

20 Income Taxes

Resource Kit for Nova Scotia Farmers

Farming income includes income you earned from the following activities:

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

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

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

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

The Canada Revenue Agency requires that farm income be reported on a separate form than general income. Farms that are sole proprietorships or partnerships must complete *Form 2402, Statement of Farm Activities*, and return this farm along with *Form T1, General Income Tax Return*. Farms that

are incorporated must complete *Form T2, Corporation Income Tax Return*. Some parts of this form relate specifically to farm businesses. You can report your farming income using the cash method or the accrual method of accounting.

When you use the **cash method**, you:

- report income in the fiscal period that you receive it; and
- deduct expenses in the fiscal period that you pay them.

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 more information on completing Form 2402, consult *CRA Guide T4003, Farming Income*: <http://www.cra-arc.gc.ca/E/pub/tg/t4003/t4003-09e.pdf>

Calculating Depreciation

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 However, because these properties may wear out or become outdated over time, you can deduct their cost over a period of several years. The deduction for this is called capital cost allowance (CCA). Chapter 3 of Guide RT4003 details how to calculate depreciation for your tax return.

Capital Gains

You have a capital gain when you sell, or are considered to have sold, a capital property for **more** than its adjusted cost base **plus** the expenses or outlays that you incurred to sell the property. To calculate your capital gain, subtract the adjusted cost base of your property from the proceeds of disposition. From this amount, subtract any outlays or expenses that you incurred when selling your property. In most cases, capital property includes land, buildings, and equipment that you used in your farming business. Therefore, capital property includes depreciable and non-depreciable property.

You have to include your taxable capital gain in income. Not all of your capital gain is taxable.

You can find more information on how to report capital gains in CRA Guide T4037 *Capital Gains* (<http://www.cra-arc.gc.ca/E/pub/tg/t4037/t4037-09e.pdf>). Report your capital gains income on Schedule 3, *Capital Gains (or Losses)*. Chapter 6 of Guide RT4003 has more information on capital gains and farmers.

For more information on reporting farm income, contact the Canada Revenue Agency: www.cra-arc.gc.ca or call 1-800-959-8281.

AgriStability and AgriInvest forms

If you wish to enroll in the AgriStability and AgriInvest programs, you must complete *Form T1273, Statement - Harmonized AgriStability and AgriInvest Programs Information and Statement of Farming Income for Individuals*. For information on completing this form, consult CRA Guide RC4408 (<http://www.cra-arc.gc.ca/E/pub/tg/rc4408/rc4408-09e.pdf>).

For more information on AgriStability and AgriInvest, see Fact Sheet 16 – Farm Risk Management.

[Note: The information in this fact sheet was taken from *CRA Guide RT4003, Farming Income* and compiled by Rebecca Sooksom, New Entrant Resource Coordinator, Nova Scotia Department of Agriculture, April 2010.]