

Optimizing Your Farm Business:

Key Strategies for Tax Efficiency, Succession, and Growth

This summary sheet outlines key takeaways for farming businesses to ensure success at every step:

1. Business Structures for Farmers:

- **Evaluate Current Business Structure:** Farmers should assess their current business structure (sole proprietorship, corporation, partnership, etc.) and consider if it aligns with their long-term goals. This should involve consulting with legal and tax advisors to determine the most beneficial structure.
- **Consider Incorporation:** For those operating as sole proprietors or partnerships, explore the potential benefits of incorporating, through increased liability protection and potential tax advantages, such as the ability to defer tax and multiply the lifetime capital gains exemption. Ensure that you understand the start-up and ongoing costs of incorporation if this is your desired entity to operate the farm.
- **Joint Ventures and Partnerships:** When expanding the farm and working with other parties, consider whether you should form a new corporation, a joint venture, or a partnership. In a joint venture, the parties continue to own the assets directly and this arrangement is typically utilized when the entities want to retain

ownership of their assets, but desire to pool their resources for a limited purpose. With a partnership, the partnership, rather than the partners, will have beneficial ownership of the partnership property. Further, a partnership is a flow through entity for tax purposes, and in a general partnership each partner can be liable for the partnerships actions.

2. Taxation Considerations:

- **Utilize Tax Exemptions:** Farmers should explore opportunities to utilize tax deferrals and exemptions, such as the lifetime capital gains exemption and intergenerational farm rollovers. Consulting with a tax advisor can help ensure eligibility and maximize these benefits.
- **Plan for New Tax Legislation:** Stay informed about new tax legislation such as the Canadian Entrepreneurs Incentive and changes to the capital gains inclusion rate, through following our Dentons Tax Insights page and adjust your business and financial strategies accordingly. This may involve reorganizing assets or ownership to take full advantage of these incentives.

3. Succession and Estate Planning:

- Develop a Succession Plan: Start or update a succession plan to ensure a smooth transition of the farm to the next generation. This includes deciding on the best time to transfer ownership of the farm assets, how to structure the transfer to minimize tax liabilities, ensure fair treatment of beneficiaries, identify an mentor a successor and whether the establishment of a family trust would be beneficial.
- Engage Family Members: Involve family members in the planning process to understand their intentions and preferences regarding the farm's future. This can help prevent conflicts and ensure everyone is on the same page such that the farm can remain profitable for the next generation.
- Estate Planning Documents: Ensure you have a Will, Personal Directive and Power of Attorney in place and review it regularly. Having these important documents in place will ensure your estate goes to your intended beneficiaries, your business transfers smoothly and your wishes are met.

4. Liability and Risk Management:

- Implement Risk Mitigation Strategies: Consider the incorporation of liability protection measures, especially if the farm is expanding or diversifying. This includes reviewing insurance policies and considering corporate structures that limit personal liability, such as through incorporating different businesses of the farm.
- Separate High-Risk Assets: For operations that involve high-risk activities (e.g., beta testing new technologies), consider structuring these activities separately from the core farm assets to protect the overall business. This will allow the "good" assets of the farm to be protected if the high-risk activity is unsuccessful and attracts liability.

5. Customizing Advice:

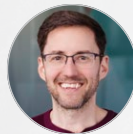
- Seek Tailored Professional Advice: Engage with legal, financial, and tax professionals to customize business structures and tax strategies to fit the specific needs of the farm operation. Regularly review and update these strategies as the business evolves.
- Review Business Goals Annually: Set an annual review of the farm's business structure, tax strategy, succession and estate plans to ensure they remain aligned with current goals, market conditions, and legislative changes

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