

Agribusiness & Real Estate Webinar Series

Course 2 - Agricultural Shares vs Agricultural Assets

Mark Fournier – Olds College

Christopher Warren – Warren Sinclair LLP

Kerstan Fidek – RHF Accountants

Presented by:



Time	Topic
0 - 5 minutes	Introduction to course, introduction of speakers.
5 - 20 minutes	<ul style="list-style-type: none"> -Regulations of share trading. -Selling a part of a farm vs selling the whole farm.
20 - 40 minutes	<ul style="list-style-type: none"> -Common types of agricultural equipment and methods of valuing them. -Common types of agricultural livestock and crops and methods of valuing them. -Different types of intangible farm assets (quota) and methods of transferring them. -Tax implications of selling farmland, buildings and equipment.
40 - 55 minutes	Question and Answer period.
55 - 60 minutes	Overview of other courses in this series.

AGENDA

Sale of Assets

Real Estate Act

- *Real Estate Act* applies to the sale of land, assignment of lease, or a sale of portable buildings.
- Parties exempt from *Real Estate Act* – Lawyers and persons who purchase or sell real estate on their own behalf.

<https://www.reca.ca/wp-content/uploads/PDF/Trading-in-Real-Estate-as-Broker.pdf>

Accountants

- Prudent to consult accountants to determine:
 - Amount of capital gain exemption that is available.
 - Allocation of the purchase price between asset classes can affect the amount a vendor ultimately retains.

Factors affecting Closing

- Grazing Leases and Farm Development Leases (Alberta Environment and Parks Land Division)
- Canadian Citizenship and Permanent Residence Status (Foreign Ownership Regulations)
- Land Titles Registration, Times Frames and Gap Insurance
 - i. Mortgage Approval and issuance of Mortgage Instructions.
 - ii. Land Titles Registration – currently 3 weeks.
 - iii. Requisition of Funds.
 - iv. How might Land Titles conversion to a digital system affect time frames?

Sale of Shares

Real Estate Act

- *Real Estate Act* does not apply to the sale of shares.
- No errors and omissions insurance coverage and personal liability is incurred.

<https://www.reca.ca/wp-content/uploads/PDF/Business-Brokerage.pdf>

Real Estate Forms and how a sale of shares differs from the sale of assets

- Real estate forms approved by Real Estate Council of Alberta do not apply to the Sale of Shares.
- Consult with an accountant before to understand the tax implications of selling or purchasing shares.
- Non-Binding Letter of Intent conditional to:
 - a. Completion of due diligence;
 - b. Completion of Definitive Agreement; and
 - c. Financing

Due Diligence checklist
available

Common Types of Agricultural Equipment

- There is no common set of agricultural equipment, the equipment is specific to both the nature and the size of the farm.
- There are a few types of farms in Alberta, each type of farm will have their own type of equipment.
 1. Farms that focus on crops
 2. Farms that focus on livestock
 3. Dairy Farms
 4. Mixed Farms.

Typical Crop Farm Equipment

Tractor



Plow or Plough



Harrows



Seeders



Fertilizer spreader



Combine



Baler



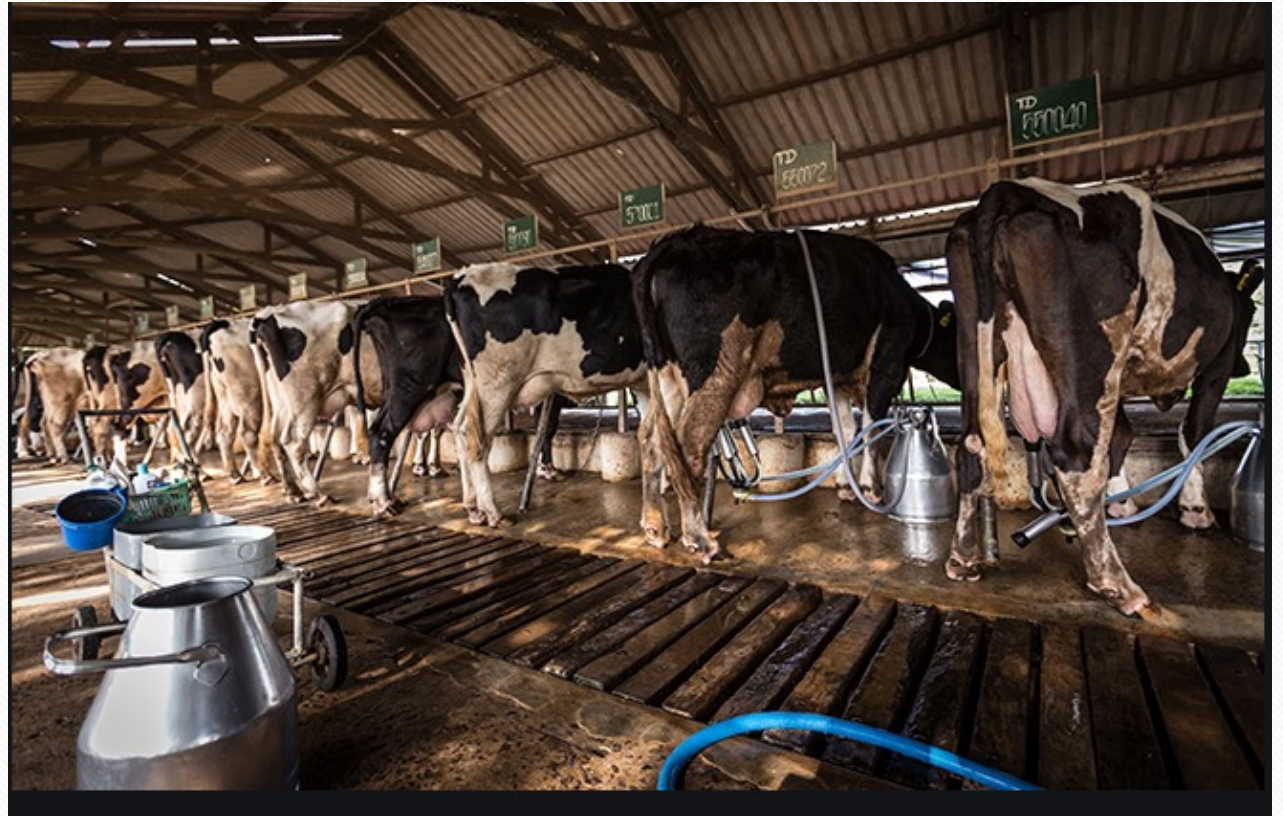
Typical Cattle Farm Equipment

- Holding / Crowding Pens
- Gates
- Squeeze Chute and Headgates
- Feeding Equipment
- AI Equipment
- Farm trucks
- Tractors
- ATV



Typical Dairy Farm Equipment

- Milk Machines
- Milking Parlor
- Rubber Mats
- Ventilation Fans
- Cubicles
- Water Troughs
- Fogger System
- Cow Swinging Brush
- Hoof Trimming Machines
- Feed Plants



Three main methods for valuing used equipment

Once you determine which value is appropriate for your purposes, you're ready to research how much the equipment is worth. Appraisers can use a combination of these three methods:

1. Sales comparison method

In the sales comparison method, an appraiser determines the equipment's value by researching the market for similar new and used equipment, and seeing what it has sold for. They may make adjustments for the equipment's age, condition, remaining useful life and other factors.

Appraisers typically look at a variety of market data sources, such as manufacturers, dealers, auction houses and trade publications.

2. Cost method

The cost method is typically more important if equipment doesn't have an active market because it is unique or highly customized. You start by determining the equipment's replacement cost new. This value is then depreciated based on the existing equipment's age, condition and other factors.

3. Income method

This method determines a value for equipment based on how much income it produces. It may be relied on more when the asset is clearly tied to a specific income stream.

Valuing Used Farm Equipment

Alberta Agriculture and Forestry Has A Useful Site

Calculator Name: Farm Machinery Cost Calculator – Alberta Agriculture and Food

Link: <https://www.agric.gov.ab.ca/app24/costcalculators/machinery/getmachimpls.jsp>

The screenshot shows the top portion of the website. The header includes the Alberta Agriculture and Forestry logo and a search bar. Below the header is a breadcrumb trail: Alberta.ca > Agriculture and Forestry > Calculators > Machinery > Online Tools > Farm Machinery Cost Calculator. A navigation menu is visible with 'Applications & Tools' highlighted. The main heading is 'Farm Machinery Cost Calculator'. A 'Help' icon is present. The introductory text states: 'This tool allows you to calculate ownership and operating costs of common farm equipment. Use the drop-down list to choose the power unit or self-propelled machinery that will be used. When doing calculations for implements, select a power unit and the implements that will be used. For more information about this calculator use the Help section.' Below this, there are three dropdown menus: 'Power and Self-Propelled Equipment' (set to '60 HP without cab'), 'Implements 1' (set to 'Carts 1500 Bushel'), and 'Implements 2' (set to 'Disk mower 15\'). A 'Proceed to Calculator' button is located below the dropdowns. At the bottom of the page, it says: 'This information is maintained by Ted Nibourg. This information last revised: March 2017.'

The screenshot shows the 'Farm Machinery Cost Calculator: Machinery Data' section. It includes a search bar and a breadcrumb trail: Alberta.ca > Agriculture and Forestry > Calculators > Machinery > Online Tools > Farm Machinery Cost Calculator. The navigation menu is the same as in the previous screenshot. The main heading is 'Farm Machinery Cost Calculator: Machinery Data'. Below the heading is a note: 'You can modify any of the values in the table to reflect your situation. Please ensure that there is a value in each box - you can use zero (0) if necessary. When finished, click on the 'Calculate Costs' at the bottom of the page to see the ownership and operating cost calculations.' The table below contains the following data:

Field Operation	Power Unit or self-propelled unit	Implement 1	Implement 2
Machine Descriptions:	Tractor - Front Wheel Assist 60 HP without cab	Carts 1500 Bushel	Disk mower 15'
Data and assumptions			
A Purchase price	45373.00	127500.00	68200.00
B Planning period (years)	10	6	6
C Residual Value (at end of planning period)	22686.50	63750.00	34100.00
D Annual hours of use (total use all operations)	400	200	100
E Fuel Usage litres per hour	13.00		
F Fuel Cost (\$ per above unit)	1.15		
G Labour cost (\$ per hour)	25.00		
H Annual repair cost	1361.19	3825.00	2046.00
I Expected Return on Capital (%)	4.50		
J Marginal tax rate (%)	25.00		
K Rate of inflation (%)	2.00		
L CCA class rate (%)	30	20	20
M Working width (ft)	15.00	15.00	15.00
N Working speed (mph)	5	5	5
O Field Efficiency (%)	70.00	70.00	70.00
P Acres per Hr	6.36	6.36	6.36
Q Insurance and housing (\$ per year)	453.73	1275.00	682.00
			Calculate Costs

Note: When all else fails go to Kijiji

Common Types of Farms in Alberta

Farm Classification:

The census classifies farms according to the predominant type of production using North American Industry Classification System.



This is done by estimating the potential receipts from the inventories of crops and livestock reported on the questionnaire and determining the product or group of products that make up the majority of the estimated receipts.

Definitions

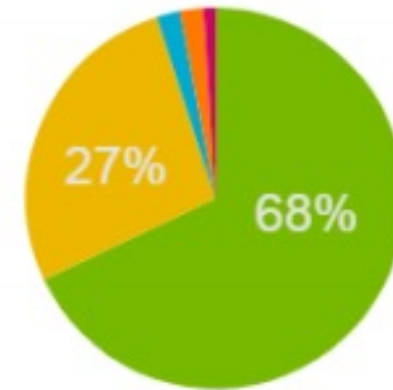
A **Census farm** is an agricultural operation that produces at least one of the following products that are intended for sale:

- **Crops**
 - Hay, field crops, tree fruits or nuts, berries or grapes, vegetables, and seed.
- **Livestock**
 - Cattle, pigs, sheep, horses, game animals, and other livestock.
- **Poultry**
 - Hens, chickens, turkeys, chicks, game birds, and other poultry.
- **Animal Products**
 - Milk or cream, eggs, wool, furs, and meat.
- **Other Agricultural Products**
 - Christmas trees, greenhouse or nursery products, mushrooms, sod, honey, maple syrup products or cream, eggs, wool, furs, and meat.

Common Types of Farms in Alberta - Livestock

ALBERTA LIVESTOCK 2016 NUMBER OF FARMS

1. Cattle Ranching
2. Other Animal*
3. Sheep and Goat
4. Poultry and Egg
5. Hog and Pig

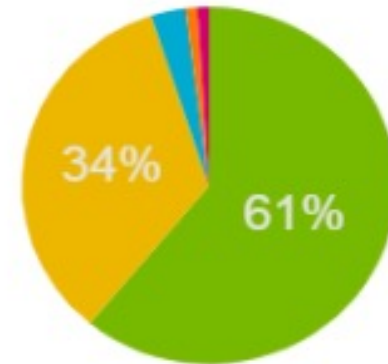


Note*: Includes raising animals, such as bees, horses and other equines, rabbits and other fur-bearing animals, llamas, deer, worms, crickets, and others.

Common Types of Farms in Alberta - Crop

ALBERTA CROPS 2016 NUMBER OF FARMS

1. Oilseed/Grain
2. Other Crop*
3. Greenhouse
4. Vegetable
5. Fruit/Tree Nut



Note*: Includes growing crops, such as tobacco, peanuts, sugarbeets, cotton, sugar-cane, hay, agave, herbs and spices, mint, hops, and hay and grass seeds. Combination crop farming and the gathering of maple sap are included in this industry group.

Intangible Farm Assets

- Quota is the major asset
- Tax treatment the same as depreciable assets
- Most often sold with farm operation
- Board regulated
- Examples: Milk, Eggs and Chickens
- Value controlled by regulatory board



Farmland Valuation

- Location
 - Proximity to a major urban centre
 - Proximity to feedlots or colonies
 - Proximity to their own farm
- Comparative and Capitalization
- Most often valued using comparable with arm's length transactions
- Capitalization values land based on cash rent earned compared to average return on Canadian bonds
 - i.e.. 1.5% bond return would value land at \$4700/acre if cash rent in the area was \$72/acre



Tax implications on farm disposals

- Corporately owned vs. personally owned
 - Sale agreements in correct name
 - Corporate tax and personal tax
- Asset sale
- Share sale
- Hybrid sale



Tax implications on farm disposals (continued)

- Land
 - Qualified farm property or not
 - Capital gain and capital gain exemption (\$1,000,000 lifetime)
 - GST – Purchaser reports if registered
- Recaptured depreciation on equipment and buildings
- Timing of sale transactions
- Complexities when selling home quarter
 - Principal residence
 - Shop and other out buildings (ie. Grain bins)
 - Valuation



Question & Answer

Agribusiness & Real Estate Webinar Series: Upcoming Courses

Course 3: Agricultural Legislation, Taxation, and Financing – April 14, 2021, from 10 AM -11 AM

Course 4: Marketing and Negotiation For Rural Properties – May 19, 2021, from 10 AM -11 AM

Course 5: Easements in Agricultural Properties – June 16, 2021, from 10 AM -11 AM

Visit www.albertarealtor.ca to register now.