

REGISTERED FARM STABILIZATION PLAN

A Proposal in Concept



Introduction

Keystone Agricultural Producers' (KAP) Business Risk Management Committee, which is comprised of farmers from across Manitoba, has developed an option for consideration by governments and farm organizations. (Developed in March 2005 and updated April 2007).

A registered farm stabilization plan (RFSP) has many distinct advantages for farmers. It allows farmers to be responsible for a percentage of stabilization and investment within their operation, while providing for a self-directed rain day fund. It also gives farmers the access to funds to manage the top tier of stabilization (under the Canadian Agriculture Income Stabilization (CAIS) Program) and the ability to cover the 8% drop in CAIS which is solely the producer's responsibility.

Details

- The structure would be similar to other registered plans, such as RRSP.
- Monies would be deposited before tax in a registered account which could be accessed by the farmer at a time of his/her discretion.
- The RFSP would not require "triggers", government investment or government administration.
- Monies deposited into a RFSP would be counted in the producer's reference margin and deposited before tax. Tax would have to be paid on the dollars upon withdrawal.
- As the account builds, it could then be used at the producer's discretion; for example: in the event of a cash flow crisis, capital investments or to facilitate intergenerational transfers.
- A maximum contribution level would be established to govern the level of allowable deposits on an annual basis. This could be a percentage of the farmer's reference margin, or a percentage of gross farm receipts.
- If a producer cannot meet his/her contribution in one year, the contribution amount can be cumulative, so a producer can top-up RFSP contributions in a good year.
- A farmer would have the option of withdrawing funds for any reason, but KAP believes it will facilitate activity in the other pillars of the APF, including related investments in environment, renewal and food safety.
- When nearing retirement, a producer would have to start drawing down on the plan, otherwise, he/she would pay taxes on the farm income upon retirement.
- In partnership with industry, governments could explore how the RFSP could be forwarded as part of an intergenerational transfer.

For Further Consideration...

Both CAIS and any RFSP will be income based programs and as such, interactions between the two must be considered. The programs need to be designed such that one method of stabilization does not offset the other.

It must be made clear that income reported as farm income under CAIS cannot be reported twice. Under this program, in a good year, a farmer should take a portion of his/her CAIS eligible farm income and put it aside in a RFSP. In the event of a poor year, the farmer should be able to withdraw this money and this income should be considered non-eligible income under CAIS. The reasoning is that any normal self-savings a farmer opts for would be considered in the same fashion.

Money withdrawn from personal savings funds in a bad year could be returns from dividends, bonds or other investments. RFSP funds should be considered the same. Further, if funds withdrawn from the RFSP are considered eligible incomes under CAIS, the RFSP would become a complete CAIS offset and will serve no positive purpose. Under such rules, a farmer would never draw from their RFSP in a bad year and would instead wait for a CAIS payment. This would nullify the stabilization purpose of the RFSP.

Conclusion

The concept of a registered farm stabilization plan is not a new one. Other countries, like New Zealand and Australia, have similar programs and it has worked well to give farmers the proper tools to stabilize incomes.

In concept, this proposal maintains the principal objectives set out in the APF for business risk management: active risk management, long term planning, producers sharing in costs of the program, program affordability and design practicality.

Under this program:

- Producers would have the opportunity to self-direct a portion of their income stabilization programming by investing income in good years and withdrawing it to stabilize poor years.
- Producers would have the opportunity to build a fund that will assist in further on-farm investments or to facilitate an intergenerational transfer.
- Self-stabilization will offer a simple option for producers, and help to decrease the level of government administration needed as part of business risk management.
- Lending institutions will have a new opportunity in the agricultural sector as a result of the establishment of RFSPs.
- Stabilization funds for this program are fully producer money, and governments will not make any direct payments into this program.
- Because the account will be completely producer controlled, its stabilization will be timely, providing funds at the precise times when stabilization and investment are needed.
- RFSPs offer an active risk management option, which provides producers an incentive to consider and choose a structure which best suits their operation.