AGRICULTURAL SERVICES

AGRISTABILITY, AGRIINVEST, AGRIINSURANCE AND AGRIRECOVERY

The new "Growing Forward" agricultural policy framework programs

Today, federal and provincial business risk management funding in Canadian agriculture offers a suite of complementary programs: AgriStability, AgriInvest, AgriInsurance and AgriRecovery. These are designed to adhere to Canada's international trading restraints, act as supplements to normal production and marketing decisions, and support the financial stability of an entire farm entity. Yet while they are similar to previous programs, there are some noteworthy differences that may impact your farm operation.

AgriStability

AgriStability first replaced the Canadian Agricultural Income Stabilization (CAIS) program in the 2007 program year, but it is very similar to its predecessor. The program compares the farm operation's current year program margin to the reference margin for the prior five years. When the current year falls below 85% of the calculated average, a payment is triggered.

Production margin

The margin for current and prior years is determined by calculating the difference between allowable income and allowable expenses. Allowable items include only those that fluctuate directly with the production of commodities. Supply-managed commodities are eligible for coverage of a portion of production margin declines.

Allowable income	Non-allowable income
Agricultural commodity sales (crops, livestock, by-products)	Custom work and contract feeding
Crop/production insurance proceeds	Disaster assistance payments
Insurance proceeds for allowable income or expense items	Gravel sales
Rebates for allowable expenses	Wood sales
	Trucking
	Rental
	Resale of purchased commodities

Allowable expenses	Non-allowable expenses
Commodity purchases (crops, livestock, by-products)	Machinery repairs
Containers & twine	Building repairs
Fertilizer & lime	Custom work
Sprays & chemicals	Professional fees
Crop/production insurance premiums	Office membership fees and dues
Feed	Motor vehicle expense
Vet & breeding	Small tools, hardware & supplies
Freight & trucking	Telephone
Fuel	Rental or lease expense
Heating	Land clearing, tilling or drainage
Storage, drying & elevation	Interest
Electricity	Municipal taxes
Wages (arm's length wages)	Property & equipment insurance
Commissions & levies	Capital cost allowance (amortization)
	Allowance on eligible capital property
	Purchase of commodities for resale
	Wages (non-arm's length wages)

Claim year margin

The production margin for the current year is determined by calculating the difference between allowable income and expenses for the fiscal year on an accrual basis.

Reference margin

The reference margin is calculated by determining the operation's production margin for the prior five years using an Olympic average. The highest and lowest margins in the five-year period are eliminated and the remaining three are averaged to determine the reference margin. (Adjustments will be made for producers who did not farm in all five of the prior years, or who have undergone a change in the scale or type of farm operation during the period.)

AgriStability fees

The AgriStability program works much like an insurance plan. A premium is paid in advance for coverage for the upcoming period and the AgriStability fee is provided annually on an enrolment notice sent to producers. It is calculated as 85% of the contribution reference margin x .45%, plus an administrative fee of $55.

Calculations

The following example illustrates the operation of the program:

Production margin – prior year	$150,000
Production margin – second prior year	$120,000
Production margin – third prior year	$85,000
Production margin – fourth prior year	$65,000
Production margin – fifth prior year	$95,000

Under the Olympic average calculation, the prior year margin of $150,000 and the fourth prior year margin of $65,000 are eliminated, leaving an average for the remaining three years of $100,000.

The first 15 percent ($15,000) of decline in margin is not covered under the program, with the next 15 percent compensated at 70 percent by the government, and the remaining 70 percent decline compensated at 80 percent.

Reference Margin $100,000				
Claim Year Margin $50,000				
		Decline	**Government Coverage**	**Payment**
100%	$100,000			
		$15,000	Not covered	0
85%	$85,000			
		$15,000	70%	$10,500
70%	$70,000			
		$20,000	80%	$16,000
Claim year	$50,000			
				$26,500

Other issues

There are specific rules to cover negative margins, beginning farmers, supply managed commodities, interim payments, and structural change adjustment for operations changing in size and commodity, and other rules that are specific to individual provinces. This is a complex program with many specific policies and interpretations. For assistance with your operation, please contact your BDO advisors.

AgriInvest

AgriInvest is reminiscent of the former Net Income Stabilization Account (NISA) program. Producers make an annual deposit – 1.5% of their operations' allowable net sales for the program year – into a special account and receive a matching government contribution.

Allowable net sales

The allowable net sales are determined by calculating the difference between the sales and purchases of allowable commodities for the fiscal year, based on that year's income tax filing. Only commodity sales (livestock, crops and by-products) and commodity purchases (livestock, crops, seed, portion of feed and commodity by-products) are considered in the calculation.

While supply-managed commodities are not eligible for coverage, operations with both supply-managed and other commodity sales will be able to participate under special rules designed to capture the non-supply-managed activity.

Annual deposit

Each year, producers receive a notice indicating the amount eligible for deposit. Once the deposit is made (which is not tax deductible at the time) in the AgriInvest account, it will be matched by government contributions.

AgriInvest accounts

The producer deposit will be segregated from the government funds. Fund 1 will represent the producer deposit and Fund 2 will represent the government funds, plus earnings on the investment. When withdrawn, Fund 2 will be taxable and Fund 1 will not. Withdrawals from Fund 1 are only made once Fund 2 has been depleted.

Withdrawals

There are no triggers to determine when producers can withdraw funds from their accounts. This is a significant difference from the former NISA program, as restrictions and calculations often prevented producers from accessing their funds in a timely manner.

Other issues

There are other considerations to be made, such as maximum allowable net sales limits and maximum account balances. Producers do not have to participate in other business risk management programs in order to participate in AgriInvest.

AgriInsurance

AgriInsurance includes existing production insurance, which covers against natural perils. Originally known as crop insurance, it has been renamed as coverage is expanding to cover other previously-uninsurable commodities, such as livestock and horticultural crops. Producers pay a premium in advance and payments are triggered when there is a decline in production for the year.

There is also a link to AgriStability: a premium adjustment is made on an AgriStability payment to ensure that the producer did not receive a lower payment due to his/her participation in AgriInsurance. Furthermore, in the event that a producer suffers a negative margin for the claim year, payments may be reduced for losses that could have been mitigated using AgriInsurance.

AgriRecovery

AgriRecovery is intended to fill the gaps when the other programs cannot respond quickly to a weather or disease disaster that may impact only a small geographic area of the country. There are intentionally no established calculations so that each situation can be assessed individually. This allows the available funds to flow quickly through a targeted program, to the producer, through a predetermined framework.

Examples of coverage that could be provided under AgriRecovery include assistance for areas impacted by drought or flooding, catastrophic crop disease, or an outbreak of livestock disease. However, this program is neither intended to cover price fluctuations nor a long-term declining trend in an industry.

Conclusion

The suite of business risk management programs – AgriStability, AgriInvest, AgriInsurance and AgriRecovery – are designed to be complementary, thus operations do not need to participate in all or any of them, Each farm operation will also have different needs and rules.

For assistance with your own operation, please feel free to contact your nearest BDO office. www.bdo.ca, call toll free at 1 800 805 9544, or e-mail at **agri@bdo.ca**.