

Transferring The Family Farm

by Lyall MacLachlan

As one drives along the country roads of Ontario it is always interesting to see the Century Farm signs posted at the roadside. These signs which are so proudly displayed indicate farms which have been transferred from generation to generation; in many instances four or five generations in the past one hundred years. However, for every farm in the Century Farm category, there will be several others which have stayed in the same family for two or three generations.

Generally, there has always been a desire on the part of most farmers to leave their farm either to a son or a close relative if at all possible. In the past this transfer often took place without much thought or planning and, in many instances, without much discussion within the family circle. It was a topic to be avoided by fathers and sons; to leave until tomorrow, to get on with the immediate problems at hand, such as cropping and care of livestock.

However, I feel that these days of ignoring the problem in the hopes that it will work out in the end, are gone. Today, it will require discussion, planning and action by all members of the family, particularly father and son, to make these future transfers of family farms possible. Since it is the son's future career which is at stake, a good deal of the responsibility for the required action may be with the junior member. What changes have taken place which make this problem of farm transfer more difficult?

1. On October 22, 1968, amendments were introduced to the Federal Estate and Gift Taxes. The net effect of these amendments is increased estate taxes for most farm businesses being transferred to the next generation.

2. The increase in land values across the province in recent years has multiplied the value of many farm businesses so that they are now liable for estate taxes.

3. These rising land prices, plus the gradual trend to larger farm operations, have greatly increased the capital value of any viable farm business. Not so long ago, farm operators who thought of their business as being worth very little have come to realize that by today's value they may be worth many thousands.

If no plans are made, even in cases where the parents would wish their son to carry on the farm business, it may be impossible for him to do so because of the death taxes he

would be required to pay. Or, if the son does manage to pay the death taxes, it can mean that he will have debt on which he will be paying for years to come. Such financial hardship his parents did not intend and he certainly did not expect. What taxes should he be required to pay in taking over the farm?

(A) Estate Taxes — These are imposed by the federal government and are a tax on estate property. The rate of tax applied increases as the size of the estate increases. It is not related in any way to the size of the bequest or the relationship of the beneficiary. All estates are allowed the \$20,000 basic exemption, but the rate of tax payable increases with the size of the estate up to a maximum rate of 50% for all estates valued at \$300,000 or more. It is important to note that for calculating the value of the estate for death taxes, the estate not only includes the farm property, machinery, livestock, supplies, quotas, but also other real estate, bonds, stocks, insurance, etc.

TABLE I — ESTATE TAX RATES

Aggregate Taxable Value

1. Up to \$20,000 — Nil
2. \$20,001-\$40,000 — 15% of the amount.
3. \$40,001-\$60,000 — \$3,000 plus 18% of any amount in excess of \$40,000.
4. \$60,001-\$80,000 — \$6,600 plus 21% in excess of \$60,000.
5. \$80,001-\$100,000 — \$10,800 plus 24% in excess of \$80,000.
6. \$100,001-\$130,000 — \$15,600 plus 27% in excess of \$100,000.
7. \$130,001-\$160,000 — \$23,700 plus 30% in excess of \$130,000.
8. \$160,001-\$200,000 — \$32,700 plus 35% in excess of \$160,000.
9. \$200,001-\$250,000 — \$46,700 plus 40% in excess of \$200,000.
10. \$250,001-\$300,000 — \$66,700 plus 45% in excess of \$250,000.
11. \$300,001-and up — \$89,200 plus 50% in excess of \$300,000.

(B) Ontario Succession Duties — which are levied by the Province of Ontario is a tax upon the beneficiary. Here, the rate of duty depends on:

(a) Relationship of the beneficiary to the deceased;