FNA-STAG

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AgriInvest and Agriculture Industry Stimulus

Executive Summary

Remove barriers to proactive investment of producer-contributed AgriInvest funds and make available a potential 800 million dollars of farmer owned investment stimulus

Canadian producers continue to see great value in AgriInvest as a source of funding to manage small income declines, but producer funds remain underleveraged in regards to the program's second intention, "provid[ing] support for investments to mitigate risk or improve market income".

Currently, producers that have deposited after-tax money in their accounts cannot withdraw that money unless they withdraw the taxable government contribution first. However many farmers, especially young farmers, would like to use some of their funds to proactively invest in the sector and maximize future revenue. Consequently, FNA-STAG recommends a change to the program so that proactive investment into pre-approved projects would allow account holders to withdraw Fund 1 money without withdrawing money from Fund 2.

AgriInvest Investment Stimulus

- The AgriInvest tier of government business risk management programs is meant to help farmers in an income downturn and for them to use to maximize future revenue.
- AgriInvest accounts are growing. So the "rainy day fund" objective is being achieved.
- AgriInvest accounts consist of Fund 1, the after tax farmer contribution (not taxable upon withdrawal) and Fund 2, the government contribution which is taxable upon withdrawal.
- Current rules state that the taxable Fund 2 money has to be withdrawn before farmers have access to the non taxable Fund 1 money.
- Therefore, if farmers are in too high a tax bracket they will not withdraw Fund 2 and consequently not have access to Fund 1. This could be the case currently in the grains and oilseeds sector especially, since that industry has seen a number of years with strong prices.
- The grains industry's recent success suggests this would also be a timely period for farmers to use AgriInvest money to invest to maximize future revenue, but are discouraged from doing so because they have to pay tax on Fund 2 withdrawals before they have access to Fund 1.
- To achieve both objectives of the program, we would like the Federal Government to announce a rule change for AgriInvest that will stimulate investment in agriculture.
- The rule change should be "that farmers have access to Fund 1 money, if they invest it in an eligible project, without withdrawing Fund 2 money first".
- This would leave Fund 2 intact for a rainy day, and help farmers to try to maximize future revenue using Fund 1, the twin objectives of the AgriInvest tier.
- We believe that if the Federal government provided the leadership, provincial governments would agree to the rule change since they have expressed interest in the change and have acknowledged the benefit of such a move.

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- This would give Canadian farmers access to over 800 million dollars. It creates the potential for tremendous stimulus in agriculture
- Criteria for an eligible project would be determined by government officials together with the industry, but would in no way endorse any projects.
- Criteria could include a comprehensive bankable feasibility study, a minimum number of farmers in a project, minimum capital expenditure, etc.
- Farmers themselves would be responsible for a decision on whether to invest or not
- Projects could include, but not be limited to, producer car loading sites, short line rail, fertilizer manufacturing, downstream value added projects, etc.

BACKGROUND

The 15% AgriInvest top tier of the BRM suite of programs was created under Minister Chuck Strahl in 2007 after industry had consistently requested more stable funding and expressed its desire to return a "NISA like" component to business risk management. The creation of the AgriInvest tier was accompanied by a $600 million "kick start" comprised exclusively of Federal funds.

In addition to creating more stable funding in the top tier where there is so much variability, it was further thought that the utility of this fund could be expanded by encouraging farmers to use it for investment in their operations if they so desired. Hence the name, AgriInvest, and the inclusion of, "and/or invest to reduce future income losses or maximize future income", in its definition.

In order for the AgriInvest program to be effective it needs to be utilized, and part of the key to it being utilized is providing farmers with an incentive to use it and demonstrate worthwhile investments that will "maximize future profits". As well to ensure there is no disincentive to use at least some of the funds to invest to maximize future revenue. Consider that at a time when farmers can most afford to use some of their money for investment they are in a higher tax bracket discouraging them from withdrawing Fund 2 taxable money to get access to Fund 1.

PROGRAM DETAIL

The AgriInvest fund consists of two parts: Fund 1 holds the "after taxes" money contributed by the farmer, and Fund 2 consists of the matching pre-tax money contributed by the two levels of government.

Currently the AgriInvest total account balance is approximately 1.9 billion dollars with 880 million dollars in Fund 1.

Both Fund 1 and Fund 2 have no attached triggers and can be withdrawn at any time or left in the account, contingent on a farmers' own individual decision. The only stipulation is that when an account holder decides to withdraw money, Fund 2, the taxable government contribution, has to be withdrawn first before access is given to Fund 1.

Consequently, farmers tend to leave their money in their accounts in a taxable year, typically a year where safety net money is not required, and wait for a year when the cash injection is desperately needed. Quite likely that is also a year when the farmer is not in a very high tax bracket. This strategy allows farmers to maximize the benefit of government contributions and achieves one of the twin objectives of the program: using the funds to help make up for lost revenue. This is also why accounts may have a tendency to build. Because Fund 1 cannot be accessed until Fund 2 has been drawn down, a farmers' tax avoidance strategy toward withdrawing from Fund 2 will cause both Funds to continue to grow.

Investment and Stimulus

It is a well-known fact that the agriculture industry has long struggled to move beyond crisis management and that business risk management programs have consistently failed to accomplish that goal. It is also clear that the industry has tremendous potential and industry participants continue to demonstrate that through increased investment, whenever possible. It is also an undisputed fact that proactive and strategic investment in the industry is an important tool that provides stimulus and creates vibrancy and viability, important factors in helping farmers adapt to changes and something that can never be replaced by government safety nets. The definition of AgriInvest alludes to this as mentioned above when it states ..."and/or invest to reduce future income losses or maximize future income."

Consequently, we suggest governments encourage farmers to invest in the industry through strategic projects with significant collective benefit to primary producers, and as a result to maximize profits, thereby achieving the second objective of the program. We suggest they do this by creating an incentive, or at least removing the disincentive, for farmers to use their AgriInvest funds for this purpose.

If a farmer decides to invest in a project that has been approved by AAFC (criteria to be determined) that farmer will be able to make direct withdrawals from Fund 1 when investing in that project without having to withdraw Fund 2. AAFC would screen and then endorse projects as eligible for use with AgriInvest money, which project sponsors could use to promote investment by farmers. All efforts should be made to keep administration to a minimum.

This would give Canadian farmers, immediate non-taxable access to over 800 million dollars. And even while drawing down Fund 1, this would still allow farmers to maintain Fund 2 as a safety net, maintaining 1 billion dollars to this purpose across Canada. Of course farmers will continue to have the option of leaving the money in the accounts for a future "rainy day need" or withdraw funds to boost cash flow under the current tax rules.

Since tax rules relating to Fund 2 withdrawals will remain the same, there is no associated loss of tax revenue. As a result of increased account liquidity, the benefit to the industry will be positive proactive investment and the maximizing of future income will result in increased tax revenue in the future.

For many in agriculture this will provide an important source of investment dollars for industry sectors that are adapting to new policy, regulatory and competitive environments. Whether it's the meat sector needing more value added processing, the horticulture industry responding to competitive issues, or the western Canadian grain industry adapting to a new policy environment, there is no end to potential investment opportunities. They could include, but not be limited to, more shortline railways, producer car loading sites, fertilizer manufacturing, inland terminals and value added downstream processing.

For example, much has been said about the challenges faced by farmers in grain handling, transportation, and marketing with the consolidation of grain companies, the effects of a railway monopoly and the capital investment that may be needed for farmers to continue to face those challenges.

Another example is the need for more production research with proprietary rights in the hands of the primary production sector. This would put farmers in a better position to invest in research without acceding it all to the private sector ownership.

The rule change we suggest creates an increased potential for an additional 800 million dollars to be invested in the prairie provinces and across Canada with no cost to government finance and without jeopardizing the integrity of the AgriInvest tier and its' ability to address reductions in income.

However, it would create huge political capital in that farmers would use some of their safety net money to invest in the industry rather than letting it languish in their accounts and letting the balances grow. It would most certainly also create an incentive for younger farmers who don't want to access AgriInvest to encourage expansion within the industry.

CONCLUSION

Creating an incentive for proactive investment of AgriInvest funds has benefits for farmers, the agriculture industry in general, and governments.

For producers it creates another option to maximize future income and move beyond crisis management. It allows for them to manage some of their safety net money based on their own individual finances, and encourages them to use it for strategic investment. This is a much needed adjustment for a business risk management tier all too often dubbed as a retirement fund. It would generate farmer investment capital in a sector that often has to compete for empowerment against much larger private sector capital investment funds.

For the agriculture industry in general it creates a much needed investment stimulus, allowing farmers to demonstrate their enthusiasm and confidence in the industry by making sound investments.

For Governments, it shows a sensitivity and response to the need for stimulating positive investment in agriculture. With the multiplier factor in agriculture investment and revenue, the positive impact of farmer investments to maximize future profits is undisputed. This proposal would also provide a solution to the risk of possible underutilization of the AgriInvest program by farmers and greatly increase the measurability of the program in terms of its overall economic impacts on the sector and further reduce the risk of losing the program for all the same reasons that created the loss of NISA.

FNA-STAG is a not-for-profit institute that collaborates with other organizations to improve agriculture policy and regulation where it impacts directly on farm profitability. Its parent organization, Farmers of North America (FNA) is a national farmers' business alliance, a private sector solution provider that negotiates lower input prices and develops programs for farmer members to maximize their profitability.