partnership that does **not** have to file a partnership information return (see Chapter 1 for these requirements), fill in the “Details of other partners” chart of Form T2042. If you are a partner in a partnership that **must** file a partnership information return, you do not need to fill in the chart.

## Details of equity

If you are a partner in a partnership that **must** file a partnership information return, do not fill in this section.

## 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.

Total business liabilities include:

- accounts payable;
- notes payable;
- income taxes and taxes payable;
- unpaid salaries, wages, and benefits;
- interest payable;
- deferred or unearned revenues;
- loans payable;
- mortgages payable; and
- any other outstanding balance related to the business.

## Line 9932 – Drawings in 2015

A drawing is any withdrawal of cash (including salaries) or other assets, or services of a business by the proprietor or partners. This includes transactions by the proprietor or partners (or family members), like withdrawing cash for non-business use and using business assets and services for personal use. Include the cost or value of the personal use of business assets or services in your drawings for the year.

## Line 9933 – Capital contributions in 2015

A capital contribution is cash or other assets you added to the farming business during its fiscal period. This includes personal funds you added to the business account, business debts you paid with personal funds, and personal assets you transferred to the farming business.

## 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 obsolete over time, you can deduct their cost over a period of several years. The deduction is called CCA.

You can usually claim CCA on a property only when it becomes **available for use** (see “Definitions” on page 5).

### Available for use rules

Property **other** than a building usually becomes available for use on the earlier of:

- the date you first use it to earn income;
- the second tax year after the year you acquire the property;
- the time just before you dispose of the property;
- the time the property is delivered or made available to you and is capable of producing a saleable product or service; or
- the time the property is delivered and is capable of performing the function for which it was acquired only in respect of property acquired by you in the course of carrying on your farming or fishing business.

A **building** or **part** of a building usually becomes available for use on the earlier of:

- the date you start using 90% or more of the building in your business;
- the second tax year after the year you acquire the building; or
- the time just before you dispose of the building.

A building you are **constructing, renovating, or altering** usually becomes available for use on the earlier of:

- the date you complete the construction, renovation, or alteration;
- the date you start using 90% or more of the building in your business;
- the second tax year after the year you acquire the building; or
- the time just before you dispose of the building.



## How much CCA you can claim

The CCA you can claim depends on the type of property you own and the date you acquired it. Group the depreciable property you own into classes. A specific rate of CCA generally applies to each class.

We explain the most common classes of property in “Classes of depreciable property” on page 36. We list most of the classes and their rates in the “Capital cost allowance (CCA) rates” chart on page 56.

Base your CCA claim on your fiscal period ending in 2015, and not the calendar year.

### Basic information about CCA

To decide whether an amount is a current expense or a capital expense, see the “Current or capital expenses” chart on page 18.

Generally, use the declining balance method to calculate your CCA. This means you claim CCA on the **capital cost** (see “Definitions” on page 5) of the property minus the CCA you claimed in previous years, if any. The balance declines over the years as you claim CCA.

#### Example

Last year Alfie bought a building for \$60,000 to use in his farming operation. On his income tax return for last year, he claimed CCA of \$1,200 on the building. This year, Alfie bases his CCA claim on his balance of \$58,800 (\$60,000 – \$1,200).

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. 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 half-year rule in “Column 6 – Adjustment for current-year additions” on page 36. The available for use rules discussed earlier in this chapter may also affect the amount of CCA you can claim.

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 information, see the latest archived interpretation bulletins IT-481-CONSOLID, *Timber Resource Property and Timber Limits*, and IT-501, *Capital Cost Allowance – Logging Assets*, and its Special Release.

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 35.

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 information, see the latest

archived interpretation bulletins IT-373R2-CONSOLID, *Woodlots*, and IT-492, *Capital cost allowance – Industrial mineral mines*.

If you used depreciable property in 2015 you used in your farming business before January 1, 1972, fill in “Area A – Part XVII properties” on Form T2042.

If you are a partner in a partnership, you cannot separately claim CCA for depreciable property owned by the partnership. Instead, the partnership is entitled to deduct CCA in determining the net income or loss of the partnership for the year. The partnership’s net income or loss is then allocated to the partners and the partner’s share is shown on the partner’s slip, Form T5013, *Statement of Partnership Income*. If a partnership does not have to file a partnership information return and thus no T5013 slip is issued to you, complete Area A of Form T2042 to report the CCA claim for the partnership.

#### You were asking?

- Q.** How do I calculate my CCA claim if I start a farming business and my first fiscal period is from June 1, 2015, to December 31, 2015?
- A.** Since your fiscal period is less than 365 days, you have to prorate your CCA claim. Calculate your CCA using the rules discussed in this chapter. However, base your CCA claim on the number of days in your fiscal period compared to 365 days.

In this 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 ( $\$3,500 \times 214/365$ ).

For more information, see the latest archived Interpretation Bulletin IT-285R2, *Capital Cost Allowance – General Comments*.

## How to calculate your CCA

To calculate your 2015 deduction for CCA, and any recaptured CCA and terminal losses, use Area A of Form T2042.

You may have acquired or disposed of buildings or equipment during your fiscal period. If so, fill in the applicable Area B, C, D, or E, whichever applies, before completing Area A.

#### Note

Even if you are not claiming a deduction for CCA for 2015, fill in the appropriate areas of the form to show any additions or disposals during the year. For information on how to fill in all these areas, see the following sections.

### Column 1 – Class number

Enter in this column the class numbers of your properties. If this is the first year you are claiming CCA, see “Column 3 – Cost of additions in the year” on page 34 before completing column 1. If you claimed CCA last year, you can get the class numbers of your properties from last year’s form.

We discuss the more common types of depreciable properties in “Classes of depreciable property” on page 36,

and we list most of the classes and their rates in the “Capital cost allowance (CCA) rates” chart on page 56.

## 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. Enter these amounts from column 10 of your 2014 form.

From your UCC at the start of 2015, subtract any investment tax credit (ITC) you claimed or were refunded in 2014. Also, subtract any 2014 ITC you carried back to a previous year.

You may have received in 2014 a GST/HST input tax credit for a passenger vehicle you used less than 90% for your business. In this case, subtract the amount of the credit you got from your 2015 opening UCC. See “Grants, subsidies, and rebates” on page 40.

### Note

In 2015, you may be claiming, carrying back, or getting a refund of an ITC. If you still have depreciable property in the class, you have to adjust, in 2016, the UCC of the class to which the property belongs. To do this, subtract the amount of the credit from the UCC at the start of 2016. When there is no property left in the class, report the amount of the ITC as income in 2016.

## Column 3 – Cost of additions in the year

If you acquire or make improvements to depreciable property in the year, we consider them to be additions to the class in which the property belongs. You should:

- fill in Area B and Area C of your Form T2042; as explained below; and
- enter in column 3 of Area A for each class, the figure from column 5 of each class in Area B and Area C.

If a chart asks for the personal part of a property, this refers to the part you use personally, separate from the part you use for business. For example, if you use 25% of the building you live in for your farming business, your personal part is the remaining 75%.

Do not include the value of your labour in the cost of a property you build or improve. Include the cost of surveying or valuing a property you acquire. Remember that a property usually has to be **available for use** (see “Definitions” on page 5) before you can claim CCA.

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, as well as in Area B or C, whichever applies.

Include the amount of insurance proceeds considered as **proceeds of disposition** (see “Definitions” on page 5) in column 4 of Area A, as well as in Area D or E, whichever applies. For more information, see “Line 9604 – Insurance proceeds” on page 16.

If you replaced lost or destroyed property, special rules for replacement property may apply. The replacement property must be acquired within two years of the end of

the tax year in which it was lost or destroyed. For more information, see the latest archived interpretation bulletins IT-259R4, *Exchange of Property*, and IT-491, *Former business property*, and its Special Release.

To find out if any of these special situations apply, see “Special situations” on page 39.

## Area B – Details of equipment additions in the year

List the details of all equipment (including motor vehicles) you acquired or improved in 2015. Group the equipment into the applicable classes and put each class on a separate line.

Equipment includes cement mixer, snow blower and lawn mower you acquire to use in your farm business to earn income.

Enter on line 9925 the total business part of the cost of the equipment.

## Area C – Details of building additions in the year

List the details of all buildings you acquired or improved in 2015. Group the buildings into the applicable classes and put each class on a separate line.

Enter on line 9927 the total business part of the cost of the buildings. The cost includes the purchase price of the building, and any related expenses you should add to the capital cost of the building, such as legal fees, land transfer taxes, and mortgage fees.

## Land

Generally, land is not a 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 C only the cost that relates to the building. To calculate the building’s capital cost, you have to split any fees that relate to buying 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:

$$\frac{\text{Building value}}{\text{total purchase price}} \times \begin{matrix} \text{legal,} \\ \text{accounting,} \\ \text{or other} \\ \text{fees} \end{matrix} = \begin{matrix} \text{the part of the} \\ \text{fees you can} \\ \text{include in the} \\ \text{building's cost} \end{matrix}$$

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.

## Area F – Details of land additions and dispositions in the year

Enter on line 9923 the total cost of acquiring land in 2015. The cost includes the purchase price of the land plus any related expenses you should add to the capital cost of the land, such as legal fees, land transfer taxes, and mortgage fees.

You cannot claim CCA on land. Do **not** enter this amount in column 3 of Area A.

## Area G – Details of quota additions and dispositions in the year

Enter on line 9929 the total cost of acquiring quotas in 2015.

## Column 4 – Proceeds of disposition in the year

Enter the details of your 2015 dispositions on your Form T2042 as explained below.

If you disposed of a depreciable property during your 2015 fiscal period, enter in column 3 of the appropriate dispositions area (Area D or Area E) one of the following amounts, whichever is less:

- your proceeds of disposition minus any related expenses; or
- the capital cost of the property.

### Note

If a chart asks for the personal part of a property, this refers to the part you use personally, separate from the part you use for business. For example, if you use 25% of the building you live in for business, your personal part is the other 75%.

Enter at column 4 of Area A for each class, the amount from column 5 of Area D and Area E for the class.

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 4 of Area A, as well as in Area B or C, whichever applies.

Include the amount of insurance proceeds considered as **proceeds of disposition** in column 4 of Area A, as well as in Area D or E, whichever applies. This could include compensation you receive for property that someone destroys, expropriates, steals, or damages. For more information, see “Line 9604 – Insurance proceeds” on page 16.

If you dispose of a property for proceeds that are more than it cost you to acquire it (or you receive insurance proceeds for a property that was lost or destroyed that exceed the cost of the property), you will have a capital gain and possibly recapture of CCA. You may be able to postpone or defer recognition of a capital gain or recapture of CCA in computing income if, among other things, the property disposed of is replaced within certain specified time limits. For more information, see “Replacement property” on page 43, the latest archived interpretation bulletins IT-259R4, *Exchange of Property*, and IT-491, *Former business property*, and its Special Release.

Special rules may apply if you dispose of a building for less than both its UCC and your capital cost. If this is the case, see “Special rules for disposing of a building in the year” on page 41. If you dispose of a depreciable property for more than its cost, you will have a capital gain. For more information on capital gains, see Chapter 7. You cannot have a capital loss when you sell depreciable property. However, you may have a terminal loss. For an explanation of terminal losses, see “Column 5 – UCC after additions and dispositions” on page 35.

For more information on proceeds of disposition, see the latest archived interpretation bulletins IT-285R2, *Capital Cost Allowance – General Comments*, and IT-220R2, *Capital cost allowance – Proceeds of disposition of depreciable property*, and its Special Release.

## Area D – Details of equipment dispositions in the year

List in this chart the details of all equipment (including motor vehicles) you disposed of in your 2015 fiscal period. Group the equipment into the applicable classes and put each class on a separate line. Enter on line 9926 the total business part of the proceeds of disposition of the equipment.

## Area E – Details of building dispositions in the year

List in this chart the details of all buildings you disposed of in your 2015 fiscal period. Group the buildings into the applicable classes and put each class on a separate line. Enter on line 9928 the total business part of the proceeds of disposition of the buildings.

## Area F – Details of land additions and dispositions in the year

Enter on line 9924 the total of all amounts you received or will receive for disposing of land in the fiscal period.

## Area G – Details of quota additions and dispositions in the year

Enter on line 9930 the total of all amounts you received or will receive for disposing of quotas in the fiscal period.

## Column 5 – UCC after additions and dispositions

You cannot claim CCA when the amount in column 5 is:

- negative (see “Recapture of CCA” below); or
- positive and you do not have any property left in that class at the end of your 2015 fiscal period (see “Terminal loss” below).

In either case, enter “0” in column 10.

### Recapture of CCA

If the amount in column 5 is negative, you have a recapture of CCA. Enter your recapture on line 9600, “Other income.” A recapture of CCA can happen if the proceeds from the sale of depreciable property are more than the total of:

- the UCC of the class at the start of the period; and
- the capital cost of any new additions during the period.

A recapture of CCA can also occur, for example, when you get a government grant or claim an investment tax credit.

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 a fiscal period, you have no more property in the class but still have an amount you have not deducted as CCA. You can usually subtract this terminal loss from your gross farming income in the year you disposed of the depreciable property. Enter your terminal loss on line 9790, "Other expenses."

For more information on recapture of CCA and terminal loss, see the latest archived Interpretation Bulletin IT-478R2, *Capital Cost Allowance – Recapture and Terminal Loss*.

#### Note

The rules for recapture of CCA and terminal loss do not apply to passenger vehicles in Class 10.1. To calculate your CCA claim, see the comments in "Column 7 – Base amount for CCA."

### Column 6 – Adjustment for current-year additions

In the year you acquire or make additions to a property, you can usually claim CCA on half of your net additions (the amount in column 3 minus the amount in column 4). We call this the **half-year 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 your 2015 fiscal period for \$30,000, you would base your CCA claim on \$15,000 ( $\$30,000 \times 50\%$ ).

If you acquired and disposed of depreciable property of the same class in your 2015 fiscal period, 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 the property sold, 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 (see "Definitions" on page 5) you may buy depreciable property that the seller continuously owned from the day that is at least 364 days before the end of your 2015 fiscal period to the day the property was acquired. However, if you transfer personal property, such as a car or a personal computer, into your business, the half-year rule applies to the particular property transferred.

Also, some properties are not subject to the half-year rule. Some examples are those in classes 13, 14, 23, 24, 27, 34, and 52, as well as some of those in Class 12, such as small tools. The half-year rule does **not** apply when the available for use rules discussed on page 32, denies a CCA claim until the second tax year after you acquire the property.

For more information on the special rules that apply to Class 13, see the latest archived Interpretation

Bulletin IT-464R, *Capital Cost Allowance – Leasehold Interests*. For more information on the half-year rule, see the latest archived Interpretation Bulletin IT-285R2, *Capital Cost Allowance – General Comments*.

### Column 7 – Base amount for CCA

To calculate your base amount for CCA, take the amount you entered in Column 5 and subtract the amount you entered in Column 6.

For a Class 10.1 vehicle you disposed of in your 2015 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 2015 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 2014 fiscal period, you owned the Class 10.1 vehicle you disposed of in 2015. If this applies to you, enter 50% of the amount from column 2 in column 7.

### Column 8 – Rate (%)

In this column, enter the rate for each class of property in Area A. For more information on certain kinds of property, see "Classes of depreciable property" on page 36. For a list of rates, see "Capital cost allowance (CCA) rates" on page 56.

### Column 9 – CCA for the year

In column 9, enter the CCA you want to deduct for 2015. 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.

In your first year of business, you may have to prorate your CCA claim. See "You were asking?" on page 33.

Add up all of the amounts in column 9. Enter the total on line 9936, "Capital cost allowance (CCA)." To find out how to calculate your CCA claim if you are using the property for both business and personal use, see "Personal use of property" on page 39.

### Column 10 – UCC at the end of the year

This is the UCC at the end of your 2015 fiscal period. This 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

In this part, we discuss the more common classes of depreciable property. We list most of the classes and their rates in the "Capital cost allowance (CCA) rates" chart on page 56.

## Class 1 (4%)

A **building** may belong to class 1, 3, or 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; and
- escalators.

### Note

Most land is not depreciable property. Therefore, when you acquire property, only include the cost related to the building in Area A and Area C. Enter on line 9923 in Area F the cost of all land additions in 2015. For more information, see "Area F – Details of land additions and dispositions in the year" on page 34 and "Column 3 – Cost of additions in the year" on page 34.

For more information, see the latest archived Interpretation Bulletin IT-79R3, *Capital Cost Allowance – Buildings or Other Structures*.

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 to a Class 1 building or certain buildings of another class after 1987.

The CCA rate for **eligible** non-residential buildings acquired by a taxpayer after March 18, 2007, and used in Canada to manufacture or process goods for sale or lease includes an additional allowance of 6% for a total rate of 10%. The CCA rate for **other eligible** non-residential buildings includes an additional allowance of 2% for a total rate of 6%.

To be eligible for one of the additional allowances, you must elect to put a building in a separate class. To make the election, attach a letter to your return for the tax year in which you acquired the building. If you do not file an election to put it in a separate class, the 4% rate will apply.

The additional allowance applies to buildings acquired after March 18, 2007, (including a new building, if any part of it is acquired after March 18, 2007, when the building was under construction on March 19, 2007) that have not been used or acquired for use before March 19, 2007.

To be eligible for the 6% additional allowance, at least 90% of a building (measured by square footage) must be used in Canada for the designated purpose at the end of the tax year. Manufacturing and processing buildings that do not meet the 90% use test will be eligible for the additional 2% allowance if at least 90% of the building is used in Canada for non-residential purposes at the end of the tax year.

## Class 3 (5%)

Most buildings acquired before 1988 are included in 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 with a CCA rate of 5% 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.

Include in Class 3 the cost of any additions or alterations made after 1987 to a Class 3 building that does not exceed the **lesser** of the following two amounts:

- \$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).

Any amount that exceeds the lesser amount above is included in Class 1.

## Class 6 (10%)

Include in Class 6, with a CCA rate of 10% a building if it is made of frame, log, stucco on frame, galvanized iron, or corrugated metal. In addition, **one** of the following conditions has to apply:

- you acquired the building before 1979;
- the building is used to gain or produce income from farming or fishing; or
- the building has no footings or other base supports below ground level.

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

If none of the above conditions apply, include the building in Class 6 if **one** of the following conditions applies:

- you entered into a written agreement before 1979 to acquire the building, and the footings or other base supports of the building 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 the footings or other base supports of the building were started before 1979.

Also include in Class 6 certain greenhouses and fences.

For additions or alterations to such a building:

- Add to Class 6:
  - 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 over \$100,000 made after 1978 and before 1988; and

- the part of the cost of additions or alterations over \$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 over these limits.

For more information, see the latest archived Interpretation Bulletin IT-79R3, *Capital Cost Allowance – Buildings or Other Structures*.

### Class 8 (20%)

Class 8 with a CCA rate of 20% includes certain property that is not included in another class. Examples are furniture, appliances, and tools costing \$500 or more per tool, some fixtures, machinery, outdoor advertising signs, refrigeration equipment, and other equipment you use in business.

Photocopiers and electronic communications equipment, such as fax machines and electronic telephone equipment are also included in Class 8.

#### Note

If this equipment cost \$1,000 or more, you can elect to have it included in a separate class. The CCA rate will not change but a separate CCA deduction can now be calculated for a five-year period. When all the property in the class is disposed of, the UCC is fully deductible as a terminal loss. Any UCC balance remaining in the separate class at the end of the fifth year has to be transferred back to the general class in which it would otherwise belong. To make an election, attach a letter to your income tax return for the tax year in which you acquired the property.

Include data network infrastructure equipment and systems software for that equipment acquired before March 23, 2004. If acquired after March 22, 2004, include it in Class 46. See “Class 46 (30%)” on page 39.

Include buildings you use to store fresh fruit or vegetables, by or for the person or persons by whom they were grown, 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.

### Class 10 (30%)

Class 10 with a CCA rate of 30% includes general-purpose electronic data processing equipment (commonly called computer hardware) and systems software for that equipment, including ancillary data processing equipment, if you acquired them before March 23, 2004, or after March 22, 2004, and before 2005, and you made an election.

Class 10 also includes motor vehicles, as well as some passenger vehicles. We define **motor vehicle** and **passenger vehicle** on page 5.

Include passenger vehicles in Class 10 unless they meet a Class 10.1 condition.

### Class 10.1 (30%)

Your **passenger vehicle** (see “Definitions” on page 5) can belong in either Class 10 or Class 10.1.

To determine the class your passenger vehicle belongs in, you have to use the cost of the vehicle before you add the GST/HST or the PST.

Include your passenger vehicle in Class 10.1 if you bought it in your 2015 fiscal period and it cost more than \$30,000. List each Class 10.1 vehicle separately.

We consider the capital cost of a Class 10.1 vehicle to be \$30,000 plus the related GST/HST, or PST. The \$30,000 amount is the capital cost limit for a passenger vehicle.

#### Note

Use the GST rate of 5% and the appropriate PST rate for your province or territory. If your province is a participating province, use the appropriate HST rate. For more information on the GST and the HST, see Guide RC4022, *General Information for GST/HST Registrants*.

### Example

Vivienne owns a farming business. On June 21, 2015, she bought two passenger vehicles to use in her farming business. The PST rate for her province is 8%. Vivienne kept the following records for 2015:

	Cost	GST	PST	Total
Vehicle 1	\$33,000	\$1,650	\$2,640	\$37,290
Vehicle 2	\$28,000	\$1,400	\$2,240	\$31,640

Vivienne puts vehicle 1 in Class 10.1, since she bought it in 2015 and it cost her more than \$30,000. Before Vivienne enters an amount in column 3 of Area B, she has to calculate the GST and PST on \$30,000. She does this as follows:

- GST at 5% of \$30,000 = \$1,500
- PST at 8% of \$30,000 = \$2,400

Therefore, Vivienne’s capital cost is \$33,900 (\$30,000 + \$1,500 + \$2,400). She enters this amount in column 3 of Area B.

Vivienne puts vehicle 2 into Class 10, since she bought it in 2015 and it did not cost her more than \$30,000. Vivienne’s capital cost is \$31,640 (\$28,000 + \$1,400 + \$2,240). She enters this amount in column 3 of Area B.

### Class 12 (100%)

The cost **limit** for access to the Class 12 (100%) treatment is \$500 for tools acquired on or after May 2, 2006.

Most small tools in Class 12 are not subject to the half-year rule. They are fully deductible in the year of purchase. If the tool costs \$500 or more, include it in Class 8 with a CCA rate of 20%.

Class 12 tools that **are** subject to the half-year rule include dies, jigs, patterns, moulds or lasts, and the cutting or shaping part of a machine. For more information, see the latest archived Interpretation Bulletin IT-285R2, *Capital Cost Allowance – General Comments*.

Include in Class 12 with a CCA rate of 100% computer software that is not systems software. Software in Class 12 is subject to the half-year rule.

## Class 45 (45%)

Include general-purpose electronic data processing equipment (commonly called computer hardware) and systems software for that equipment, including ancillary data processing equipment, in Class 45 with a CCA rate of 45% if you acquired them after March 22, 2004, and before March 19, 2007.

### Note

If you acquired the equipment or software before 2005 and made the separate Class 8 election, as discussed in the Class 8 note, the property does not qualify for the 45% rate.

## Class 46 (30%)

Include in Class 46 with a CCA rate of 30% data network infrastructure equipment and systems software for that equipment if they were acquired after March 22, 2004. If they were acquired before March 23, 2004, include them in Class 8. See "Class 8 (20%)" on page 38.

## Class 50 (55%)

Include in Class 50 with a CCA rate of 55% property acquired after March 18, 2007, that is general-purpose electronic data processing equipment and systems software for that equipment, including ancillary data processing equipment, but not including property that is included in Class 29 or Class 52 or that is mainly or is used mainly as:

- electronic process control or monitor equipment;
- electronic communications control equipment;
- systems software for equipment referred to in a) or b); or
- data handling equipment (other than data handling equipment that is ancillary to general-purpose electronic data processing equipment).

The property in this Class has a CCA rate of 55%.

## Class 52 (100%)

Include in Class 52 with a CCA rate of 100% (with no half-year rule) general-purpose electronic data processing equipment (commonly called computer hardware) and systems software for that equipment, including ancillary data processing equipment if they were acquired after January 27, 2009, and before February 2011, but not including property that is mainly or is used mainly as:

- electronic process control or monitor equipment;
- electronic communications control equipment;
- systems software for equipment referred to in a) or b); or
- data handling equipment (other than equipment that is ancillary to general-purpose electronic data processing equipment).

To qualify for this rate the asset must also:

- be located in Canada;
- have not been used, or acquired for use, for any purpose before it is acquired by the taxpayer; and

- be acquired by the taxpayer:

- for use in a business carried on by the taxpayer in Canada or to earn income from property located in Canada; or
- for lease by the taxpayer to a lessee for the lessee to use in a business the lessee carried on in Canada or to earn income from property located in Canada.

## Special situations

### Personal use of property

If you buy property for business and personal use, you can show the business part of the property in Area B or C in one of two ways:

- If your business use stays the same from year to year, enter the total cost of the property in column 3, the personal part in column 4, and the business part in column 5. To calculate the CCA you can claim, enter the amount from column 5 in column 3 of Area A.
- If your business use changes from year to year, enter the total cost of the property in column 3 and column 5, and enter "0" in column 4. Enter the amount from column 5 in column 3 of Area A to calculate the CCA you can claim. When you claim CCA, you will have to calculate the allowable part you can claim for business use.

### Example

Jennifer owns a business. She bought a car in 2015 that she uses for both 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 2015 as follows:

She enters \$20,000 in column 3 and column 5 of Area B. 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:

$$\frac{12,000 \text{ (business kilometres)}}{18,000 \text{ (total kilometres)}} \times \$3,000 = \$2,000$$

Jennifer enters \$2,000 on line 9936.

### 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. For more information, see "Class 10.1 (30%)" on page 38.

### Changing from personal to business use

If you bought a property for personal use and started using it in your farming business in your 2015 fiscal period, there is a change in use. You need to determine the capital cost for business purposes.

Enter the FMV of the property in column 3 of Area B or C, 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 using your property for farming business use, you are considered to have disposed of it. If the FMV of the property is more than its cost, you may have a capital gain unless you file an election. For more information on capital gains, see Chapter 7. Use the following chart to determine the amount to enter in column 3 when the FMV is more than its original cost.

<b>Capital cost calculation</b>	
Actual cost of the property	\$ _____ 1
FMV of the property	\$ _____ 2
Amount on line 1	\$ _____ 3
Line 2 <b>minus</b> line 3 (if negative, enter "0")	\$ _____ 4
Enter all capital gains deductions claimed for the amount on line 4* \$ _____ x 2 =	\$ _____ 5
Line 4 <b>minus</b> line 5 (if negative, enter "0") \$ _____ x 1/2 =	\$ _____ 6
<b>Capital cost</b> (line 1 <b>plus</b> line 6)	\$ _____ 7
* Enter the amount that relates to the depreciable property only.	
Enter the capital cost of the property from line 7 in column 3 of Area B or C.	

**Note**

We consider you to 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 F.

**Grants, subsidies, and rebates**

You should subtract from the applicable expense any rebate, grant, or assistance you received. Enter the net expense on the appropriate line on Form T2042.

When you get a grant, subsidy, or rebate from a government or a government agency to buy depreciable property, subtract the amount of the grant, subsidy, or rebate from the property's capital cost. Do this before you enter the capital cost in column 3 of Area B or C.

You may have paid 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. Subtract the input tax credit from the property's capital cost. Do this before you enter the capital cost in column 3 of Area B or C, whichever applies. If you get an input tax credit for a passenger vehicle you use in your business, use **one** of these methods:

- For a passenger vehicle you used **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 B.

- For a passenger vehicle you used **less than 90%** of the time for your business, do not make an adjustment in 2015. Instead, subtract the amount of the credit from your beginning UCC in 2016.

You may get an incentive from a non-government agency to buy depreciable property. If this happens, you can include the amount in income at line 9570 or subtract the amount from the capital cost of the property. If the rebate is more than the remaining UCC in the particular class, add the excess to income on line 9570, "Rebates."

For more information about government assistance, see the latest archived Interpretation Bulletin IT-273R2, *Government Assistance – General Comments*.

**Non-arm's length transactions**

When you acquire depreciable property in a **non-arm's length** transaction (see "Definitions" on page 5), there are special rules for determining the property's cost. These special rules do not apply if you acquire the property because of someone's death.

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

- from an individual resident in Canada;
- from a partnership with at least one partner who is an individual resident in Canada; or
- from a partnership with at least one partner who is another partnership.

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

<b>Capital cost calculation</b>	
<b>Non-arm's length transaction – Resident of Canada</b>	
The seller's cost or capital cost	\$ _____ 1
The seller's proceeds of disposition	\$ _____ 2
Amount from line 1	\$ _____ 3
Line 2 <b>minus</b> line 3 (if negative, enter "0")	\$ _____ 4
Enter any capital gains deduction claimed for the amount on line 4 \$ _____ x 2 =	\$ _____ 5
Line 4 <b>minus</b> line 5 (if negative, enter "0") \$ _____ x 1/2 =	\$ _____ 6
<b>Capital cost</b> (line 1 <b>plus</b> line 6)	\$ _____ 7
Enter this amount in column 3 of either Area B or C, 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 F of Form T2042.	



You can also acquire depreciable property in a non-arm's length transaction:

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

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

<b>Capital cost calculation Non-arm's length transaction – Non-resident of Canada</b>	
The seller's cost or capital cost	\$ _____ 1
The seller's proceeds of disposition	\$ _____ 2
Amount from line 1	\$ _____ 3
Line 2 minus line 3 (if negative, enter "0")	
\$ _____ × 1/2 =	\$ _____ 4
<b>Capital cost (line 1 plus line 4)</b>	<b>\$ _____ 5</b>
Enter this amount in column 3 of either Area B or C, 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 F of Form T2042.	

If you buy depreciable property in a non-arm's length transaction and pay less for it than the seller paid, 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 B or C, whichever applies.

### Example

Bruce bought a tractor for \$16,000 from his father, Paul, in his 2015 fiscal period. Paul paid \$40,000 for the tractor in 2004. 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 B, "Details of equipment additions in the year" he enters \$40,000 in column 3, "Total cost" and
- in Area A, "Calculating capital cost allowance (CCA)" he enters \$16,000 in column 3, "Cost of additions in the year" as the addition for his 2015 fiscal period.

There is a limit on the cost of a passenger vehicle you buy in a non-arm's length transaction. The cost is the **least of**:

- the FMV when you buy it;
- \$30,000 **plus** any GST/HST or PST you would pay on \$30,000 if you bought it in your 2015 fiscal period; 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 would be the 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 information on non-arm's length transactions, see the Income Tax Folio S1-F5-C1, *Related persons and dealing at arm's length*.

## Capital gains

If you sell a property for more than it cost, you may have a capital gain. List the dispositions of all your properties on Schedule 3, *Capital Gains (or Losses) in 2015*. You will find a copy of this schedule in your T1 General package. For information on how to calculate your taxable capital gain, see Chapter 7 or Guide T4037, *Capital Gains*.

You may be in a partnership and receive a slip, Form T5013, *Statement of Partnership Income*. If the partnership has a capital gain, it will allocate part of that gain to you. The gain will show on the partnership's financial statements or on your T5013 slip.

### Note

You cannot have a capital loss when you sell depreciable property. However, you can have a terminal loss; see "Column 5 – UCC after additions and dispositions" on page 35.

## Special rules for disposing of a building in the year

If you disposed of a building in the year, special rules may apply making the proceeds of disposition an amount other than the actual proceeds of disposition. 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 "Definitions" on page 5), owned the land that the building is on, or the land next to it, which was necessary for the building's use.

To calculate the **cost amount**:

- If the building was the only property in the class, the cost amount is the UCC of the class before you disposed of the building.
- If more than one property is in the same class, you have to calculate the cost amount of each building as follows:

$$\frac{\text{capital cost of the building}}{\text{capital cost of all property in the class not previously disposed of}} \times \text{UCC of the class} = \text{cost amount of the building}$$

### Note

If a building acquired in a non-arm's length transaction was previously used for something other than producing income, the capital cost of such property will need to be recalculated to determine the cost amount of the building.

For more information on proceeds of disposition, see the latest archived interpretation bulletins IT-285R2, *Capital Cost Allowance – General Comments* and IT-220R2, *Capital Cost Allowance – Proceeds of Disposition of Depreciable Property*, and its Special Release.

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 page 42.

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 page 43.

<b>Calculation A</b>	
<b>Land and building disposed of in the same year</b>	
FMV of the building at the time you disposed of it	\$ _____ 1
FMV of the land just before you disposed of it	\$ _____ 2
Line 1 <b>plus</b> line 2	\$ _____ 3
Seller’s adjusted cost base of the land	\$ _____ 4
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 either to you or another person not dealing at arm’s length with you	\$ _____ 5
Line 4 <b>minus</b> line 5 (if negative, enter “0”)	\$ _____ 6
Line 2 or line 6, whichever amount is less	\$ _____ 7
Line 3 <b>minus</b> line 7 (if negative, enter “0”)	\$ _____ 8
Cost amount of the building just before you disposed of it	\$ _____ 9
Capital cost of the building just before you disposed of it	\$ _____ 10
Line 9 or line 10, whichever amount is less	\$ _____ 11
Line 1 or line 11, whichever amount is more	\$ _____ 12
<b>Deemed proceeds of disposition of the building</b>	
Line 8 or line 12, whichever amount is less (enter this amount in column 3 of Area E, and include it in column 4 of Area A)	\$ _____ 13
<b>Deemed proceeds of disposition of the land</b>	
Proceeds of disposition of the land and building	\$ _____ 14
Amount from line 13	\$ _____ 15
Line 14 <b>minus</b> line 15 (include this amount on line 9924 of Area F)	\$ _____ 16
If you have a terminal loss on the building, include it on line 9790, “Other expenses” of Form T2042.	

<b>Calculation B</b>	
<b>Land and building disposed of in different years</b>	
Cost amount of the building immediately before you disposed of it	\$ _____ 1
FMV of the building just before you disposed of it	\$ _____ 2
Line 1 or line 2, whichever amount is more	\$ _____ 3
Actual proceeds of disposition, if any	\$ _____ 4
Line 3 <b>minus</b> line 4	\$ _____ 5
Line 5 \$ _____ × 1/2 =	\$ _____ 6
Amount from line 4	\$ _____ 7
<b>Deemed proceeds of disposition for the building</b>	
Line 6 <b>plus</b> line 7 (enter this amount in column 3 of Area E and include it in column 4 of Area A)	\$ _____ 8
If you have a terminal loss on the building, include it on line 9790, "Other expenses" of Form T2042.	

Ordinarily, you can deduct 100% of a terminal loss, but only 50% of a capital loss. Calculation B makes sure you use the same percentage to calculate a terminal loss on a building as you use to calculate a capital loss on land. As a result of this calculation, add 50% of the amount on line 5 to the actual proceeds of disposition from the building. For information, see "Terminal loss" on page 35.

**Replacement property**

In some cases, you can postpone or defer recognizing a capital gain or recapture of CCA in computing 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. To defer reporting the gain or recapture of CCA, you (or a person related to you) must acquire the replacement property within the specified time limits and use the new property for the same or similar purpose as the one you are replacing.

For more information, see the latest archived Interpretation Bulletins IT-259R4, *Exchange of Property*, and IT-491, *Former business property*, and its Special Release.

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 information on transferring property to your child, see page 52.

For more information on transfers to a corporation or a partnership, see the latest version of:

- Information Circular IC76-19R3, *Transfer of Property to a Corporation Under Section 85*;
- Interpretation Bulletin IT-291R3, *Transfer of Property to a Corporation Under Subsection 85(1)*;
- Interpretation Bulletin IT-378R, *Winding-up of a Partnership*; and
- Interpretation Bulletin IT-413R, *Election by Members of a Partnership Under Subsection 97(2)*.

The following example summarizes this chapter on CCA.

**Example**

In 2015, D’Arcy bought a building to use for his farming business. The total cost was \$95,000 (the sum 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.....	<u>\$15,000</u>
Total purchase price.....	<u>\$90,000</u>
<b>Expenses connected with the purchase:</b>	
Legal fees.....	\$3,000
Land transfer taxes.....	<u>\$2,000</u>
Total fees .....	<u>\$5,000</u>

D’Arcy’s farming business has a December 31 year-end. In 2015, D’Arcy’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 D’Arcy can fill in 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, explained under the heading "Land" on page 34.

$$\frac{\$75,000}{\$90,000} \times \$5,000 = \$4,166.67$$

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. 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 .....	<u>\$4,166.67</u>
Capital cost of the building.....	<u>\$79,166.67</u>

D’Arcy enters \$79,166.67 in column 3 of Area C and \$15,833.33 (\$15,000 + \$833.33) on line 9923 of Area F as the capital cost of the land.

**Note**

D’Arcy did not own farm property before 2015. Therefore, he has no UCC to enter in column 2 of Area A.

D’Arcy acquired his farm property in 2015. Therefore, he is subject to the half-year rule that we explain under the heading "Column 6 – Adjustment for current-year additions" on page 36.

**Chapter 5 – Eligible capital expenditures**

**What is an eligible capital expenditure?**

You may buy property that does not physically exist but gives you a lasting economic benefit. Some examples are milk and egg quotas. This kind of property is **eligible**

**capital property.** The price you pay to buy this type of property is an **eligible capital expenditure.**

## What is an annual allowance?

You cannot fully deduct an eligible capital expenditure because the expenditure is considered to be capital in nature and provides a lasting economic benefit. However, you can deduct part of its cost each year. We call the amount you can deduct your **annual allowance.**

## What is a cumulative eligible capital (CEC) account?

This is the bookkeeping record you establish to determine your annual allowance. You also use your cumulative eligible capital (CEC) account to keep track of the property you buy and sell. We call the property in your CEC account your eligible capital property. You base your annual allowance on the balance in your account at the end of your fiscal period. Keep a separate account for each business, but include all eligible capital property for the one business in the same CEC account.

## How to calculate your annual allowance

Fill in the following chart to calculate your annual allowance and the balance in your CEC account at the end of your 2015 fiscal period.

Calculating your annual allowance and your CEC account balance at the end of your 2015 fiscal period	
Balance in the account at the start of your 2015 fiscal period	\$ _____ 1
Eligible capital expenditures you made or incurred in your 2015 fiscal period _____ × 75%	\$ _____ 2
Line 1 <b>plus</b> line 2	\$ _____ 3
All the amounts you received or are entitled to receive from the sale of eligible capital property in your 2015 fiscal period \$ _____ 4	
All the amounts that became receivable in your 2015 fiscal period from the sale of eligible capital properties before June 18, 1987 \$ _____ 5	
Line 4 <b>plus</b> line 5	\$ _____ 6
Line 6 × 75%	\$ _____ 7
<b>CEC account balance</b> Line 3 <b>minus</b> line 7	\$ _____ 8
<b>Annual allowance</b> 7% × line 8	\$ _____ 9
<b>CEC account balance at the end of your 2015 fiscal period</b> Line 8 <b>minus</b> line 9	\$ _____ 10

### Note

An eligible capital expenditure is reduced by the amount of any assistance received or receivable from a government for the expenditure. Also, an amount forgiven (or entitled to be forgiven) on government debt reduces your CEC account. Special conditions may apply to non-arm's length transactions.

You can deduct an annual allowance if there is a **positive** balance in your CEC account at the end of your 2015 fiscal period. You do not have to claim the full amount of the maximum annual allowance for a given year. You can deduct any amount you want, up to the maximum allowable of 7%. 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.

If there is a **negative** balance in your CEC account, see "Sale of eligible capital property – 2015 fiscal period" on page 44. The following is an example of how to calculate the annual allowance and account balance.

### Example

Sylvie started her farming business on January 1, 2015. Her business has a December 31 year-end. During 2015, 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:

#### Sylvie's CEC account

Balance at the start of her 2015 fiscal period .....	\$ _____ 1
Eligible capital expenditure Milk quota cost for the 2015 fiscal period .....	\$ 135,000 × 75% \$ <u>101,250</u> 2
Line 1 <b>plus</b> line 2 .....	\$ <u>101,250</u> 3
Sylvie has not sold any eligible capital property during her 2015 fiscal period. Therefore, she will <b>not</b> have any amounts on lines 4 to 8.	
Maximum annual allowance on eligible capital property is 7% × line 3 ...	\$ <u>7,087</u> 9
Balance at the end of 2015 Line 3 <b>minus</b> line 9 .....	\$ <u>94,163</u> 10

## Sale of eligible capital property – 2015 fiscal period

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 sold eligible capital property:

- in your 2015 fiscal period; or
- before June 18, 1987, and the proceeds of disposition become due to you in your 2015 fiscal period.

For 2015, the amount you have to subtract is 75% of the **total** of these amounts:

- the proceeds of disposition of all the eligible capital property you sell in your 2015 fiscal period (include the total amount from a sale even if you get any or all of the proceeds after 2015); and
- the amount of any proceeds that become due to you in your 2015 fiscal period from eligible capital property you sold before June 18, 1987.

There may be a negative amount (excess) in your CEC account after you subtract the required amount. In this case, you will have to include part of the negative amount in your farming income.

Multiply by 2/3 the part of the negative amount in your CEC account that exceeds the annual allowances deducted. To that result, add whichever is less, the excess or annual allowances deducted. This is the amount to include in your farming income. The following example shows how to calculate the amount to include in your farming income.

**Example**

Christelle started her farming business on January 1, 2009, with a December 31 year-end. In 2009, she bought an egg quota for \$25,000. Christelle sold her farming business on September 1, 2015. She sold her egg quota for \$60,000 and she does not have any other eligible capital property in her farming business.

She deducted annual allowances each year as follows:

2009.....	\$ 1,313
2010.....	1,220
2011.....	1,135
2012.....	1,056
2013.....	982
2014.....	<u>913</u>
Total	\$ <u>6,619</u>

The amount that Christelle has to include in her farming income is calculated as follows:

**Calculation of amount A**

Excess amount calculated as follows:

Proceeds of disposition × 75%	
\$60,000 × 75% .....	\$ 45,000
<b>Plus:</b>	
Total annual allowances deducted.....	\$ <u>6,619</u> (i)
.....	\$ 51,619
<b>Minus:</b>	
Eligible capital expenditures × 75%	
\$25,000 × 75% .....	\$ <u>18,750</u>
Excess amount.....	\$ <u>32,869</u> (ii)
The lesser of (i) and (ii).....	\$ <u>6,619</u> A

**Calculation of amount B**

Excess amount .....	\$ 32,869
<b>Minus:</b>	
Total annual allowances deducted .....	\$ <u>6,619</u>
.....	\$ <u>26,250</u> B

**Calculation of amount C**

Line B × 2/3 .....	\$ 17,500 C
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**Taxable amount from the sale of the egg quota:**

Line A plus line C .....	\$ <u>24,119</u>
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Christelle includes \$24,119 on line 9600, "Other income" of Form T2042.

If the egg quota is a qualified farm property, part of the farming income may be eligible for the capital gains deduction.

**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 or fishing property** (QFFP) may be eligible for the capital gains deduction. You will find the definition on QFFP on page 51. If you have more than one business, do a separate calculation for each business.

The restricted farm loss rules will not apply if your main source of income is a combination of farming and manufacturing or processing in Canada of goods for sale, and all or substantially all of the output from your farming businesses is used in the manufacturing or processing. In this situation the manufacturing and processing is not subordinate to your farming source of income.

Fill in 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

Farming income from the sale of ECP (other than recapture of annual allowances deducted in previous years) for 2015	_____		1
All proceeds of disposition from the sale of ECP that is QFP during fiscal periods that began after 1987 and ended before February 28, 2000	_____		2
All eligible capital expenditures made or incurred for QFP sold during fiscal periods that began after 1987 and ended before February 28, 2000	_____		3
Outlays and expenses related to dispositions described on line B not deducted in calculating income	_____		4
Line 3 <b>plus</b> line 4		_____	5
Line 2 <b>minus</b> line 5		_____	6
Amount from line 6 _____ x 3/4 =			_____ 7
All proceeds of disposition from the sale of ECP that is QFP during fiscal periods ending after February 27, 2000, and before October 18, 2000	_____		8
All eligible capital expenditures made or incurred for QFP sold during fiscal periods ending after February 27, 2000, and before October 18, 2000	_____		9
Outlays and expenses related to dispositions described on line 8 not deducted in calculating income	_____		10
Line 9 <b>plus</b> line 10		_____	11
Line 8 <b>minus</b> line 11		_____	12
Amount from line 12 _____ x 2/3 =			_____ 13
All proceeds of disposition from the sale of ECP that is QFP during fiscal periods ending after October 17, 2000	_____		14
All eligible capital expenditures made or incurred for QFP sold during fiscal periods ending after October 17, 2000	_____		15
Outlays and expenses related to dispositions described on line 14 not deducted in calculating income	_____		16
Line 15 <b>plus</b> line 16		_____	17
Line 14 <b>minus</b> line 17		_____	18
Amount from line 18 _____ x 1/2 =			_____ 19
Line 7 <b>plus</b> line 13 <b>plus</b> line 19			_____ 20
All taxable capital gains from the disposition of ECP for the farming business that is QFP for fiscal periods that began after 1987 and ended before February 23, 1994	_____		21
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, 2015	_____		22
Line 21 <b>plus</b> line 22		_____	23
Line 20 <b>minus</b> line 23		_____	24
Farming income eligible for the capital gains deduction for 2015 (the lesser of line 1 and line 24)		_____	25
If you are a <b>sole proprietor</b> : – <b>claim</b> the amount on line 25		_____	26
If you are a <b>partner</b> : – <b>claim your share of</b> the amount on line 25		_____	27

Enter the amount from line 26 or line 27 (above) on line 173 of Schedule 3, *Capital Gains (or Losses) in 2015*. To claim the capital gains deduction, use Form T657, *Calculation of Capital Gains Deduction for 2015*.

## Election

Under certain conditions, you can elect (choose) to treat the disposition of eligible capital property (ECP), (other than goodwill), as a capital gain instead of including it in the “Calculating your annual allowance and your CEC account balance at the end of your 2015 fiscal period” chart, on page 44.

If you make the election, the proceeds of disposition on lines 4 and 5 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 of Schedule 3, *Capital Gains (or Losses) in 2015*. This election will benefit you if you have unused capital losses to apply against the capital gain.

The election is only available if you meet **all** of the following conditions:

- you disposed of an eligible capital property other than goodwill;
- the cost of the eligible capital property can be determined;
- the proceeds of disposition exceed the cost; and
- you do not have an exempt gains balance.

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 2015*, instead of the “Real estate, depreciable property, and other properties” line. See “Qualified farm or fishing property and cumulative capital gains deduction” on page 51.

Attach a note to your income tax return stating you are electing under subsection 14(1.01) of the *Income Tax Act*.

## Replacement property

If you dispose of an eligible capital property and replace it with another one for the same or similar use, you can elect to postpone all or part of any gain on the disposition. 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 dispose of the original property. For more information, see the latest archived Interpretation Bulletin IT-259R4, *Exchange of Property*.

For more information about eligible capital expenditures, see the latest archived Interpretation Bulletin IT-143R3, *Meaning of Eligible Capital Expenditure*.

## Eligible capital property of a deceased taxpayer

Upon death, a taxpayer is deemed to have disposed of eligible capital property immediately prior to 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 at the deemed disposition amount mentioned in the previous paragraph.

## Chapter 6 – Farm losses

**W**hen your farming business expenses are more than the farming business income in a year, you have a net 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 included in 2015” on page 28 and “Line 9942 – Mandatory inventory adjustment included in 2015” on page 28.

If you show a net farm loss for the year, read this chapter for information on how to treat your loss. For more information on farm losses, see the latest archived Interpretation Bulletin IT-322R, *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;
- restricted (partly deductible); or
- non-deductible.

### 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.

### Fully deductible farm losses

If you made your living from farming, we consider farming to be your main source of income. As long as farming was your main source of income, you can deduct the full amount of your net farm loss from other income. Farming can still be your main 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 main 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); and
- plans to maintain or develop your farm and how you carried them out.

Although you may have been a partner in a farming business, you still have to determine if farming was your own main source of income.

When farming is your main source of income and you show a net farm loss in 2015, you may have to reduce the loss when you have other income in 2015. Any loss that is left is your farm loss for 2015.

**Example**

Rick’s farming business, which is his main 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 2015:

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 2015 as follows:

Farm loss before adjustments.....	(\$50,000)
<b>Add</b> optional inventory adjustment.....	<u>\$15,000</u>
Farm loss after adjustments.....	(\$35,000)
<b>Add</b> other income.....	<u>\$ 2,000</u>
Farm loss for 2015.....	<u>(\$33,000)</u>

**Applying your 2015 farm loss**

You may have a farming loss in 2015. If you do, you can carry it back for up to 3 years or carry it forward for up to 20 years for all non-capital losses incurred after 2005.

In both cases, you can deduct it from all your sources of income in those years.

If you choose to carry back your 2015 farm loss to your 2012, 2013, or 2014 income tax returns, fill in Form T1A, *Request for Loss Carryback*, and file one copy of the form with your 2015 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 2015**

You may be able to apply farm losses you had in any year from 2005 to 2014 on your 2015 income tax return. You can apply these losses if you did not already deduct them, and you have net income in 2015. To apply these losses to 2015, 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.

**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 of making a profit and there must be evidence to support that intention.

However, if farming was neither your main source of income (for example, you did not rely on farming alone to make your living) nor was it your main source of income in addition to some other subordinate source of income (for example, where the other source of income was a side-line employment or business) you may only be able to deduct a part of your net farm loss.

Each year you have a farm loss, review your situation carefully to see if farming was either your main source of income or it was your main source of income in addition to some other subordinate 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 neither your main source of income nor your main source of income in addition to some other subordinate source of income and you had a net farm loss, the loss you can deduct depends on the amount of your net farm loss.

For tax years that end after March 20, 2013, the annual maximum deduction used in the calculation for restricted farm losses is \$17,500.

When your net farm loss is \$32,500 or more, you can deduct \$17,500 from your other income. The rest of your net farm loss is your restricted farm loss.

When your net farm loss is less than \$32,500, the amount you can deduct from your other income is the **lesser of**:

- A) your net farm loss for the year; and
- 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 line 168, “Farming Income.” For example, 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 neither her main source of income, nor her main source of income in addition to some other subordinate source of income in 2015. In 2015, she had employment income and a net farm loss of \$9,200, which she calculated on line 9946 of Form T2042.



The part of Sharon's net farm loss that she can deduct from her other income in 2015 is either amount A or B, whichever is **less**:

A) \$9,200; or

B) \$2,500 **plus**  $50\% \times (\$9,200 - \$2,500)$   
\$2,500 **plus**  $50\% \times \$6,700$

Therefore,  $B = (\$2,500 + \$3,350) = \$5,850$ .

Because Sharon can only deduct either 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 2015. 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 income tax return to show that the loss she is deducting is the result of a restricted farm loss calculation.

### Applying your 2015 restricted farm loss

You can carry back your 2015 restricted farm loss up to 3 years. You can also carry it forward up to 20 years.

The amount you deduct in any year cannot be more than your net farming 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 2015 restricted farm loss to your 2012, 2013, or 2014 income tax returns, use Form T1A, *Request for Loss Carryback*, and file one copy of the form with your 2015 income tax return. Do not file an amended return for the year to which you would like the loss applied.

### Applying your restricted farm losses from years before 2015

You may have net farming income in 2015. If so, you may be able to apply to your 2015 income tax return restricted farm losses you had in any year from 2005 to 2014. You can apply these losses as long as you did not already deduct them from your farming income. Also, you can only apply them up to the amount of your net farming income in 2015. You have to apply the loss from the earliest year first before you apply the losses from other years. Claim this amount on line 252 of your income tax return.

You may have sold farmland at a time when you had restricted farm losses you did not claim. When this happens, you may be able to reduce the amount of your capital gain from the sale. In this case, see "Restricted farm losses (partly deductible)" on page 48.

### Non-capital losses

You may have incurred a loss in 2015 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. Use Form T1A, *Request for Loss Carryback* to calculate your 2015 non-capital loss.

You can carry back your non-capital loss up to 3 years. You can carry forward non-capital losses incurred before

March 23, 2004, up to 7 years. Non-capital losses incurred after March 22, 2004, and before 2006 can be carried forward 10 years. Non-capital losses incurred after 2005 can be carried forward up to 20 years.

If you choose to carry back your 2015 non-capital loss to your 2012, 2013, or 2014 income tax returns, fill in Form T1A and attach one copy of the form to your 2015 return. Do not file an amended return for the year to which you apply the loss.

For more information about non-capital losses, see the latest archived Interpretation Bulletin IT-232R3, *Losses – Their Deductibility in the Loss Year or in Other Years*. You can view carryover amounts at [www.cra.gc.ca/myaccount](http://www.cra.gc.ca/myaccount) or [www.cra.gc.ca/representatives](http://www.cra.gc.ca/representatives).

## Chapter 7 – Capital gains

This chapter explains the capital gains rules for people who farm. General capital gains rules are covered 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.

### Did you sell in 2015 capital property you owned before 1972?

If you did, you have to apply a special set of rules when you calculate your capital gain or loss because 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 usually 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 2015, 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 located to be part of your principal residence. We will allow you more if you can prove 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 adjusted cost base (ACB), and any selling 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.

**Note**

If your home was **not** your principal residence for every year you owned it, there could be a capital gain on it 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 to calculate the number of years you are entitled to designate your home as your principal residence and calculate the part of your gain, if any, that is taxable.

**Example**

On February 1, 2015, 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:

<b>Value of land when she purchased her farm</b>	
FMV of similar farmland per acre .....	\$ 3,750
FMV of a typical residential building site in the area.....	\$ 15,000
<b>Value of land when she sold her farm</b>	
FMV of similar farmland per acre .....	\$ 6,250
FMV of a typical residential building site in the area.....	\$ 25,000
<b>Adjusted cost base (ACB) – actual purchase price</b>	
Land.....	\$ 120,000
House .....	60,000
Barn.....	16,000
Silo .....	<u>4,000</u>
<b>Total .....</b>	<b>\$ <u>200,000</u></b>
<b>Proceeds of disposition – actual sale price</b>	
Land.....	\$ 200,000
House .....	75,000
Barn.....	20,000
Silo .....	<u>5,000</u>
<b>Total .....</b>	<b>\$ <u>300,000</u></b>

<b>Proceeds of disposition</b>	<b>Principal residence</b>	<b>Farm properties</b>	<b>Total</b>
Land	\$ 25,000*	\$175,000	\$200,000
House	75,000		75,000
Barn		20,000	20,000
Silo		<u>5,000</u>	<u>5,000</u>
	<u>\$100,000</u>	<u>\$200,000</u>	<u>\$300,000</u>
<b>Minus ACB:</b>			
Land	\$ 15,000*	\$105,000	\$120,000
House	60,000		60,000
Barn		16,000	16,000
Silo		<u>4,000</u>	<u>4,000</u>
	<u>\$ 75,000</u>	<u>\$125,000</u>	<u>\$200,000</u>
<b>Gain on sale</b>	\$ 25,000	\$ 75,000	\$100,000
<b>Minus:</b>			
Gain on principal residence**	\$ <u>25,000</u>		\$ <u>25,000</u>
<b>Capital gain</b>	\$ <u>0</u>	\$ <u>75,000</u>	\$ <u>75,000</u>
<b>Taxable capital gain</b>	(1/2 × \$75,000)		\$ <u>37,500</u>

\* Helena uses the value of a typical residential building site for the land that is part of her principal residence, because 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.

**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:

Proceeds of disposition	\$ _____	<b>A</b>
Adjusted cost base	\$ _____	<b>B</b>
<b>A minus B</b>	\$ _____	<b>C</b>
Outlays and expenses	\$ _____	<b>D</b>
Capital gain before reduction (C minus D)	\$ _____	<b>E</b>
Method 2 reduction	\$ _____	<b>F</b>
Capital gain after reduction (E minus F)	\$ _____	<b>G</b>

**Note**

Transfer the entries on lines A, B, D, and G to the relevant columns on Schedule 3, *Capital Gains (or Losses) in 2015*, under “Qualified farm property” or “Real estate, depreciable properties, and other property.”

If you choose this method, attach a letter to your income tax return that includes the following information:

- a statement by you 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 during which 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 the 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 the 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.

For more information, see Income Tax Folio S1-F3-C2, *Principle Residence*.

## Restricted farm losses

You may have a capital gain from farmland you sell in 2015. You may also have restricted farm losses from previous years 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 or fishing property and cumulative capital gains deduction

The following is a list of updated definitions effective January 1, 2014:

- the new definition **qualified farm or fishing property** (QFFP) replaced the two previous definitions:
  - qualified farm property (QFP); and
  - qualified fishing property (QXP);
- the new definition **interest in family-farm or fishing partnership** replaced the two previous definitions:
  - interest in family-farm partnership; and
  - interest in family-fishing partnership;

- the new definition **share of the capital stock of a family-farm or fishing corporation** replaced the two previous definitions:
  - share of the capital stock of a family-farm corporation; and
  - share of the capital stock of a family-fishing corporation.

## What is qualified farm or fishing property?

Qualified farm or fishing property (QFFP) is certain property you, your spouse, or common-law partner own. It is also certain property owned by a family-farm or fishing partnership in which you, your spouse, or common-law partner holds an interest. We define spouse and common-law partner in the *General Income Tax and Benefit Guide*.

Qualified farm or fishing property includes:

- a real property, such as land and buildings;
- a share of the capital stock of a family-farm or fishing corporation you, your spouse, or common-law partner own;
- an interest in a family-farm or fishing partnership you, your spouse, or common-law partner own; or
- an eligible capital property, such as milk and egg quotas.

## Cumulative capital gains deduction

If you have a taxable capital gain from the sale of qualified farm or fishing property (QFFP), you may be able to claim a capital gains deduction.

For dispositions in 2015 of QFFP, the lifetime capital gains exemption is \$813,600.

The lifetime capital gains exemption (LCGE) for QFFP sold after April 20, 2015 increases to \$1,000,000. The additional deduction is the difference between \$500,000 (50% of \$1,000,000) and the amount of the existing maximum base capital gains deduction for qualifying properties (\$406,800 for 2015). The value of this new deduction will phase out as the maximum base capital gains deduction for qualifying properties increases through indexation.

This additional deduction for taxable capital gains from the disposition of QFFP can only be used after the existing maximum base capital gains deduction that applies to both QFFP and qualified small business corporation shares (\$406,800 for 2015) is used.

Existing rules on the base capital gains deduction also apply to the additional deduction for taxable capital gains from the disposition of QFFP.

Where a trust determines and designates an amount as a beneficiary's taxable capital gain from the disposition after April 20, 2015 of QFFP, the beneficiary is deemed to have a taxable capital gain of that amount from the disposition after April 20, 2015 of QFFP. Therefore the additional deduction for taxable capital gains from the disposition of QFFP is available to the beneficiary.

For more information on how to calculate your capital gains deduction, see Form T657, *Calculation of Capital Gains Deduction for 2015*, and Form T936, *Calculation of Cumulative Net Investment Loss (CNIL) to December 31, 2015*.

You may be a partner in a partnership that sold capital property. In this case, the partnership would allocate any taxable capital gains or allowable capital losses to the partners. If you are allocated a share of a taxable capital gain on QFFP, you may be entitled to claim a capital gains deduction.

The LCGE rules on certain farming or fishing property, shares or interests include taxpayers involved in a combination of farming and fishing businesses.

- Property held directly or through a partnership:
  - Where an individual carries on farming or fishing business as a sole proprietor, or through a partnership, in order to be eligible for the LCGE, the qualifying property must be used mainly in a farming business or a fishing business. Eligibility for the LCGE extends to property of an individual used mainly in a combination of farming and fishing.

- Shares or partnership interests:
  - In order for an individual's shares in a family corporation or interest in a family partnership to qualify for the LCGE, all or substantially all (generally interpreted as 90% or more) of the fair market value of the property of the entity must be property used mainly in a farming business or a fishing business. A property held by a family-farm corporation or partnership that is used in a combination of farming and fishing must be used mainly in farming in order to count towards the "all or substantially all" test. A similar rule applies for a property held by a family-fishing corporation or partnership.

Eligibility for the LCGE extends to an individual's shares in a corporation, or interest in a partnership, where the corporation or partnership carries on both a farming business and a fishing business. In particular, if a property of the corporation or partnership is used mainly in either business, or is used mainly in a combination of farming and fishing, the property will count towards the all or substantially all test.

## Real property or eligible capital 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 of the following:

- you, your spouse or common-law partner, or any of your parents or children (we define children on page 53);
- 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 if you meet **one** of the following conditions:

- in the year you disposed of it, the property or the one it replaced was used 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; or
- the property, or the property it replaced, was used in a farming business in Canada for at least five years by any of the above persons, a family-farm partnership, or 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 consider 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 or 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:
  - while the property was owned by any of the above persons in at least two years; the property or the property it replaced was mainly used in a farming business in Canada in which any of the above persons was actively engaged on a regular and ongoing basis. Also, while the property was owned by any of the above persons in at least two years; 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, 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** of these conditions have to be met:

- your child is a resident of Canada just before the transfer; and
- the farm property was land in Canada, depreciable property in Canada of a prescribed class, or eligible

capital property in respect of a farming business carried on in Canada, and has been used 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.

The rules on intergenerational transfers of certain farming and fishing property from an individual to the individual's child include taxpayers involved in a combination of farming and fishing businesses.

Where an individual carries on farming or fishing business as a sole proprietor, or through a partnership, in order to be eligible for the intergenerational transfer, the qualifying property must be used mainly in a farming business or a fishing business. Eligibility for the intergenerational transfer extends to property of an individual used mainly in a combination of farming and fishing.

Your **children** include:

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

The following types of property qualify for this transfer:

- farmland;
- depreciable property, including buildings; or
- 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.

The rules on intergenerational transfers of certain farming and fishing property from an individual to the individual's child include taxpayers involved in a combination of farming and fishing businesses.

- Shares or partnership interests:
  - In order for an individual's shares in a family corporation or interest in a family partnership to qualify for the intergenerational transfer, all or substantially all (generally interpreted as 90% or more) of the fair market value of the property of the entity must be property used mainly in a farming business or a fishing business. Eligibility for the intergenerational transfer extends to an individual's shares in a corporation, or interest in a partnership, where the corporation or partnership carries on both a farming business and a fishing business. In particular, if a property of the corporation or partnership is used mainly in either business, or is used mainly in a combination of farming and fishing, the property will count towards the all or substantially all test.

For most property, the transfer price can be any amount between the adjusted cost base (ACB) and its FMV. For depreciable property, the transfer price can be any amount between its UCC and its FMV. For eligible capital property, the transfer price can be any amount between:

- its FMV; and
- $4/3 \times$  your cumulative eligible capital property from the farming business  $\times$   $\frac{\text{FMV of the property}}{\text{FMV of all your eligible capital property from the farming business}}$

### Example

Wade wants to transfer these farm properties to Vicky, his 19-year-old daughter.

Land	ACB	\$ 85,000
	FMV at the time of transfer	\$ 100,000
Combine	FMV	\$ 9,000
	UCC at the time of transfer	\$ 7,840

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 information about transfers of eligible capital property, see the latest archived Interpretation Bulletin IT-268R4, *Inter Vivos Transfer of Farm Property to Child*, and its Special Release.

### 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 **all** of these conditions are met:

- the child was resident in Canada just before the parent's death;
- the property was used under the current law, 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; and
- the property was transferred 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.

### Note

The rules under “Transfer of farm property to a child” also apply in this section.

The following types of farm property qualify for this transfer:

- land and buildings, or other depreciable property used mainly in a farming business;
- eligible capital property related to a farming business; and
- a share of the capital stock of a family-farm corporation, and an interest in a family-farm partnership.

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 the child to acquire 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 property at that time. See “Eligible capital property of a deceased taxpayer” on page 47.

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 information on these transfers, see the latest archived Interpretation Bulletin IT-349R3, *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 spousal or common-law partner trust during the farmer’s lifetime. At the time of 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, not the spouse or common-law partner, generally has to report any taxable capital gain. This rule applies where the farmer is living at the time the spouse or common-law partner sells the property. However, there are exceptions to this rule. For more information, see the latest archived Interpretation Bulletin IT-511R, *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.

The rollover provisions available for farm properties also apply to land and depreciable property used mainly 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 was engaged in the woodlot operation as required by a **prescribed forest management plan** in respect of the woodlot.

## 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 information, see the latest archived interpretation bulletins IT-259R4, *Exchange of Property*, and IT-491, *Former business property*, and its Special Release.

## Information reporting of tax avoidance transactions

Taxpayers, advisors and promoters who engage in or who are entitled to certain fees in relation to certain tax avoidance transactions are subject to new reporting requirements.

The measures apply to certain avoidance transactions entered into after 2010, and avoidance transactions that are part of a series of transactions that started before 2011 and were completed after 2010.

A transaction will be reportable if it is an avoidance transaction as defined in subsection 245(3) of the *Income Tax Act* for purposes of the general anti-avoidance rule (GAAR) and has at least two of the following three characteristics:

- the advisor or promoter has or had an entitlement to certain types of fees;

- the advisor or promoter has or had confidential protection with respect to the transaction;
- the taxpayer or the advisor or promoter (including any non-arm's length parties) has or had contractual protection for the transaction (other than as a result of certain types of fees).

A reportable transaction does not include a transaction that is, or is part of, a series of transactions that includes the acquisition of a tax shelter or issuance of a flow-through share for which an information return has been filed with the minister under subsections 237.1(7) or 66(12.68), respectively.

Information return RC312, *Reportable Transaction Information Return*, must be filed on June 30 of the calendar year following the calendar year in which the

transaction first became a reportable transaction for the person. An extended reassessment period is allowed under paragraph 152(4)(b.1) of the *Income Tax Act*.

Failure to report could result in suspension of the tax benefit and a penalty for failure to report.

File this return separately from your tax return. Before you file it, make a copy for your records. Send the original return, amended return, or any additional information to:

**Other Programs Unit  
Validation and Verification Section  
Ottawa Technology Centre  
875 Heron Road  
Ottawa ON K1A 1A2**

## Capital cost allowance (CCA) rates

Below you will find the more common depreciable properties that a farming business may use. The CCA rates appear at the end of the list. For more information on Classes 13, 14, 34, and 43.1, and Part XVII of the *Income Tax Act*, call us at 1-800-959-5525.

Depreciable property	Class No.	Depreciable property	Class No.
Aircraft – Acquired before May 26, 1976 .....	16	Harrows.....	8
Aircraft – Acquired after May 25, 1976 .....	9	Hay balers and stookers	
Bee equipment.....	8	Drawn.....	8
Boats and component parts .....	7	Self-propelled.....	10
Breakwaters		Hay loaders.....	8
Cement or stone .....	3	Ice machines.....	8
Wood .....	6	Incubators.....	8
Brooders.....	8	Irrigation equipment – Overhead .....	8
Buildings and component parts		Irrigation ponds .....	6
Wood, galvanized, or portable.....	6	Leasehold interest .....	13
Other:		Manure spreaders.....	8
Acquired after 1978 and before 1988* .....	3	Milking machines.....	8
Acquired after 1987.....	1	Mixers .....	8
Fruit and vegetable storage (after Feb. 19, 1973).....	8	Mowers.....	8
Casing, cribwork for water wells.....	8	Nets .....	8
Chain-saws.....	10	Office equipment including photocopiers, fax machines.....	8
Cleaners – grain or seed.....	8	Outboard motors.....	10
Combines		Passenger vehicles (see Chapter 4).....	10 or 10.1
Drawn.....	8	Piping – Permanent.....	2
Self-propelled .....	10	Planters – All types .....	8
Computer equipment and systems software		Plows.....	8
Acquired before 2005.....	10	Pumps .....	8
Acquired after March 22, 2004 .....	45	Rakes.....	8
Acquired after January 27, 2009 and before February 2011 ..	52	Roads or other surface areas – Paved or concrete.....	17
Computer software (other than systems software) .....	8	Silo fillers.....	8
Coolers – Milk .....	8	Silos .....	8
Cream separators.....	8	Sleighs.....	10
Cultivators .....	8	Sprayers.....	8
Dams		Stable cleaners.....	8
Cement, stone, wood, or earth .....	1	Stalk cutters.....	8
Data network infrastructure equipment – Acquired		Swathers	
after March 22, 2004 .....	46	Drawn.....	8
Diggers – All types .....	8	Self-propelled.....	10
Discs .....	8	Threshers.....	8
Docks .....	3	Tile or concrete drainage system – Acquired before 1965.....	13
Drills – All types .....	8	Tillers – All types.....	8
Dugouts, dikes, and lagoons.....	6	Tools	
Electric-generating equipment – portable .....	8	Less than \$500.....	12
Electric motors.....	8	\$500 and more.....	8
Elevators .....	8	Tractors.....	10
Engines – Stationary.....	8	Trailers.....	10
Fences – All types .....	6	Trucks .....	10
Forage harvesters		Trucks (freight).....	16
Drawn.....	8	Wagons.....	10
Self-propelled .....	10	Water towers.....	6
Graders – Fruit or vegetable.....	8	Weeders.....	8
Grain-drying equipment.....	8	Welding equipment .....	8
Grain loaders.....	8	Well equipment .....	8
Grain separators.....	8	Wharves	
Grain-storage building		Cement, steel, or stone.....	3
Wood, galvanized steel.....	6	Wood.....	6
Other.....	1	Wind chargers.....	8
Greenhouses (all except as noted below).....	6	Wind-energy conversion equipment	
Greenhouses of rigid frames covered with replaceable		Acquired before February 22, 1994.....	34
flexible plastic .....	8	Acquired after February 21, 1994 .....	43.1
Grinder.....	8	(Note: Class 43.1 can be used for other than wind energy.)	
Harness .....	10		

\* 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 lesser 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.

	Rates		Rates
Class 1.....	4%	Class 10.1 .....	30%
Class 2.....	6%	Class 12.....	100%
Class 3.....	5%	Class 16.....	40%
Class 6.....	10%	Class 17.....	8%
Class 7.....	15%	Class 45.....	45%
Class 8.....	20%	Class 46.....	30%
Class 9.....	25%	Class 52.....	100%
Class 10.....	30%		



# How to calculate the mandatory inventory adjustment (MIA)

For instructions on how to fill in the following charts, see page 30 of Chapter 3.

<b>Chart 1</b>	
<b>Cash cost of purchased inventory</b>	
Enter the amount you paid by the end of the 2015 fiscal period for the specified animals you bought:	
<b>Fiscal period</b>	<b>Cash cost</b>
■ in your 2015 fiscal period	\$ _____ 1
■ in your 2014 fiscal period	\$ _____ 2
■ in your 2013 fiscal period	\$ _____ 3
■ in your 2012 fiscal period	\$ _____ 4
■ before your 2012 fiscal period	\$ _____ 5
Enter the amount you paid by the end of your 2015 fiscal period for all other inventory you bought:	
■ in your 2015 fiscal period	\$ _____ 6
■ in your 2014 fiscal period	\$ _____ 7
■ in your 2013 fiscal period	\$ _____ 8
■ in your 2012 fiscal period	\$ _____ 9
■ before your 2012 fiscal period	\$ _____ 10

<b>Chart 3</b>	
<b>Value of purchased inventory for all other inventory</b>	
<b>Inventory bought in your 2015 fiscal period</b>	
Enter the amount from line 6 or the fair market value, whichever is less.	\$ _____ 16
<b>Inventory bought in your 2014 fiscal period</b>	
Enter the amount from line 7 or the fair market value, whichever is less.	\$ _____ 17
<b>Inventory bought in your 2013 fiscal period</b>	
Enter the amount from line 8 or the fair market value, whichever is less.	\$ _____ 18
<b>Inventory bought in your 2012 fiscal period</b>	
Enter the amount from line 9 or the fair market value, whichever is less.	\$ _____ 19
<b>Inventory bought before your 2012 fiscal period</b>	
Enter the amount from line 10 or the fair market value, whichever is less.	\$ _____ 20

<b>Chart 2</b>	
<b>Value of purchased inventory for specified animals</b>	
<b>Inventory bought in your 2015 fiscal period</b>	
Enter an amount that is not more than the amount on line 1, but not less than 70% of this amount.	\$ _____ 11
<b>Inventory bought in your 2014 fiscal period</b>	
Enter an amount that is not more than the amount on line 2, but not less than 70% of the total of the value at the end of your 2014 fiscal period <b>plus</b> any amounts you paid in your 2015 fiscal period toward the purchase price.	\$ _____ 12
<b>Inventory bought in your 2013 fiscal period</b>	
Enter an amount that is not more than the amount on line 3, but not less than 70% of the total of the value at the end of your 2014 fiscal period <b>plus</b> any amounts you paid in your 2015 fiscal period toward the purchase price.	\$ _____ 13
<b>Inventory bought in your 2012 fiscal period</b>	
Enter an amount that is not more than the amount on line 4, but not less than 70% of the total of the value at the end of your 2014 fiscal period <b>plus</b> any amounts you paid in your 2015 fiscal period toward the purchase price.	\$ _____ 14
<b>Inventory bought before your 2012 fiscal period</b>	
Enter an amount that is not more than the amount on line 5, but not less than 70% of the total of the value at the end of your 2014 fiscal period <b>plus</b> any amounts you paid in your 2015 fiscal period toward the purchase price.	\$ _____ 15

<b>Chart 4</b>		
<b>Calculation of MIA</b>		
Enter the amount of your net loss from line 9899 of Form T2042.		\$ _____ 21
Enter the value of your inventory from Chart 2 and Chart 3:		
■ the amount on line 11	\$ _____	
■ the amount on line 12	\$ _____	
■ the amount on line 13	\$ _____	
■ the amount on line 14	\$ _____	
■ the amount on line 15	\$ _____	
■ the amount on line 16	\$ _____	
■ the amount on line 17	\$ _____	
■ the amount on line 18	\$ _____	
■ the amount on line 19	\$ _____	
■ the amount on line 20	\$ _____	
<b>Total value of inventory</b>	\$ _____	\$ _____ 22
MIA – enter the amount on line 21 or line 22, whichever is less.		\$ _____ 23

Farm goods and services **subject to** GST or HST include:

- crop dusting;
- contract work, including field clearing, tilling, and harvesting done by one farmer on behalf of another;
- road-clearing services;
- stud or artificial insemination services;
- storing goods (for example, 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 sold in containers of any size or in bulk when the total quantity is less than 500 kilograms, or any quantities of soil or soil mixture whether or not they contain fertilizer;
- gravel, stones, rock, soil, and soil additives;
- livestock or poultry not normally raised as food or to produce food for human consumption (for example, horses, mules, and mink); and
- processed wool, feathers, and down.

Many farm products and purchases are taxable but at 0%. We refer to these as **zero-rated goods**. 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, and 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 packaged, prepared and 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 supplied by a person in the course of a business in the course of which the person regularly supplies animals as pets to consumers;

- fertilizer sold in bulk or in a container of at least 25 kg where the total quantity of fertilizer supplied at the time 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:

- tractors designed for farm use that have a rating of at least 44.74 kW at power takeoff (60 PTO horsepower);
- 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 plows (3 or more furrows), and chisel plows and subsoil chisels (at least 8 feet or 2.44 metres wide);
- discers, rod weeders, or bean rods (at least 8 feet or 2.44 metres wide);
- field and row crop cultivators (at least 8 feet or 2.44 metres wide);
- combination discer-cultivators (at least 8 feet or 2.44 metres wide);
- rototillers and rotovators (at least 6 feet or 1.83 metres wide);
- harrows sold in complete units and pulverizers (at least 8 feet or 2.44 metres wide);
- land packers, mulchers, and rotary hoes (at least 8 feet or 2.44 metres wide);
- airflow seeders, grain and seed drills (at least 8 feet or 2.44 metres wide), and farm-type row-crop or toolbar seeders or planters designed to seed two or more rows at a time;
- mower-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<sup>3</sup> or less (5,000 bushels);
- transportable conveyors with belts less than 76.2 cm (30 inches) wide and 0.48 cm (3/16 inch) thick, transportable farm grain augers, transportable utility augers and transportable elevators;
- bin sweep or cleaner attachments for portable grain augers;

- tractor-powered pneumatic grain conveyors;
- feed mills, including roller mills and hammer mills;
- feed mixers, feed grinder mixers, tub grinders and other farm-type feed grinders;
- ensilage mixers and self-propelled feed or ensilage carts;
- grain toasters to use in livestock feed production;
- grain dryers;
- farm-type refrigerated bulk milk coolers;
- assembled and fully operational milking systems or individual components of milking systems that are supplied together, unassembled and then assembled into a fully operational milking system;
- automated and computerized farm livestock or poultry feeding systems, or individual components of these systems when they are supplied together, unassembled and then assembled into a fully operational feeding system;
- 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 for use 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 operational capacity of at least 0.2265 m<sup>3</sup> or 8 cubic feet;
- liquid box, tank, or flail manure spreaders, and injection systems for liquid manure spreaders;
- leaf-cutter bees;
- complete feeds, supplements, micro-premixes, macro-premixes, or mineral feeds other than trace mineral salt feeds, as defined and labelled in accordance with the *Feeds Regulations, 1983* 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, when sold in bulk quantities of at least 20 kg (44 lbs.) or in bags that contain at least 20 kg (44 lbs.);
- feed sold in bulk quantities of at least 20 kg (44 lbs.) or bags that contain at least 20 kg (44 lbs.) that is designed for ostriches, rheas, emus, or bees;
- farm refrigerated bulk milk coolers;
- food processing by-products and plant and animal products sold in bulk quantities of at least 20 kg (44 lbs.) or bags that contain at least 20 kg (44 lbs.) 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 having a purpose that includes agricultural use and having a product class of other than domestic labelled in accordance with the *Pest Control Products Regulations*;
- sales of quotas authorized by a government agency or marketing board for zero-rated products for human consumption (including dairy, turkey, chicken, eggs), certain agricultural products (including farm livestock, zero-rated grains or seeds, hops, barley, flaxseed, straw, sugar cane, or sugar beets) and tobacco leaves; and
- farmland rented to a registrant under a sharecropping arrangement to the extent that consideration for the supply is a share of the production that is zero-rated is part of the price (any other extra payments are taxable).

GST/HST registrants may 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%, 5%, 13%, 14%, or 15%.

For more information on claiming the input tax credits and the percentage of use in commercial activity, see GST/HST Memorandum 8.1, *General Eligibility Rules* and GST/HST Memorandum 8.2, *General Restrictions and Limitations*.

A limited number of goods and services you purchase are exempt from GST/HST. Because 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, see Guide RC4022, *General Information for GST/HST Registrants*, and GST/HST Memorandum 4.4, *Agriculture and Fishing*.

Eligible registrants can file their GST/HST returns online, by using GST/HST NETFILE or the "File a return" service at [www.cra.gc.ca/mybusinessaccount](http://www.cra.gc.ca/mybusinessaccount). For information about GST/HST, go to [www.cra.gc.ca/gsthst](http://www.cra.gc.ca/gsthst).

### My Account

Using the CRA's My Account service is a fast, easy, and secure way to access and manage your tax and benefit information online, seven days a week.

To log in to My Account, you can use either your CRA user ID and password or the Sign-in Partner option.

An authorized representative can access most of these online services through Represent a Client at [www.cra.gc.ca/representatives](http://www.cra.gc.ca/representatives).

For more information, go to [www.cra.gc.ca/myaccount](http://www.cra.gc.ca/myaccount).

### MyCRA – the web app for individual taxpayers on the go

Getting ready to file? Use MyCRA to check your RRSP deduction limits, look up a local tax preparer, or see what tax filing software the CRA has certified.

Done filing? Use MyCRA to see the status of your tax return and the resulting assessment.

Want information throughout the year? Use MyCRA to check your TFSA contribution room, confirm before you donate that the charity at your door is registered, and calculate the effect your donation will have on your taxes.

To get more details on what you can do with MyCRA and to access the CRA's web-based mobile app, go to [www.cra.gc.ca/mobileapps](http://www.cra.gc.ca/mobileapps).

### Handling business taxes online

Save time using the CRA's online services for businesses. You can:

- authorize a representative, an employee, or a group of employees, who has registered with Represent a Client, for online access to your business accounts;
- request or delete authorization online through Represent a Client, if you are a representative;
- change mailing and physical addresses, as well as the address where you keep your books and records;
- file a return electronically without a web access code;
- register for online mail, get email notifications, and view your mail online;
- enrol for direct deposit, update banking information, and view direct deposit transactions;
- authorize the withdrawal of a pre-determined amount from your bank account;
- request additional remittance vouchers;
- transfer payments and immediately view updated balances, without having to calculate interest;
- stop or restart the mailing of the GST/HST return for registrants package;
- add another business to your profile;

- view answers to common enquiries, and if needed, submit account-related enquiries;
- view the account balance and instalment balance, including the corresponding transactions (for example, payments); and
- do much more.

To register or log in to our online services, go to:

- [www.cra.gc.ca/mybusinessaccount](http://www.cra.gc.ca/mybusinessaccount), if you are a business owner; or
- [www.cra.gc.ca/representatives](http://www.cra.gc.ca/representatives), if you are an authorized representative or employee.

For more information, go to [www.cra.gc.ca/businessonline](http://www.cra.gc.ca/businessonline).

### Receiving your CRA mail online

You, or your representative (authorized at a level 2), can choose to receive most of your CRA mail for your business online.

When you or your representative registers for online mail, we will no longer mail most correspondence items. Instead, an email notification will be sent to the email address(es) provided when there is new mail available to view online. To register, select the "Manage online mail" service and follow the easy steps.

Using our online mail service is faster and easier than managing paper correspondence.

### Authorizing the withdrawal of a pre-determined amount from your bank account

Pre-authorized debit (PAD) is an online, self-service, payment option. Through this option, you agree to authorize the CRA to withdraw a pre-determined payment from your bank account to pay tax on a specific date or dates. You can set up a PAD agreement using the CRA's secure My Business Account service at [www.cra.gc.ca/mybusinessaccount](http://www.cra.gc.ca/mybusinessaccount). PADs are flexible and managed by you. You can view historical records, modify, cancel, or skip a payment. For more information, go to [www.canada.ca/payments](http://www.canada.ca/payments) and select "Pre-authorized debit."

### Electronic payments

Make your payment using:

- your financial institution's online or telephone banking services;
- the CRA's My Payment service at [www.cra.gc.ca/mypayment](http://www.cra.gc.ca/mypayment); or
- pre-authorized debit at [www.cra.gc.ca/mybusinessaccount](http://www.cra.gc.ca/mybusinessaccount).

For more information on all payment options, go to [www.canada.ca/payments](http://www.canada.ca/payments).

## For more information

### What if you need help?

If you need more information after reading this guide, visit [www.cra.gc.ca](http://www.cra.gc.ca) or call 1-800-959-5525.

### Direct deposit

Direct deposit is a faster, more convenient, reliable, and secure way to get your refunds and rebates deposited directly into your account at a financial institution in Canada.

You can choose to have all amounts deposited into one account or to have refunds and rebates from different programs deposited into different accounts.

To start direct deposit or to change the banking information you have already given us, complete Form RC366, *Direct Deposit Request for Businesses*, and send it to your tax centre.

You can view your direct deposit information and online transactions at [www.cra.gc.ca/mybusinessaccount](http://www.cra.gc.ca/mybusinessaccount).

For more information, go to [www.cra.gc.ca/directdeposit](http://www.cra.gc.ca/directdeposit).

### Forms and publications

To get our forms and publications, go to [www.cra.gc.ca/forms](http://www.cra.gc.ca/forms) or call 1-800-959-5525.

### Electronic mailing lists

We can notify you by email when new information on a subject of interest to you is available on our website. To subscribe to our electronic mailing lists, go to [www.cra.gc.ca/lists](http://www.cra.gc.ca/lists).

### Tax Information Phone Service (TIPS)

For personal and general tax information by telephone, use our automated service, TIPS, by calling 1-800-267-6999.

### Teletypewriter (TTY) users

TTY users can call 1-800-665-0354 for bilingual assistance during regular business hours.

### Service complaints

You can expect to be treated fairly under clear and established rules, and get a high level of service each time you deal with the Canada Revenue Agency (CRA); see the *Taxpayer Bill of Rights*.

If you are not satisfied with the service you received, try to resolve the matter with the CRA employee you have been dealing with or call the telephone number provided in the CRA's correspondence. If you do not have contact information, go to [www.cra.gc.ca/contact](http://www.cra.gc.ca/contact).

If you still disagree with the way your concerns were addressed, you can ask to discuss the matter with the employee's supervisor.

If you are still not satisfied, you can file a service complaint by filling out Form RC193, *Service-Related Complaint*.

If the CRA has not resolved your service-related complaint, you can submit a complaint with the Office of the Taxpayers' Ombudsman.

For more information, go to [www.cra.gc.ca/complaints](http://www.cra.gc.ca/complaints) or see Booklet RC4420, *Information on CRA – Service Complaints*.

### Reprisal complaint

If you believe that you have experienced reprisal, fill out Form RC459, *Reprisal Complaint*.

For more information about reprisal complaints, go to [www.cra.gc.ca/reprisalcomplaints](http://www.cra.gc.ca/reprisalcomplaints).

### Tax information videos

We have a number of tax information videos for small businesses on topics such as business income and expenses, GST/HST, and payroll. To watch our videos, go to [www.cra.gc.ca/videogallery](http://www.cra.gc.ca/videogallery).

# Index

	Page		Page
Accrual method.....	7	Insurance program overpayment recapture – Line 9803.....	21
Allowance on eligible capital property – Line 9935.....	28	Interest – Line 9805.....	21
<b>B</b> uilding and fence repairs – Line 9795.....	19	<b>L</b> and.....	34
Business liabilities (Total) – Line 9931.....	32	Legal and accounting fees – Line 9809.....	21
Business use of a motor vehicle.....	23	Livestock purchased – Line 9712.....	19
Business-use-of-home expenses – Line 9945.....	31	Livestock sold – Line 9471 to 9474 (inclusive).....	14
<b>C</b> alculating capital cost allowances (CCA) – Area E on Form T2042		<b>M</b> andatory inventory adjustment included in 2014 – Line 9937.....	25
Adjustment for current-year additions – Column 6.....	36	Mandatory inventory adjustment included in 2015 – Line 9942.....	28
Base amount for CCA – Column 7.....	36	Milk and cream (not including dairy subsidies) – Line 9476.....	15
CCA for the year – Column 9.....	36	More than one vehicle.....	23
Class number – Column 1.....	33	Motor vehicle expenses (not including CCA) – Line 9819.....	22
Cost of additions in the year – Column 3.....	34	<b>N</b> et income (loss) before adjustments – Line 9899.....	28
Proceeds of dispositions in the year – Column 4.....	35	Net income (loss) (Your) – Line 9946.....	32
Rate (%) – Column 8.....	36	<b>O</b> ffice expenses – Line 9808.....	21
UCC after additions and dispositions – Column 5.....	35	Optional inventory adjustment included in 2014 – Line 9938.....	25
UCC at the end of the year – Column 10.....	36	Optional inventory adjustment included in 2015 – Line 9941.....	28
Undepreciated capital cost (UCC) at the start of the year – Column 2.....	34	Other amounts deductible from your share of net partnership income (loss) – Line 9943.....	31
Capital contributions in 2015 – Line 9933.....	32	Other animal specialties – Line 9470.....	14
Capital cost allowance (CCA) – Line 9936.....	28	Other commodities – Line 9520.....	15
Cash method.....	7	Other crops – Line 9420.....	14
Changing your method of reporting income.....	7	Other expenses – Line 9790.....	25
Clearing, levelling and draining land – Line 9796.....	20	Other income – Line 9600.....	16
Containers and twine – Line 9661.....	19	Other payments – Line 9540.....	16
Crop insurance – Line 9542.....	16	<b>P</b> atronage dividends – Line 9605.....	16
Crop insurance – Line 9797.....	20	Payment in kind.....	17
Custom or contract work, and machine rentals – Line 9601.....	16	Pesticides (herbicides, insecticides, fungicides) – Line 9663.....	19
Custom or contract work, and machinery rentals – Line 9798.....	20	Prepaid expenses.....	19
<b>D</b> airy subsidies – Line 9541.....	15	Premiums to a Private Health Services Plan.....	26
Destroying livestock.....	16	Prescribed drought region (PDR).....	14
Drawings in 2015 – Line 9932.....	32	Program payments.....	16
<b>E</b> ggs – Line 9477.....	15	Property taxes – Line 9810.....	21
Electricity – Line 9799.....	20	<b>R</b> ebates – Line 9570.....	16
Eligible disability-related modifications made to a building.....	25	Recapture of capital cost allowance (CCA).....	35
<b>F</b> eed, supplements, straw and bedding – Line 9711.....	19	Rent (land, buildings, and pasture) – Line 9811.....	21
Fertilizers and lime – Line 9662.....	19	Rental income.....	17
Fiscal period.....	7	Repairs, licenses, and insurance – Line 9760.....	19
Forage crops or seeds – Line 9426.....	14	<b>S</b> alaries, wages, and benefits (including employer’s contributions) – Line 9814.....	21
<b>G</b> asoline, diesel fuel and oil – Line 9764.....	19	Seeds and plants – Line 9664.....	19
Greenhouse and nursery products – Line 9425.....	14	Small tools – Line 9820.....	25
Gross income – Line 9659.....	17	<b>T</b> erminal loss.....	35
GST/HST rebate for partners received in the year – Line 9974.....	31	Total farm expenses – Line 9898.....	28
<b>H</b> eating fuel – Line 9802.....	20	<b>V</b> aluing your purchased inventory.....	29
<b>I</b> mproving land.....	20	Veterinary fees, machine, and breeding fees – Line 9713.....	19
Income deferral.....	14		
Industry code.....	12		
Insurance – Line 9804.....	21		
Insurance proceeds – Line 9604.....	16		