Farm Tax Class

Income Threshold Investigation

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1. Executive Summary

Metro Vancouver requested the services of Upland Agricultural Consulting to investigate whether or not the qualifications for BC Assessment's Farm class status (class 9), namely income thresholds, warrant some adjustment to ensure that farmers and the public interest are benefiting from the policy and to support the long term viability of agriculture. This investigation serves as a follow-up to a report by KM Consulting that provided an analysis of several farm property tax policy options to either increase actively farmed land or discourage the non-farm uses of agricultural land.

To qualify as a "Farm" for assessment purposes, the land must produce a prescribed amount of qualifying primary agricultural products for sale. Current thresholds are $10,000 for parcels < 0.8 ha (2 acres), $2,500 for parcels 0.8 – 4 ha (2 – 10 acres), and $2,500 + 5% of the agricultural value of the land for parcels > 4 ha (> 10 acres).

The underlying question considered is: What is the purpose of providing a Farm class tax status and how can it best be used to benefit both individual farmers and society more broadly? Interestingly, the answer to that question is not explicitly addressed in existing provincial policies and legislation.

Based on the literature and interviews conducted, several possible purposes for Farm class tax status were identified:

- To provide financial benefits to farmers (as a desirable use of land that deserves a reward);
- To confer social benefits to the public (by maintaining green spaces and providing local food access);
- To incentivize agricultural productivity of the farmland base (though to what degree is unclear);
- To preserve farm use and agriculture as an employment sector;
- To provide support to farming (as a struggling sector requiring subsidies or other financial assistance); and/or
- To act as a defacto identifier of a hobby farm vs. a commercial farm for other benefits that result from obtaining Farm class.

Interviews and data review were used to explore annual gross farm incomes and the benefits and risks associated with increasing the Farm class income threshold for the Metro Vancouver region. Based on this analysis, with particular focus given to mid-sized farms (parcels 0.8 – 4 ha or 2 – 10 acres in size with an income threshold of $2,500), three categories of farming emerged:

Table 1. Mid-sized farm categories based on income threshold ratios, gross farm income, and Farm class benefits.

Farming Level	Income Threshold Ratio	Annual Gross Farm Income	Benefits of Farm Class to Landowner	Benefits of Farm Class to Society
Lifestyle	0.000 to 1.499	< $3,749	High	Low
Hobby	1.500 to 2.999	$3,750 to $7,499	High	Medium
Commercial	>= 3.000	> = $7,500	High	High

It is acknowledged that some amount of societal benefits may be derived from all three categories of agricultural production. However, the benefits to landowners (in the form of reduced property taxes) may outweigh the overall benefits to society for the lifestyle farming category. In other words, the benefits for the lifestyle category are skewed to the private landowner.

As a way to realign this balance, three recommendations are presented to Metro Vancouver for consideration. It is recognized that these recommendations go beyond Metro Vancouver's mandate and will require a commitment from the provincial government.

1. **Increase Farm Income Thresholds to a Single Threshold for all Parcel Sizes in Metro Vancouver.** Inflation was used to determine what an appropriate farm income threshold might be in 2015. Based on starting values of $1,600 in 1974 and $2,500 in 1993, today's thresholds could fall between $3,700 and $7,500. These levels closely match the gross farm income levels used to categorize agricultural operations as lifestyle, hobby, and commercial farms.

2. **Consider a Multi-Level Taxation Tool to Further Distinguish between Hobby Farms and Commercial Operations.** Jurisdictions such as the Province of Quebec offer more benefits when farms are more productive. In Quebec, a greater tax discount is provided to operators who make more than $10,000 per year. Once recommendation #1 (above) is adopted, a similar tiered system of benefits could be brought in for Metro Vancouver. Hobby farms could receive one level of Farm class and a commercial farm could be classified as another level of Farm class. These different Farm classes could then be assigned different mil rates or tax discounts and the level of agricultural production would be reflected in the overall tax benefit conferred to the landowner and/or leaseholder. The goal is not to discourage hobby farming, but rather assign commercial farms a more appropriate mil rate that would reflect the overall societal benefits being provided.

3. **Expand the Farm Income Thresholds Policy Discussion.** This larger discussion will increase awareness of how to increase farming and gain more widespread support for agriculture. This is especially important for the urbanized areas of Metro Vancouver that are becoming increasingly reliant on local farming for food security.

Metro Vancouver is a unique farming region in Canada. Over half of the BC population lives in this region, which also has one of the highest farm gate values per hectare in Canada. The current Farm class income threshold may work successfully in other regions of BC, but is not adequate in Metro Vancouver to stem the pressure of non-farm use of agricultural land. It is important that farm tax policy be adjusted to account for these differences in this region. An increase in farm income thresholds will support the fact that agriculture is a significant contributor to the regional economy and that using farmland for agriculture production is an important tool in strengthening local food security. It will also bring the threshold in line with those used in other Canadian jurisdictions.

2. Introduction

Metro Vancouver has requested the services of Upland Agricultural Consulting to complete a review of the qualifications for BC Assessment's Farm tax classification and to investigate whether changes to the requirements are warranted.

This investigation serves as a follow-up to a report by KM Consulting that provided an analysis of several farm property tax policies[1] that could be used to either increase actively farmed land or discourage the non-farm uses of agricultural land. The issue of concern is that individuals are purchasing land in the ALR with no intention of farming it, are producing a minimal amount of agricultural products to achieve Farm class status for property tax purposes, or may be avoiding farming it so that it can be removed from the ALR at a later time (land speculation). While some of these property owners are leasing their land to farmers, that approach is primarily motivated by the ability to receive Farm class and the significant associated tax benefits.

In this investigation, the question addressed is whether the qualifications for Farm class, namely income thresholds, warrant some adjustment (increase) to ensure that farmers and the public interest are benefiting from the policy. The scope of the research is focused on the Metro Vancouver region, but may apply to areas of British Columbia with expanding urban communities.

The underlying question considered is: What is the purpose of providing a Farm class tax status and how can it best be used to benefit both individual farmers and society more broadly?

3. Methodology

The investigation consisted of a literature review of previous reports on the requirements for farm classification, an analysis of available data, and previous consultation results to determine whether the qualifications for Farm class are providing the anticipated benefits to farmers and to society. The *2009 Farm Assessment Review Panel report* and the *2014 BC Assessment Farm Classification report* were especially informative. Telephone interviews with professional staff with experience in farm property tax policy were also conducted. Data from BC Assessment regarding farm income threshold reporting ratios for BC and Metro Vancouver farms (2010-2014) was also used to explore risks to existing farm operations.

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[1] KM Consulting, 2014. Farm Property Tax Investigation in the Metro Vancouver Region.

4. Research Results

4.1 A BC Assessment Definition of Farm class

BC Assessment (BCA), an independent provincial Crown Corporation, determines the value of all properties in BC. BCA classifies properties based on type and use. Municipalities can then use these classes to assign taxes. There are nine property classes:

1- Residential,
2- Utilities,
3- Supportive Housing,
4- Major Industry,
5- Light Industry,
6- Business Other,
7- Managed Forest Land,
8- Recreational Property, Non-profit Organization, and
9- Farm.

It is important to note that only *land* can be issued Farm class status. This means the land under a farmer's home is Farm class, but the home itself is Residential class. Farm buildings, barns, greenhouses, and equipment sheds are also taxed as "Residential" (rather than "Commercial"). If farmland doesn't meet the income thresholds (these are explained in more detail later), then property (land and buildings) is entirely taxed as residential.[2]

To qualify as a "Farm" for assessment purposes, the land must produce a prescribed amount of qualifying primary agricultural products for sale. These products cannot be secondary or value-added in nature (i.e. strawberries qualify but jam does not; manure and/or compost sales do not qualify; and many equine-related activities do not qualify).

The following are qualifying activities[3]:

- Apiculture
- Aquaculture
- Christmas tree culture (plantation and cultured native stand)
- Dairying
- Floriculture
- Forage production
- Forest seedling and seed production
- Fruit and vegetable production
- Grain and oilseed production
- Herb production
- Horticulture
- Intense cultivation of plantations of *Populus* species (Poplar trees) and Salix species (Willow trees)

[2] BC Ministry of Agriculture and Lands, 2007. Farmland classification in the Fraser Valley (1974-2007).

[3] BC Assessment - classifying Farm Land Fact Sheet
http://www.bcassessment.ca/public/Fact%20Sheets/classifying%20Farm%20Land.aspx

- Management of the *Betula* species (Birch trees) and the *Acer* species (Maple trees) for the production of sap or syrup
- Raising insects for biological pest control
- Livestock raising (includes dairying, horse rearing, poultry and egg production, wool, hide, feather or fur production, raising animals for food for human or animal consumption)
- Medicinal plant culture
- Seed production
- Turf production
- Raising crops for food for human or animal consumption

The following are not considered qualifying agricultural uses:

- The production of manufactured derivatives from agricultural raw materials;
- The production of qualifying agricultural products for domestic consumption on the farm;
- The production of agricultural by-products other than breeding products;
- Agricultural services other than horse stud services;
- The breeding and raising of pets other than horses;
- The production of any substance set out in item 1 [opium poppy], 2 [coca] or 17 [cannabis] of the Schedule to the Narcotic Control Regulations under the Controlled Drugs and Substances Act (Canada), other than the production of industrial hemp in accordance with the Industrial Hemp Regulation under that Act.

The classification process is governed by Section 23 of the *Assessment Act* and BC Regulation 411/95 *Classification of Land as a Farm Regulation.*

4.2 Other Farm Definitions

In addition to the definition of a farm based on Farm class provided by BC Assessment, the Canada Revenue Agency (CRA) and Statistics Canada provide different definitions. These discrepancies are important because changes to the criteria for Farm tax status may be done in a way that would align more closely to how farms are considered by other agencies.

This difference is important, since most analyses of farms, farm size, gross revenues, and so on are based on AgCensus data produced by Statistics Canada including analyses performed within reports referenced in this investigation. The use of AgCensus data is often done as a proxy for BC Assessment or CRA data because these are more challenging to access.

Each agency's definition is explained below and then summarized in a table to highlight differences.

Canada Revenue Agency Definition of Farm

The CRA determines whether an operation is a farm based on the expectation of profit from specified activities. The CRA evaluates how much income is generated by individuals or corporations, not properties. Farming income includes income earned from the following activities[4]:

- Soil tilling;
- Livestock raising or showing;
- Racehorse maintenance;
- Poultry raising;
- Dairy farming;
- Fur farming;
- Tree farming;
- Fruit growing;
- Beekeeping;
- Cultivating crops in water or hydroponics;
- Christmas tree growing;
- Operating a wild game reserve;
- Operating a chicken hatchery; and
- Operating a feedlot.

In certain circumstances, farming income may also be earned from:

- Raising fish;
- Market gardening;
- Operating a nursery or greenhouse; and
- Operating a maple sugar bush (includes the activity of maple sap transformation into maple products if this activity is considered incidental to the basic activities of a maple sugar bush, such as the extraction and the collection of maple sap).

It is worth noting that this list of activities does not entirely align with the list of qualifying activities provided by BC Assessment for determining Farm class. Farming income, according to CRA, does not include income earned from working as an employee in a farming business.

Statistics Canada Definition of Farm

While indirectly related to farm tax policy, it is worthwhile noting that Statistics Canada defines a farm differently than either BCA or CRA. Statistics Canada identifies a property as a farm based on whether or not the activities on it appear to be agricultural in nature.

Since 1996, a Statistics Canada census farm has been defined as an agricultural operation that produces at least one of the following products intended for sale:

- Crops (hay, field crops, tree fruits or nuts, berries or grapes, vegetables, seed);
- Livestock (cattle, pigs, sheep, horses, game animals, other livestock);
- Poultry (hens, chickens, turkeys, chicks, game birds, other poultry);
- Animal products (milk or cream, eggs, wool, furs, meat); or
- Other agricultural products (Christmas trees, greenhouse or nursery products, mushrooms, sod, honey, maple syrup products).

[4] Canada Revenue Agency farm income: http://www.cra-arc.gc.ca/tx/bsnss/sgmnts/frmng/nf/wht-eng.html

The census farm definition has changed over the years and at certain points in time included reference to income thresholds. For example, the 1976 Census defined a census farm as a farm, ranch or other agricultural holding of one acre or over with sales of agricultural products of $1,200 or more during 1975[5]. The differences in definitions are summarized in Table 2.

Table 2. Definitions of Farm

Extent of Farms Included in the Definition	Agency	Purpose	Yardstick: What Measurements are Used	What Activities can be Classified as "Farming"
Narrow	BC Assessment	To classify land appropriately for property taxes.	Gross farm income (self reported) based on specified primary agricultural activities. Income thresholds must be met for definition to apply.	Primary farming activities: field crops, livestock, greenhouses. Restrictions for equestrian activities. No secondary/value added sales may be reported.
Moderate	Canada Revenue Agency	To apply income taxes at the appropriate level.	Expectation of profit from agricultural activities (self reported). No income thresholds necessary.	Most primary farming activities acknowledged by BC Assessment as well as racehorse maintenance, soil tilling, wild game reserves.
Broad	Statistics Canada	To document land uses and demographic activities at a specific point in time (every 5 years).	Based on whether or not the activities on the land appear to be agricultural in nature. Used farm income thresholds historically but not currently.	All primary farming activities acknowledged by BC Assessment and CRA as well as some value added products.

Hobby Farm vs. Commercial Farm

It is worthwhile distinguishing between a hobby farm and a commercial operation. A hobby farm primarily allows the land owner to sell products as a secondary source of income whereas a full-time commercial operation primarily produces agricultural products as a primary source of income. In Alberta, where the minimum income threshold for Farm status is $10,000, the Department of Agriculture and Forestry[6] states that if there is a realistic expectation of (net) profit from farming activities, then it is a farm business, and if not then it is a hobby farm. It is worth noting that a producer's intent or desire of business scale does not have any bearing on the actual category of farm, rather it is the level of income generated that is used to distinguish hobby vs. commercial operations.

[5] Statistics Canada Census Farm definition: http://www.statcan.gc.ca/pub/95-629-x/2007000/4123857-eng.htm
[6] Alberta Department of Agriculture and Forestry, 2015. http://www1.agric.gov.ab.ca/$department/deptdocs.nsf/all/faq7142?opendocument

4.3 The Purpose of Farm class

The purpose of Farm class status is not explicitly stated within the BC *Assessment Act* or Regulation 411/95. Therefore, in the absence of a mandate expressed, it is worthwhile to consider the range of perspectives as to why the classification may exist[7]. Based on the literature and interviews conducted, several possible reasons were identified[8,8].

- To provide financial benefits to farmers (as a desirable use of land that deserves a reward);
- To confer social benefits to the public (by maintaining green spaces, providing local food access);
- To incentivize agricultural productivity of the farmland base (though to what degree is unclear);
- To preserve farm use and agriculture as an employment sector;
- To provide support to farming (as a struggling sector requiring subsidies or other financial assistance); and/or
- To act as a defacto identifier of a bona fide farm for other benefits that result from obtaining Farm class.

It should be noted that many, or all, of these purposes may be met by granting Farm class.

4.4 Benefits to Obtaining Farm class Status

There are two levels of benefits that are conferred when properties achieve Farm class status. One level is directly awarded to the farmer or the landowner (not always the same person) and the other level is indirectly awarded to society more generally.

4.4.1 Benefits to the Farmer/Landowner

The benefits of receiving Farm class status for the farmer or landowner are primarily financial in nature. The difference between property taxes paid by a landowner with Farm class status vs. without vary, but can be significant. The differences in property taxes across the Metro Vancouver region are based on each individual municipality's mil rate[9]. Some examples are provided in Table 3[10]. All examples are for a 4 ha (10 acre) property with $150,000 in building improvements:

[7] The purpose of Farm class is neither expressed internally within the BCA agency nor externally through publicly-available policy documents.

[8] Personal communication: M. Robbins, November 2015.

[9] Mil rate: tax rate to charge for every $1,000 of assessed value. There are different mil rates for difference classes. Mil rates for farmland will vary from community to community. The difference between residential use tax class and farmland use tax class will be higher in areas with higher market values of land. To set a mil rate: divide the amount of $ required by the amount of assessed value for each class. e.g. class 1 (residential) rate is $10 million/100 million residences (0.1), class 9 (farm) rate is $10 million/10 million residences (1.0). Therefore the farmland mil rate is often greater than the residential mil rate. Nanaimo and Kelowna have set farmland mil rates lower than residential mil rates.

[10] Colliers International, Property Tax Scenario Analysis for Agricultural and Industrial Lands in the Metro Vancouver Region, 2014.

Table 3. Examples of differences in property taxes with and without Farm class.

Municipality	Tax With Farm class	Tax Without Farm class
Burnaby	$973	$17,566
Richmond	$1,025	$10,511
Delta	$1,369	$8,500
Surrey	$851	$5,239
Langley	$1,199	$5,072
Maple Ridge	$1,801	$6,035

While the financial incentive to acquire Farm class status may appear large, the benefits of Farm class awarded to the farmer/landowner is essentially a net benefit. Financial investments in farm operations are usually necessary in order to meet the Farm class threshold and obtain the tax benefit. The financial and non-financial inputs, such as labour and infrastructure (fencing, irrigation, drainage) are not included in the gross farm income calculations.

On the other hand, landowners who do not farm, but rather lease their property to farmers, can obtain this benefit with relatively low levels of investment into agricultural infrastructure. Short-term leases are not always advantageous to new farmers or contribute to expanding the agricultural industry.

In terms of other benefits for the farmer and landowner, there are other additional policies and regulations that come into play once a property has obtained Farm class. These include[11,12]:

- Protection as a farm under the *BC Farm Practices Protection Act*;
- Exemption from PST;
- *Income Tax Act* benefits such as exemption on capital gains tax when property is sold[13];
- Qualification for Environmental Farm Plan funding through the Growing Forward program;
- A reduction in fuel tax;
- Farm vehicle licensing;
- Eligibility for BC Agricultural Council Farmer ID; and
- Qualification for some local bylaws.

4.4.2 Benefits to Society

When a farm obtains Farm class status, the proportion of tax revenue coming from farmland decreases but it does not change the total property tax revenue generated by the community as a whole. What happens is the amount shouldered by other classes, namely Residential class, increases and is justified by the amenities or public benefits conferred to the non-farm (generally urban) sectors of the community.

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[11] BC Ministry of Agriculture and Lands, 2007. Farmland classification in the Fraser Valley (1974-2007).
[12] KM Consulting, 2014. Farm Property Tax Investigation in the Metro Vancouver Region.
[13] Capital gains on a farmer's principal residence can be all or partially exempt from tax. Each individual taxpayer is entitled to realize $800,00 of capital gains tax-free on qualifying a farm property during their lifetime. For more information see BDO Canada LLP's *Tax Planning for Canadian Farmers* (2014). http://www.bdo.ca/en/Library/Services/Tax/Documents/Tax-Bulletins/Tax-Planning-for-Canadian-Farmers.pdf

Studies indicate that city dwellers enjoy living near to, or adjacent to, farming areas[14]. Farms provide direct benefits to nearby residents including views and access to local food. A thriving ALR directly benefits the local economy through the stimulation of agri-business (both primary and secondary businesses and associated services). It may also be argued that some of the more progressive agricultural businesses operate at a level of efficiency and economic success that allows for the adoption of innovative nutrient management, waste management and energy efficiency technology that have both direct and indirect environmental and social benefits. On the other hand, less intensive hobby farms contribute to the agricultural landscape and help keep the public connected to farming by showing where food comes from.

In addition, there are also ecological and social benefits of keeping farmland undeveloped, such as to ability of greenfields to provide ecosystem services. These services are often under-appreciated in land use decision making because they are essentially provided free of charge to society. These services may include: stormwater management; fish and wildlife habitat; carbon sequestration; nutrient and organic matter cycling; ambient temperature moderation; and water quality control. Some social benefits, such as agricultural landscapes and agri-tourism, are also associated with extensive farmland use (pasture, vegetable crops, low-intensity livestock) rather than higher intensity production types[15].

4.5 Farm class Status Eligibility: Land Use

BC Regulation 411/95, *Classification of Land as a Farm* provides the framework for BC Assessment to determine Farm class, whether it is in or out of the ALR. Land that may qualify for farm class includes:

a) Land used for a qualifying agricultural use;
b) Land used for purposes that contribute to a qualifying agricultural use (see list below);
c) Land used for a farmer's dwelling;
d) Land in the ALR that is used for a retired farmer's dwelling;
e) Land used for the training and boarding of horses when operated in conjunction with horse rearing; and
f) In some cases, vacant land associated with a farm.

All farm structures including the farmer's home, barns, sheds, are classified as Residential. With respect to (b) above, land that contributes to a qualifying agricultural use includes[16]:

- Drainage;
- Irrigation;
- Riparian areas;
- Buffers;
- Headlands;
- Windbreaks;
- Seasonal feeding or calving grounds;
- Shelter for livestock; and
- Farm outbuildings.

[14] An Estimate of the Public Amenity Benefits and Ecological Goods provided by Farmland in Metro Vancouver, 2009.
[15] Personal communication: M. Robbins, November 2015.
[16] BC Assessment, Farm classification in BC, 2014.

This list of land uses is notable, as prior to a 2009 review of the BC Farm Tax Assessment process, many of these land uses could have been taxed Residential unless a farmer was willing to sign a statement that the unfarmed natural portions of their property would be farmed in the future. The change was made based on a host of recommendations published by the BC Farm Assessment Review Panel[17].

Within the ALR, land use for purposes ancillary to a farmer's dwelling or land with no present use can also qualify for Farm class if part of the parcel is farmed and meets the other requirements (e.g. there is a ***reasonable*** level of farming activity occurring on the parcel). This policy applies whether the land is owned or leased by the producer[18].

However, things get more complicated for unused farmland outside the ALR. It will only qualify for Farm class if it isn't zoned business/commercial/industrial, and the unused portion is unsuitable for other uses such as residential or commercial use, and the parcel is farmed BY THE OWNER (not leased). Furthermore, at least 50% of the area of the parcel that is outside the ALR must either be in a qualifying agricultural use or contribute to a qualifying agricultural use; or the land must be farmed BY THE OWNER and between 25-50% of the parcel outside the ALR must either in a qualifying agricultural use or contribute to a qualifying agricultural use and the farm operation must meet an income threshold of $10,000. To be clear, this category of non-ALR Farm class may not include land that is leased[19].

4.6 Farm class Status Eligibility: Income Thresholds

In order to obtain Farm class, the farm must be selling one or more products that are listed as a "qualifying agricultural use" and must sell a minimum amount based on the size of the property. These are known as "income thresholds" and are prescribed as follows:

a) Minimum of $2,500 if the area of land is between 8,000m^2 (0.8 ha or 2 acres) and 4 ha (10 acres);
b) Minimum of $2,500 plus 5% of the farmland value of the land for farm purposes in excess of 4 ha (10 acres); and
c) Minimum of $10,000 if the total area of land is less than 8,000m^2 (0.8 ha or 2 acres).

The farm assessment area includes the area of production, homestead, plus contributory areas. If this total area is less than 0.8 hectares (2 acres) then the full $10,000 income threshold is required. An owner-occupied homestead is not eligible for Farm class status on leased land.

Note that any farms over 4 ha (10 acres) in size must meet income threshold criteria that is $2,500 plus an additional amount based on the "farmland value." This assessed "value" of farmland mentioned in (b) above, is regulated and differs from region to region based on factors such as cultivation, irrigation, land use, and the soil capability of the land[20]. The prescribed farmland value rates are stated in a preamble of the regulation's schedule and are not publicly published. Infrastructure improvements on a farm will increase the farmland value. For example, a property in the Fraser Valley with irrigation would be valued at $4,000 per acre vs

[17] BC Farm Assessment Review Panel report, 2009.
[18] BC Assessment, Farm classification in BC, 2014.
[19] BC Assessment, Farm classification in BC, 2014.
[20] Ibid.

$3,450 per acre without irrigation[21]. So a 15 acre farm with irrigation would need to meet an income threshold of $2,500 + [(5 x $4,000) x 5%] or $3,500 total. It is worth noting that this calculation of "farmland value" is significantly less than market value, as it is its value in farm use only.

Landowners must prove that the income threshold has been met in at least one of the two reporting periods. There are two reporting periods, termed "earlier" or "later"[22], whereby the "earlier" reporting period refers the person's income tax year ending in the calendar year that is 3 years before the current taxation year and the "later" reporting period refers to the person's income tax year ending in the calendar year that is 2 years before the current taxation year. A taxation year is the calendar year (Jan 1 – Dec 31) for individuals/sole proprietors but may be different (e.g. April 30) for corporations. For example, for taxation year 2015, the earlier period is 2012 and later period is 2013 and therefore the income threshold must have been met during either 2012 or 2013.

Income threshold information in support of farm classification must be provided initially to establish Farm class, and then *only upon request from BC Assessment*. Proof of sales may include a copy of receipts, sales logs, or other information supporting income claimed. In the absence of written evidence, the sale prices of comparable products sold locally may be used[23].

One of the recommendations from the 2009 BC Assessment Review Panel was to harmonize farm income reporting with the CRA. While the reporting period has been changed to match the CRA's, the income used to determine Farm class is not shared between the CRA and BC Assessment. The recommendation was not acted upon due to a number of reasons, including:

- As a Federal agency the CRA is disinclined to share information with other jurisdictions generally. There are concerns regarding confidentiality and privacy. To satisfy these concerns, BC Assessment would have to obtain written permission from every producer every year;
- If BC Assessment required a CRA income statement from the farmer, it may impose an additional administrative burden on landowners;
- There is some uneasiness on the part of the provincial government regarding federal jurisdictional issues being mixed up with provincial policy issues;
- There are differences as to what activities and sales can be used to calculate "farm income" at the Federal and Provincial level (see "definitions" above). However, generally this issue was not seen to be a deal-breaker[24]; and
- There are some basic differences in the evaluation practices between CRA and BC Assessment. While the CRA is responsible for evaluating the income of an individual (i.e. employment), BC Assessment is evaluating income generated from land uses.

However, if BC Assessment asks farmers to show proof of farm income, they are permitted to share their CRA income statements[25].

[21] Personal communication, L. Gilbert, November 2015.
[22] BC Assessment, Farm classification in BC, 2014.
[23] BC Assessment, Farm classification in BC, 2014.
[24] Personal communication, B. Currie, November 2015.
[25] Ibid.

4.7 Leased Farmland and Farm class

Landowners who don't want to farm may lease their land to a farmer and still obtain Farm class tax status. Leased land will get Farm class tax status if income thresholds are met by the farmers leasing the land. A farm operation is made up of all or part of a parcel or several parcels that are owned or leased and operated as an integrated farm unit. The income and sales requirements are based on the area used for the farm operation. Therefore, a farm operation can consist of a combination of owned and leased parcels of varying sizes but which are all operated as an integrated unit[26]. The total land area (owned + leased) is considered when determining the threshold[27].

A copy of the lease must be provided to BC Assessment by October 31st and landowners usually use the template provided by BCA. It must contain a legal description of the land, duration/length of the lease (one year minimum), lease area, intended use of the lease, etc.[28] Leased land must be greater than 0.8 ha (2 acres) if it is outside the ALR and the leased land must make a reasonable contribution to the (leased) farm operation[29]. There is no requirement to extend the length of a lease beyond one year. There is no impact on the residence or other buildings, which are classed Residential.

Encouraging ALR landowners who do not farm to lease their land to a farmer can be challenging. An *ALR Landowner Survey*[30] conducted by Ipsos Reid for Metro Vancouver in 2013 determined that landowners with less than 25% of their property being farmed generally demonstrate little interest in expanding farm operations. No landowners involved in the survey who had less than 25% of their property in farming were actively looking to lease their unfarmed land. The reasons for this included: enjoying the property as it is; do not need the additional income; using the property for other purposes; farming is not financially viable; unsure how to find a good lessee; and lack of privacy. Some also felt that their property would require a significant amount of work before it could be leased and they were not ready to make that investment at this time.

Interestingly, amongst landowners who farm 25-50% of their property, a full half lease their land to a farmer. Experiences with leases have been predominately positive for this group, and those who lease generally do not have anything negative to say about leasing. The few challenges that are mentioned include managing the lease (ensuring the land is appropriately maintained), difficultly finding an appropriate lessee, and ensuring compliance with land use/environmental restrictions.

Therefore, a lack of farmland being made available for lease may be considered as both a policy issue (the ability of non-farming landowners to purchase ALR properties) and a cultural issue (non-farming landowners wanting open space, concerns about liability, the theoretical hassle of dealing with farm tenants). Those who are unwilling to lease their land may see the value in paying higher property taxes in exchange for less hassle (the noise or smell of farming), or having people on their property. That may be more important to them than dealing with income

[26] BC Assessment, Farm classification in BC, 2014.
[27] BC Ministry of Agriculture and Lands, 2007. Farmland classification in the Fraser Valley (1974-2007).
[28] BC Assessment, Farm classification in BC, 2014.
[29] Ibid.
[30] ALR Landowner Survey. Prepared for Metro Vancouver by Ipsos Reid. 2013. http://www.metrovancouver.org/services/regional-planning/PlanningPublications/ALR-LandownerSurveyReportJan2013.pdf

thresholds and Farm class status. In other words, there is no evidence to suggest that the current level of farm income threshold influences the amount of ALR land available for lease[31].

4.8 Farm class Eligibility Exceptions and Concessions

A number of concessions and exceptions exist with regards to income thresholds. These include:

- A farmer may be able to use the "unsold" value of qualifying farm goods to calculate gross income if they are using the later reporting period, so long as they ensure that those unsold goods are available for sale during the following 12 months[32].
- Farms that were less than 0.8 ha (2 acres) in 1995 are grandfathered into the current thresholds, and are therefore not required to report $10,000 in sales. These farms will continue to be eligible for Farm tax class under the old requirements as long as the land remains in the same ownership and the owner/farmer earns the greater part of their livelihood from farming. The grandfathering does not apply to leased land[33].
- There are also exceptions for new/developing farms. The assessor must be satisfied that the minimum income threshold will be achieved once production begins. Production must start within a specified period of time (this depends on the farm type). Once production starts the developing farm is initially required to meet the income and sales requirements *2 years in a row*[34].
- There are also exceptions if it makes sense to "hold" the sale of the qualifying product until prices improve. This clause estimates how much income would have been generated if the crops produced had been sold. This estimate is especially useful for grain farmers, etc.[35].

4.9 Enforcement and Auditing

BCA audits most farms every 3 to 8 years, depending on how established the operation is and how closely the reported income is to the income threshold. The larger established farms are audited every 8-10 years. Smaller farms, especially those reporting on the edge of the income threshold, are audited every year. Farms that have had a history of issues reaching threshold or other reporting inconsistencies are also frequently audited.[36]

As noted previously, once the land has been classified as Farm, the minimum income requirements required for the farm operation must be met in one of two relevant reporting periods and a sale of a qualifying agricultural product must be made in every reporting period[37]. Farm class is routinely revoked by BCA if these income thresholds are not met[38]. A BC Ministry of Agriculture study on farmland classification in the Fraser Valley completed in 2007 concluded that there are no incentives to abuse the Farm class system[39]. The number of properties that

[31] Personal communication, H. Anderson, November 2015.
[32] BC Assessment, Farm classification in BC, 2014.
[33] Ibid.
[34] Ibid.
[35] Ibid.
[36] Personal communication, B. Currie, November 2015.
[37] BC Assessment, Farm classification in BC, 2014.
[38] Personal communication, L. Gilbert, November 2015.
[39] BC Ministry of Agriculture and Lands, 2007. Farmland classification in the Fraser Valley (1974-2007).

could legitimately obtain farm tax status (but that don't) outnumber the properties that (may) be using farm tax status without reason.[40]

4.10 Income Threshold Adjustment

4.10.1 History of Income Threshold Adjustments

Prior to the creation of the BC Assessment Authority (now BC Assessment) in 1974, land was taxed under the *BC Municipal Act* and the *BC Taxation Act*. No income threshold was used, but if a property was less than 2.0 ha (5 acres), then the farmer had to make more than 50% of their income from farming[41].

Regulation 446/77 was the first *Farm Tax Regulation* to include income thresholds in 1974. It set out that annual gross income must be more than $1,600 on the first 4 ha (10 acres); 5% of actual value of land for farm purposes if > 4 ha (10 acres); and if less than 0.8 ha (2 acres) then the property was not classified as a farm at all[42]. In 1993 this threshold was increased from $1,600 to $2,500. If the property was greater than 4 ha (10 acres) then income must be $2,500 + 5% of the value of the farmland[43].

In 1995 Regulation 411/95 was introduced. It added required income thresholds for properties less than 0.8 ha (2 acres) of $10,000. It also stipulated that sales must be generated from primary agricultural products (now called qualifying agricultural products)[44]. The $10,000 threshold was not welcomed by all municipalities within Metro Vancouver. The City of Richmond wanted to see a lower threshold on these smaller lots to encourage farming. Their goal is to open up more land for farming while preventing large estates on small ALR lots is secondary. On the other hand, the City of Burnaby wanted a higher limit to prevent small hobby farms from avoiding taxes[45].

One of the recommendations arising from the *2009 BC Farm Assessment Review Panel report* was to establish a single threshold at a minimum of $3,500 for all farm properties and eliminate the higher threshold of $10,000 for properties of less than 0.8 ha (2 acres). It was also recommended that this threshold be reviewed every 5 years. The Bank of Canada inflation calculator[46] was used to determine how the 1974 and 1993 thresholds measure up to today's dollar values.

- In 1974, $1,600 adjusted for the inflation rate would be approximately $7,500 in 2015.
- In 1993, $2,500 adjusted for the inflation rate would be approximately $3,700 in 2015.

The *2009 BC Farm Assessment Review Panel report* recommendation to increase farm income thresholds has not been adopted for reasons that appear to be political rather than evidence-based. There may have been a concern that those with 0.8 - 4 ha (2 – 10 acres) properties (the

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[40] BC Ministry of Agriculture and Lands, 2007. Farmland classification in the Fraser Valley (1974-2007).
[41] BC Assessment, Farm classification in BC, 2014..
[42] BC Ministry of Agriculture and Lands, 2007. Farmland classification in the Fraser Valley (1974-2007).
[43] Ibid.
[44] Ibid.
[45] Personal communication, H. Steves, December 2015.
[46] Bank of Canada inflation calculator, 2015: http://www.bankofcanada.ca/rates/related/inflation-calculator/

hobby farmer,) would be most directly impacted[47]. Whether there were also concerns that specific types of farms would be impacted is unclear. This concern for small farms is explored further in the following section.

4.10.2 How to Make $2,500 in Gross Farm Income

As previously discussed, farm income can include[48]:

- Sales of qualifying agricultural products;
- Crop or livestock insurance payments;
- Livestock: (Live weight price of the livestock, not including slaughter and cut and wrap costs; or live weight price applied to the weight gained by the livestock while being raised on the producer's farm operation; or the difference between the purchase and sale prices of the livestock); and/or
- Horses: Land used for horse boarding and training is NOT eligible unless it is in conjunction with horse rearing operations that qualifies for farm class; income from boarding and training is NOT qualifying income for farm income thresholds; however, income from sale of horses, horse stud services, qualify.

Poultry
Perhaps one of the least labour-intensive ways of grossing $2,500 per year is to sell chicken eggs at the farm gate. With a flock of less than 99 hens, no poultry quota is required. A flock of approximately 30 hens laying 4 eggs/hen/week would produce 10 dozen eggs a week or 520 dozen per year. To be conservative, if an estimate of 500 dozen eggs per year is used at a price of $5 per dozen, $2,500 would be achieved. Therefore, a flock of 50 hens would achieve farm income threshold on a property 0.8 ha to 4 ha acres in size.

Vegetables
Agri-business guidebooks published by the BC Ministry of Agriculture, Fisheries, and Food in 1995 suggest that 1.25 ha (3 acres) of mixed vegetable production would generate over $45,000 in direct market sales, or $36,000 per hectare (gross income)[49]. Therefore, a well managed mixed vegetable farm could achieve farm income threshold on all three categories of property sizes (< 0.8 ha (< 2 acres), 0.8 - 4 ha (2 – 10 acres), and > 4 ha (> 10 acres)).

Livestock
Fraser Valley Auctions Ltd. has been in the business of auctioning livestock in Langley for 25 years. Buyers and sellers from all over the lower mainland, throughout BC, Alberta and into the United States purchase chickens, rabbits, geese, pigs, goats, sheep, llamas and cattle.

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[47] Personal communication, B. Currie, November 2015.
[48] BC Assessment, Farm classification in BC, 2014.
[49]BC Ministry of Agriculture, Fisheries, and Food. Direct Farm Market Guide, 1995. http://www.agf.gov.bc.ca/busmgmt/bus_guides/directmkt/direct_finance.pdf

Table 4. Price of Cows in November 2015[50]

Item	Price range ($) per CWT (100 lbs)	Amount (lbs) to make $2,500	Estimated number of animal units required to sell to make $2,500
Holstein cow	60 - 99	2,525 – 4,167	2 to 3 (at 1,500 lbs per cow)[51]
Beef cow	80 - 104	2,403 - 3,125	2 to 3 (at 1,200 lbs per cow)[52]
Bulls	104 – 136	1,838 – 2,403	1 to 2 (at 1,700 to 2,200 lbs per bull)[53]
Holstein heifer	103 – 134	1,865 - 2,427	3 to 4 (at 800 lbs per heifer)[54]
Beef heifer	140 - 200	1,250 – 1,785	2 to 3 (at 800 lbs per heifer)[55]
Steer and Bull calves	180 - 230	1,086 – 1,380	2 to 3 (at 600 lbs per calf)[56]
Veal	150 - 250	1,000 – 1,667	3 to 5 (at 400 lbs per calf)[57]

Therefore, depending on the type of cattle-calf production, between 1 and 5 units would need be sold to achieve a $2,500 farm income threshold. It is likely that cattle-calf farms are operating on parcels that exceed 4 ha (10 acres), therefore the additional 5% farmland value would be applied to the income threshold. Therefore, these numbers should be considered low-end estimates of required annual animal sales. For other livestock, the Fraser Valley Auction notes the following prices (Table 5)[58].

Table 5. Price of Various Livestock, November 2015.

Item	Price range (per head)	Estimated required to sell to make $2,500
Pigs		
Weaner pigs	70 – 80	31 – 36
Feeder pigs	40 – 100	25 – 63
Hogs	120 – 180	14 – 21
Sows	180	14
Goats		
Nannies	65 – 245	10 – 39
Billies/whethers	75 – 370	7 – 34
Kids	30 – 50	50 – 84
Sheep		
Lambs	65 – 220	12 – 39
Rams	160 -230	11 - 16
Ewes	65 – 120	21 – 39
Llamas/alpacas	10 – 40	63 - 250

[50] Fraser Valley Auctions Ltd market report, November 18, 2015. http://www.fraservalleyauction.com/wednesdayreport.html
[51] Holstein USA Factsheet. http://www.holsteinusa.com/holstein_breed/breedhistory.html
[52] North Dakota Farm and Ranch Guide. http://www.farmandranchguide.com/news/livestock/what-s-a-cow-worth-determining-the-value-of-a/article_94e22c5a-4601-11e1-8214-0019bb2963f4.html
[53] North Dakota University: How much should bulls weigh? https://www.ag.ndsu.edu/news/columns/beeftalk/beeftalk-how-much-should-bulls-weigh
[54] Holstein USA Factsheet. http://www.holsteinusa.com/holstein_breed/breedhistory.html
[55] Beef Magazine. http://beefmagazine.com/blog/what-s-best-breeding-weight-beef-heifers
[56] North Dakota Farm and Ranch Guide. http://www.farmandranchguide.com/news/livestock/what-s-a-cow-worth-determining-the-value-of-a/article_94e22c5a-4601-11e1-8214-0019bb2963f4.html
[57] American Veal Association. http://www.americanveal.com/for-consumers/veal-frequently-asked-questions/
[58] Fraser Valley Auctions Ltd market report, November 18, 2015. http://www.fraservalleyauction.com/wednesdayreport.html

Horses

While many equine activities do not qualify for gross farm income, direct horse sales and the sale of stud services are allowable agricultural activities. The current prices of stud services listed online[59] range from $500 to $1,000 for BC horses. This suggests that 3 to 5 stud services per horse or per farm would be required to meet a $2,500 threshold. Additionally, the sale of horses can range from $500 to $50,000 per horse, with those for sale within Metro Vancouver falling within the higher end of the price range.

4.10.3 Assessing Raises in Income Thresholds – Previous Reports

Based on the information gleaned from above, most operations should not have undue hardship reaching a $2,500 threshold (or higher). A 2007 report by the BC Ministry of Agriculture and Lands noted that when the threshold was moved from $1,600 to $2,500 in the 1990s, it may have prevented some farms with the following types of operations from achieving farm status[60], particularly small scale cow-calf, feeder steer, lamb production, and wholesale vegetable production. That same report also suggested that further increasing the threshold above $2,500 on 2 ha (5 acre) parcels would make it difficult for some operations[61] to achieve farm status, and that in Langley alone, if the threshold was raised to $4,500, 43% of small lot farms would lose farm tax status[62]. It noted that farms identified as small-scale beef, sheep/goat, pasture/forage, llama/alpaca, and/or horse breeding may be at particular risk. However, the methods used in that assessment are potentially problematic as it relied heavily on Agricultural Land Use Inventory (ALUI) data. It is unclear how (or if) this report influenced the *BC Farm Assessment Panel Review* findings in 2009.

The 2007 report categorized the type and intensity of the farms within municipalities based upon an ALUI conducted in 2004 rather than on BC Assessment or other income data. The ALUI methodology involves categorizing farm use based on what is observed occurring on farm land from the road during a windshield survey. The ALUI report notes that livestock activities are very difficult to measure using a windshield survey method[63]. Livestock are often confined to structures making it difficult for the surveyor to see the animals. Local knowledge and other indicators such as animal confinement type (barn type), feeder system type, manure handling system type, and other visible elements may be used to infer the type of livestock and scale of activity that exist on a parcel. In addition, livestock are mobile and may utilize more than one land parcel. Livestock visible on a certain parcel one day may be visible on a different parcel the next day.

The reality is that even hobby farms usually produce more than one agricultural product at a time. For example, a cattle-calf operation that only sells one unit per year may be able bolster its gross income with farm gate vegetable sales. Or, a farm labeled “low intensity llama production” may also be producing eggs to reach farm income threshold, however these hens may not have been observed during the ALUI survey. As the numbers in the previous section

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[59] Stallions Online, December 2015. http://www.stallionsnow.com/britishcolumbia.htm

[60] BC Ministry of Agriculture and Lands, 2007. Farmland classification in the Fraser Valley (1974-2007).

[61] BC Ministry of Agriculture and Lands, 2007. Farmland classification in the Fraser Valley (1974-2007).

[62] Ibid.

[63] BC Ministry of Agriculture, Metro Vancouver (North) Agricultural Land Use Inventory. 2011. http://www2.gov.bc.ca/assets/gov/farming-natural-resources-and-industry/agriculture-and-seafood/agricultural-land-and-environment/strengthening-farming/land-use-inventories/northmetrovan_2011aluirpt.pdf

suggest, the ability to reach $2,500 in sales for most farms need not be an onerous task, and one may argue that any reasonably-successful business would need to rely on sustainable income to cover basic expenses.

Potential Impacts on New Entrants

The concern has been raised that increasing farm income thresholds may deter new entrants from farming. If the goal is to increase the number of farmers or acres of farmed land in Metro Vancouver, making Farm class harder to achieve may seem like an unnecessary barrier [64]. However, as previously discussed, concessions are made for farms that are in developmental stages. There is only anecdotal evidence to suggest that raising the threshold would pose a challenge in getting people to start farming. It is likely that there are other challenging barriers impacting a potential new farmer's decision to start farming, like the cost of land and/or a lack of leasing opportunities[65].

4.11 Farm Income Thresholds in Metro Vancouver

Agriculture in Metro Vancouver is a strong economic driver, and the region has some of the highest farm gate sales in the country, with over $789 million in gross annual farm receipts in 2010 (27% of the BC farm total) on only 1.5% of the province's agricultural land. In order to estimate what the impacts of adjusting farm income thresholds might be to operations within Metro Vancouver it is worth exploring the number of farms, size of farm parcels, types of farming, and relative income ratios for the region.

The following datasets were used:

- BC Assessment farm classification data for Metro Vancouver (most recent reporting[66])
- Metro Vancouver Agricultural Land Use Inventory (ALUI) data and maps (2010 and 2011)
- BC Assessment farm classification data for the Province (2009)

The data was a mix of publicly available information as well as data received by request from BC Assessment. First, the number and size distribution of parcels with Farm class in Metro Vancouver was determined (Table 6).

Table 6. Number and size distribution of parcels with Farm class in Metro Vancouver.

Parcel size	**# Parcels with Farm class**
< 0.8 ha (< 2 acres)	40
0.8 - 4 ha (2 – 10 acres)	1,337
> 4 ha (> 10 acres)	1,276
Total	2,653

The larger the parcel size, the more likely the parcel is to have Farm class. The income threshold for these larger parcels is higher because 5% of the farmland value over and above 4 ha (10

[64] Personal communication: M. Robbins, November 2015.

[65] Personal communication, H. Anderson, November 2015.

[66] Most recent reporting varies from farm-to-farm. Some operations must report income to BC Assessment every year, whereas others report only every 8 years or more. Therefore, the exact dates are variable.

acres) is added on to the base amount of $2,500. This indicates that the motivation for acquiring Farm class may be higher for landowners with large parcels. This higher percent is likely due to the tax savings to be made through Farm class is higher on larger properties.

Next, the number of farms with Farm class that are making close to the threshold level was explored using data for both British Columbia and Metro Vancouver (Tables 7 and 8).

Table 7. Income Ratios for Farms in BC and Metro Vancouver (most recent reporting year).

Threshold	**$10,000 < 0.8 ha (< 2 acres)**		**$2,500 0.8 – 4 ha (2 to 10 acres)**		**$2,500 + 5% > 4 ha (> 10 acres)**		**Total**	
Income Ratio	**BC**	**MV**	**BC**	**MV**	**BC**	**MV**	**BC**	**MV**
0.00 – 0.999	20	4	169	38	337	58	526	100
1.00 - 1.249	31	8	1,206	397	959	122	2,196	527
1.25 - 1.499	18	4	567	146	741	75	1,326	225
1.50 - 1.749	11	3	468	135	799	81	1,278	219
1.75 - 1.999	7	2	290	79	530	38	827	119
2.00 - 2.999	17	6	657	153	1,377	139	2,051	298
3.00 - 4.999	14	3	582	120	1,802	110	2,398	233
5.00 - 9.999	12	3	433	78	1,538	118	1,983	199
>10.00	20	7	890	191	3,666	535	4,576	733
TOTAL FARMS	**150**	**40**	**5,262**	**1,337**	**11,749**	**1,276**	**17,161**	**2,653**

The ratio of 0.00 to 1.249 means that those farms were reporting 0% to 124.9% of the required threshold and may be considered at risk of losing status if the threshold is raised at all. Table 8 presents the number of farms in the low income threshold by parcel size distribution.

Table 8. Low income ratios and parcel size for farms in Metro Vancouver.

Threshold Parcel size	**$10,000 < 0.8 ha (< 2 acres)**	**$2,500 0.8 – 4 ha (2 to 10 acres)**	**$2,500 + 5% > 4 ha (> 10 acres)**	**Total**
0.00 – 0.999	4	38	58	100
1.00 - 1.249	8	397	122	527
Subtotal	12	435	180	627
Total Metro Vancouver	40	1,337	1,276	2,653
Proportion with Low Income Ratio	30%	32%	14%	13.2%

The threshold data was further explored at the Metro Vancouver municipal level to determine how many farms would be impacted by a rise in income thresholds (Table 9) in which communities.

Table 9. Income Threshold Ratios by Metro Vancouver Municipality.

	INCOME RATIO GROUP									
Jurisdiction	0.000 - 0.999	1.000 - 1.249	1.250 - 1.499	1.500 - 1.749	1.750 - 1.999	2.000 - 2.999	3.000 - 4.999	5.000 - 9.999	> = 10.000	**TOTAL**
Bowen Island	1	3	1	6	2	4	2	0	0	**19**
Vancouver	1	3	0	1	2	0	3	0	2	**12**
New Westminster	0	0	0	0	0	0	1	2	0	**3**
Port Coquitlam	2	8	6	2	0	3	6	4	5	**36**
Burnaby	0	0	1	1	0	4	1	0	15	**22**
Coquitlam	0	5	1	0	1	2	1	0	4	**14**
Delta	5	15	7	10	8	12	13	18	92	**180**
Richmond	5	21	8	7	6	16	30	29	83	**205**
Tsawwassen FN	0	0	0	0	0	1	0	0	0	**1**
Surrey	17	76	29	31	18	55	36	39	174	**475**
LM Rural (Barnston)	0	1	0	0	1	2	0	1	2	**7**
Langley	55	307	136	122	64	158	115	83	248	**1,288**
Maple Ridge	8	68	32	32	14	26	10	8	32	**230**
Pitt Meadows	6	20	4	7	3	15	16	17	73	**161**
TOTAL	**100**	**527**	**225**	**219**	**119**	**298**	**234**	**201**	**730**	**2,653**

The Township of Langley, City of Surrey, and District of Maple Ridge have the most farms within the 0.000 – 1.249 income ratios and these communities have high proportions of parcels within the 0.8 – 4 ha (2 – 10 acres) parcel size category (Table 10). It is interesting that municipalities with high proportions of very small parcels of farmland (such as the City of Burnaby, City of Richmond, City of Vancouver) have a relatively lower number of farms in the low income ratios (Tables 9 and Table 10). This suggests that many of the farms that are required to meet an even higher income threshold of $10,000 are successfully achieving it, while those who must achieve a lower income threshold of $2,500 on larger parcels are encountering challenges. This statement is further supported by Table 7. Whether these challenges are due to differences in business management, soil limitations, or other factors, is difficult to ascertain from raw data.

Table 10. ALR parcel size distribution by municipality in Metro Vancouver.

Percent of Parcels in the ALR	<4 ha (<1 ha)	>4 ha	Total
Bowen Island	72% (17%)	28%	100%
Burnaby	90% (51%)	10%	100%
Coquitlam	59% (18%)	41%	100%
Delta	53% (33%)	47%	100%
Langley	71% (15%)	29%	100%
LM Rural (Barnston)	40% (4%)	60%	100%
Maple Ridge	85% (37%)	15%	100%
Pitt Meadows	54% (18%)	46%	100%
Port Coquitlam	82% (25%)	18%	100%
Richmond	89% (68%)	11%	100%
Surrey	61% (13%)	39%	100%
Vancouver	95% (74%)	5%	100%
Metro Vancouver ALUI Report Total	**73% (29%)**	**27%**	**100%**

4.11.1 Gross Farm Income on Mid-Sized Farms in Metro Vancouver

The data suggests that an estimated 627 farms (those with income ratios ranging from 0.000 to 1.249) within Metro Vancouver may struggle to maintain their Farm class status if the income threshold were to be increased. Over two-thirds (435 out of 637 or 69%) of those struggling farms fall within the mid-size farm (0.8–4 ha or 2–10 acres) category with a threshold of $2,500. This category was therefore given additional attention in the data analysis.

The distribution of income ratios for mid-size farms was further divided into three broad gross farm income categories: low, medium, and high (Table 11).

Table 11. Distribution of Income Ratio and Gross Farm Incomes for Mid-Sized Farms in Metro Vancouver.

Income Threshold Category	Income Ratio	Gross Farm Income	Number of Farms
Low – Lifestyle Farm	0.000 to 1.499	< $3,749	581
Medium – Hobby Farm	1.500 to 2.999	$3,7500 to $7,499	367
High – Commercial Farm	>= 3.000	> = $7,500	389

The data suggests that mid-sized farms could be broadly described as lifestyle farms (earning less than $3,749 in gross farm income, therefore likely farming for lifestyle benefits), hobby farms (earning between $3,750 to $7,499 in gross farm income, therefore likely farming as a secondary source of income) or commercial farms (earning more than $7,500 in gross farm income, therefore likely farming as a primary source of income).

It is interesting to note that these categories closely match those that were calculated based on inflation in section 4.10.1 of this report ($3,700 and $7,500). The intent of raising the income threshold to $3,700 would be to both discourage lifestyle farming, which may benefit the landowner but is providing the least amount of societal benefits, and to distinguish between hobby farming and commercial farming.

In 2011, the BC Ministry of Agriculture explored data on farm income reporting and concluded that the average farm income was $4,200 for mid-sized farms in BC[67]. This suggests that a $3,500 threshold could be easily met by the average farmer, whether hobby or commercial.

4.12 Best Practices from Other Jurisdictions

Across Canada, and indeed across the world, different jurisdictions use various measuring sticks and associated incentives for farmers. It is worth noting that BC has one of the lowest income thresholds both within Canada and abroad. These include:[68]

- Ontario sets farm property taxes at 25% of the municipal residential rate, but gross farm income must be at least $7,000 as reported to the CRA for income tax purposes.

[67] Personal communication, H. Anderson, November 2015.
[68] BC Ministry of Agriculture and Lands, 2007. Farmland classification in the Fraser Valley (1974-2007).

- Quebec offers a rebate system: 50-77% off the residential rate, depending on the level of farm sales (77% if more than $10,000). They also use a maximum assessed value for school taxes on farmland.
- Saskatchewan has a system that excludes farm residences and farm buildings from property taxes. Assessment values range from 50% (rangeland) to 70% (cropland) of agricultural market value.
- Alberta's Department of Agriculture and Forestry notes that a minimum of $10,000 gross annual farm production income is required to obtain farm status.
- Oregon has an "Exclusive Farm Use Zone" (like the ALR). Property owners are eligible for lower taxes if the land is farmed. Must be currently in use and farmed exclusively for at least 2 years. Must meet income threshold for 3 of the 5 previous years ($100/acre).
- Michigan and Wisconsin use a system that is connected to income tax. Farmers with lower income will receive more credits than those with higher incomes.
- UK and Ireland exclude farmland and farm buildings from taxes. Only houses and gardens are taxed.
- Italy has eliminated income taxes for full time farmers, they only pay income tax on real estate.

5. Pros and Cons of Increasing Farm Income Thresholds

The following summary tables (Table 12 and Table 13) list the opportunities and challenges to both increasing the farm income thresholds and maintaining the status quo.

Table 12. Pros and Cons of Increasing Farm Income Thresholds.

Pros	Cons
1. Increasing farm income thresholds was one of the key recommendations from the 2009 BC Assessment Farmland Review report. 2. May incentivize agricultural productivity of the farmland base. A previous increase in thresholds in 1995 is somewhat related to increased farming activity, although to what degree is unclear. An increase in productivity and/or diversity results in societal benefits: increased food security, healthy and fresh foods, and local jobs. 3. May stimulate agriculture as an employment sector. As above, when the activities on ALR increases, it can lead to an increase in employment income and/or employment opportunities. 4. If the threshold is increased to a level that requires skillful production, it may encourage non-farming ALR landowners to lease some (or more) of their land to farmers although to what degree the additional leasing would occur is unclear. 5. An income threshold would result in BC becoming more in line with those required in other provinces. 6. An increase in threshold would ensure that it is kept in line with inflation. 7. An increase in income threshold would send a policy signal to ALR landowners that the government is interested in seeing the land farmed rather than used only for residential purposes.	1. About a third of farms in Metro Vancouver currently operate around the base income threshold. It is possible that in increase in income thresholds may require these ALR landowners (and/or lessees) to increase levels of agricultural infrastructure investment in their property and/or to diversify their production practices to achieve the higher threshold and could be a challenge for some landowners. 2. Particular farming activities may find an increased farm income threshold difficult to attain, especially if they are not diversifying and/or maximizing production on their farms. The types of farms that may have challenges meeting an increased threshold include: • Cow-calf; • Feeder steer; • Lamb production; • Forage production; and/or • Low intensity llama/alpaca. 3. Some may feel that an increase in the farm income threshold represents another challenge in starting a new farm. However, it is unclear how the challenge of farm income threshold compares to the other economic challenges found in starting a farm (land and lease costs, seeds, equipment, etc.).

Notes:

- A number of concessions and exceptions exist with regards to current income thresholds. It may be possible to grandfather some types of low-intensity existing farms into a new higher threshold scheme. There is precedence for this: farms that were less than 0.8 ha in 1995 are grandfathered into the current thresholds, and are therefore not required to report $10,000 in sales.
- Exceptions also currently exist for new and/or developing farms, whereby a grace period is provided before income thresholds must be met.
- In 2011, the BC Ministry of Agriculture explored data on farm income reporting and concluded that the average province-wide farm income was $4,200 for producers on 2-10 acres of land. This suggests that a $3,700 threshold could be easily met by the average farmer.

Table 13. Pros and Cons of Maintaining the Status Quo for Farm Income Thresholds.

Pros	Cons
1. No administrative or policy changes would be required. 2. Farm operations that deal with low-intensity agricultural activities would not be at risk of losing Farm class status. 3. Not increasing farm income thresholds may serve as a defacto method of maintaining unfarmed (or low farmed) ALR as green space. 4. May send a signal to the agricultural sector that the government acknowledges the struggles involved in farming and therefore a low income threshold can be seen as a reward.	1. Lack of an incentive to stimulate the intensity and diversity of the agricultural sector – may be seen as a "missed opportunity." 2. By keeping the farm income threshold constant, without even adjusting it for inflation, the signal being given to producers suggests that innovation and/or reinvestment in agricultural infrastructure is not required (or desired) within the ALR. 3. As 40% of the ALR in Metro Vancouver is currently without Farm class status, this figure is unlikely to improve if a signal is not provided regarding the importance of enhancing local food production. 4. The low threshold in BC, when compared to other provinces and states, may send a signal to other jurisdictions that much of farming in BC is hobby-scale rather than commercial or industrial.

Notes:

- The ability to reach $2,500 in sales for most farms need not be an onerous task, and one may argue that any reasonably-successful business would need to rely on income over and above this amount to cover basic operating expenses.
- Additional data, including farm income by farm type, if available, would help to determine the number of Metro Vancouver farms that would be at risk of a rise in the farm income threshold.
- While it is possible that some of non-farming ALR owners are simply interested in estate properties and have the money to cover the residential tax rate, others may not see understand the full scope the benefits associated with Farm class.
- May be beneficial to wait and resume the discussion around farm income thresholds when the political will exists at other levels of jurisdiction.

6. Recommendations

Based on the discussion and pros and cons presented in Tables 12 & 13, the following three recommendations are presented.

6.1 Recommendation 1 – Increase Farm Income Thresholds to a Single Threshold for all Parcel Sizes in Metro Vancouver

The majority of producers that were consulted for the purpose of this report agreed that the current $2,500 threshold is effortless to achieve for those who manage their operations as income-generating businesses, and is a blessing for those who are simply interested in selling a minimal amount of agricultural products to achieve property tax benefits. Raising the threshold will discourage those who are using farmland primarily for lifestyle reasons and are obtaining Farm class status for solely the tax benefit. It will help ensure that the tax benefit is offered only to hobby and commercial farming operations.

A single, higher threshold was also a recommendation from the 2009 *BC Farmland Assessment Panel report*. That report recommended changing the threshold to $3,500 for all farm sizes. It is now 6 years later, and it is worthwhile revisiting an increase in the Farm class threshold. It may also be appropriate to use inflation as a starting point for validating the threshold level, which was previously undertaken in 1995. At today's dollar values, the thresholds used in 1974 and 1993 would be between $3,500 and $7,500 when adjusted for inflation. Mid-sized farms (0.8-4 ha or 2–10 acres) in Metro Vancouver can be broadly described as "lifestyle" (earning less than $3,749 in gross farm income), "hobby" (earning between $3,750 to $7,499 in gross farm income) or "commercial" (earning more than $7,500 in gross farm income). Therefore, an appropriate base threshold may fall at or near $3,700.

6.2 Recommendation 2 – Consider a Multi-Level Taxation Tool to Distinguish between Hobby Farms and Commercial Farming Operations

Other jurisdictions, such as the Province of Quebec, offer greater tax benefits to those farms who can provide evidence of higher levels of production. In Quebec, a greater tax discount (77% off of the municipal rate) is provided to operators who make more than $10,000 per year. Those who make less than $10,000 receive a 50% discount.

A similar system could be brought in for Metro Vancouver, whereby hobby farms (e.g. gross farm income between the base threshold of $3,700 and $7,500) receive one level of Farm class (e.g. Farm class 9a – hobby farm) and a more commercial farms (e.g. gross farm income > $7,500) could be classified as another level of Farm class (e.g. Farm class 9b – commercial farm). These different Farm classes would then be assigned different mil rates or tax discounts. The goal of this recommendation is not to discourage hobby farming, but rather to distinguish the overall societal benefits being conferred by the differing levels of agricultural production. Differing mil rates would therefore reflect the differences in these overall societal benefits being provided by each of these types of agricultural land use.

6.3 Recommendation 3 – Expand the Farm Income Thresholds Policy Discussion

The Farm class income threshold discussion should be widened to include representatives of Metro Vancouver member municipalities, BC Assessment, BC Ministry of Community, Sport, and Cultural Development, BC Ministry of Agriculture, Agricultural Land Commission and farm organizations such as the BC Agriculture Council.

For instance, one continued discussion thread may be to explore data on farm income by farm type activity. This would help to determine a more precise description of the farms that would potentially be affected by an increase in farm income thresholds.

This will increase awareness of how to expand farming and gain more widespread support for agriculture within the region. This is especially important in the urbanized areas of Metro Vancouver that are becoming increasingly reliant on local farming for food security. Results of this expanded discussion may also lead to an increased sharing of data for decision-making purposes, aligning regional and provincial goals around land use and food production, and the continued exploration as to how policies regarding Farm income thresholds can be used alongside other taxation tools to motivate increased agricultural production within the ALR.

7 Conclusion

Metro Vancouver is a unique farming region in Canada. Over half of the BC population lives in this region, which also has one of the highest farm gate values per hectare in Canada. As such, unique financial levers and taxation tools may be required in order to stem the pressure of non-farm use (including inactivity) of agricultural land.

Farm class status is a mechanism used across the country to provide benefits to those who can provide evidence that the farmland owned (or leased) is being used for agricultural production. Since 1974, income thresholds in BC have been used as a measuring tool to determine whether or not the landowner can claim Farm class status. This threshold was $1,600 gross farm income in 1974 and was raised to $2,500 in 1995 to adjust for inflation. Since that time very little changes to farm income thresholds have been made. There have been categories created based on property size, with the smallest farms required to show at least $10,000 in annual gross sales in order to prevent large estate homes being created on small parcels (<0.8 ha or 2 acres). Despite a recommendation in the 2009 *BC Farm Assessment Review Panel report* to increase thresholds to $3,500, no changes have been made at the provincial level.

The benefits of receiving Farm class status for the farmer or landowner should not be underestimated. While a significant reduction in property taxes are the primary benefits, others are also conferred such as protection under the *BC Farm Practices Protection Act*, fuel tax and PST exemptions, *Income Tax Act* benefits, and eligibility for BC Agricultural Council farmer ID. Changes to farm tax policy, including raising the Farm class income threshold levels, are clearly warranted to balance the benefits being conferred to both the private landowner and society as a whole. These changes will discourage the use of farmland for lifestyle purposes and help to distinguish between hobby farming and commercial farming from a taxation perspective.

Agriculture in Metro Vancouver has some of the highest farm gate sales in the country, with over $789 million in gross annual farm receipts in 2010 (27% of the BC farm total) on only 1.5% of the province's agricultural land. However, the continuation of low income thresholds may actually discourage further investment in agriculture, particularly in Metro Vancouver where the pressure to use highly productive agricultural land for non-farm purposes is high.

One of the best ways to protect the agricultural land base and promote agricultural investment is to use farmland for farming. An increase in farm income thresholds will support the fact that agriculture is a significant contributor to the regional economy and that using farmland for agricultural production is an important tool in strengthening local food security. It will also bring the threshold in line with those used in other Canadian jurisdictions.