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For example, an imaginary couple named Steve and Carol have dairy quota worth $1 million. Unaware of the new rules, they are set to sell their quota in 2017. They paid $100,000 for it 20 years ago, so they are looking at capital gains of $900,000.

Under the new rules, half of that amount, or $450,000, will be taxable as investment income. That amount will be taxed, depending on the province, up to 24 percent more than under the present ECP rules. Learning this, Steve and Carol make an appointment with their accountant.

What can be done?

"Steve and Carol come to me and say, 'OK, we want to sell quota,' " says Inhaber.

"My job is to go on their account and see if they've used the capital gains exemption of $1 million for qualified farm properties. And if the answer is, 'no, they haven't,' then I can proudly tell them that this transaction, which was sold at a million bucks, will qualify for capital gains exemption and they don't pay a nickel in tax.

"However, if they've used the capital gains exemption, I have a job to tell them, 'here is the impact of your sale and make sure you carve out, I'll say, 25 percent of a $100,000, and that's probably the tax you're going to pay. So make sure you put it in your bank account and you don't spend it.' "

However, even if Steve and Carol have already used their lifetime capital gains exemption, there may be other tax strategies that could ease the pain, says Inhaber.

One option, if their quota is in a corporation, would be to sell it before the end of the year and realize significant tax savings. Or, they might consider keeping share ownership in the family but reorganizing it, possibly creating a second corporation.

Finally, quota can be passed to a spouse, children or grandchildren with few to no worries about capital gains taxes.

"Under current rules, you can transfer it at original cost or at fair market value," says Inhaber.

"If you decide to do it at fair market value, some or all of it can be tax sheltered. If the fair market value is high and the executor does not want to generate a tax liability, then they're going to move it over to cost, but if they're OK with paying a little tax to bump up the fair market value, then they'll pay an immaterial amount of tax and use the capital gains exemption."

What about expenditures?

On the expenditure side, any expenditures before Jan. 1 will retain the present depreciation rate of seven percent until 2027. Expenditures after Jan. 1 will have a depreciation rate of five percent.

Intangibles such as quota now have 75 percent of their value put into a pool that depreciates at a rate of seven percent per year.

As of Jan. 1, that pool will be called the Class 14.1 pool and 100 percent of expenditures will be put into it. It will depreciate at a rate of five percent on a declining balance.

AFTER THE FARM

Coming back to the back 40

Do your kids want to return home or should they sell or rent the land and home?

BY SHIRLEY BYERS
FREELANCE WRITER

The farm home and acreage is often valuable property that is given or willed to children. The children then have to decide whether to keep it, rent it or sell it.

Ted Cawkwell, agriculture specialist with the real estate company Remax, said the decision is usually left to more than one child, so renting or selling it is often seen as the fairest way to deal with it.

"In the situations I've encountered, they've weighed more heavily on renting it to someone or selling it. Also, quite often, the children are no longer living in the area, so renting it out or selling it makes more sense logistically."

Sell option

If the children decide to sell the home and acreage, they will quickly learn that real estate in Saskatchewan, for example, has risen sharply in recent years. That includes farmland, acreages and homes in towns and cities, said Cawkwell.

"Farmland values doubled between 2001 and 2004. Housing markets in 2006 and 2007, in a couple of year's span, almost doubled as well.

"Farm homes or the farm acreage will still be worth quite a bit less than homes in the city," he added. "For example you might spend $150,000 for a 1,500 sq. foot home on a farm acreage. That same size home in Saskatoon, Regina, Yorkton or Humboldt could sell for more than double that amount."

What about the value of amenities ,such as power, natural gas and a good water source in place?

Consider electricity. Let's say a prospective acreage buyer is looking at starting from scratch in a bare field, as opposed to buying a home already on the grid.

In Saskatchewan, a transformer serviced by SaskPower costs $6,300 to $9,400. Overhead lines cost $16,700 for 1,000 metres and underground costs $18 per metre for underground primary conductors from overhead poles to underground transformers, and the final calculated cost would have five percent GST added. (SaskPower will invest $1,300 toward the new farm service.)

Avoiding this expense, plus the cost of getting a natural gas connection and obtaining a good water source, should push up the asking price for a farm home — at least in theory.

But it's not as much as many people think, said Cawkwell.

"Those things generally help the farm home sell quicker but they don't necessarily help the farm home to sell at a higher price."

Typically, the farm home will be located on the home quarter. In Saskatchewan, you are required to get approval from a number of different entities to do a subdivision of a quarter section of land, and that usually begins with the local rural municipality.

"Because we're blessed with almost an infinite amount of land

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for our population, it's very easy to get these divisions passed through the RM and the other government boards," said Cawkwell. "I have never seen one declined yet and I've been involved in probably a couple dozen subdivisions."

The process takes four to eight months and costs $4,000 to $6,000. A realtor can guide the buyer and seller through the paperwork.

Rent option

The rural lifestyle has a certain amount of caché for prospective renters, particularly those with children. An acreage is a great place to raise kids. Generally, a landlord could expect to rent out a farm home for about the same amount as one in town, but location is a factor. The closer to town without actually being in town, the better.

If a decision has been made to rent, certain steps can be taken to prepare a property so it can be more easily maintained from a remote location. A plumber and electrician can be hired to conduct a once-over to check for potential problems, such as failing pressure pumps, collapsing septic tanks and electrical issues.

> When renting an acreage, the closer to town the better

If the new acreage owners live too far away to reasonably carry out landlord duties, they might consider hiring a property manager or an equivalent.

Mike Schmidt, property manager with ICR Property in Saskatoon, said ICR doesn't have rural acreages on its books but it could handle properties up to about 20 minutes out of the city.

"What we specialize in is the rental of the property," he said. "We don't do yard maintenance and things like that, but there are property management companies that do."

ICR offers services that include advertising and showing the property, taking applications from prospective tenants, checking references, periodic inspections while the property is being rented and maintaining a 24-hour contact and emergency service.

Rates for these services are based on a percentage of the rent.

Live-in option

In some ways, living in the traditional farm home may seem like the best solution. What could be better for your child than coming back to the home he or she grew up in? What could be better for you, as parents, than to see this?

But it's not without pitfalls. If there are two or more children, problems can arise with the decision of who gets to live in it? And if the children don't live in the area, are they able to relocate?

As well, emotional issues must be looked after. As the person leaving the farm home behind, are you able let go? Your child and his or her spouse could move in and decide to renovate your former home. Would you be OK with that?

Finally, before giving your home to your children, check with your accountant regarding tax laws that govern the gifting of property and how they might effect you and your children.

If children inherit land and each wants the rural lifestyle or continue to farm, they may decide to subdivide the home quarter, a process that can take up to eight months and cost up to $6,000. | FILE PHOTO