Technical Information Circular # 3

ALLOWABLE VS. NON-ALLOWABLE INCOME & EXPENSES

General Information

The following criteria are used to evaluate income and expense items in calculating the Production Margin:

1) Does the income/expense directly relate to the primary production of agricultural commodities?
2) Does the income/expense relate to current or capital items?
3) Does the income/expense incur at the Participants' discretion or beyond their control?

Private Insurance

Indemnity payments from private insurance programs that are fully producer funded are non-allowable in the Program Year margin and allowable in the Reference Margin where they relate to:

1) Price or revenue insurance associated with the sale of allowable commodities
2) Price insurance associated with the purchase of allowable expenses
3) Production insurance covering the production of allowable commodities (e.g. private hail insurance)
4) Other income insurance, such as margin-based or guaranteed minimum income insurance

Indemnity payments from private insurance programs not outlined above, that compensate Participants for the replacement of eligible agricultural commodities or allowable expense items, are included as allowable income in both the Program Year margin and the Reference Margin (e.g. payments for inputs destroyed by fire). Private insurance proceeds are considered non-allowable income in the Program Year; however, they are considered allowable income in reference years. Private insurance premiums are allowable in both the Program Year and in reference years.

Government Program Payments

Treatment of Government Program Payments for Program Year and reference years can be different, depending upon the nature of the payments. The chart below is for reference purposes only. Full details on Government Program Payments can be found in the Sustainable Canadian Agricultural Partnership AgriStability Program Guidelines.

Government Program Payment	Allowable in Program Year	Allowable in Reference Year
AgriInsurance indemnity payments	X	X
Wildlife Damage Compensation Payments	X	X
Canadian Food Inspection Agency (CFIA) payments	X	X
Government program payments for replacement of allowable commodities	X	X
Payments from other government income support programs, such as AgriRecovery (e.g. CALFA, CAHRI, CABCRAI, and CADLA)	X	

Crop/Livestock Share

Landlord or lessor income, whether cash rent or payments-in-kind, earned through a crop or livestock share or lease arrangement, is non-allowable under the Program. Where the arrangement constitutes a joint venture, that the landlord or lessor's share in the allowable expenses reasonably approximates their share in the allowable related income, those income and expenses may be considered allowable.

Tenants or lessees reporting income, expenses and/or inventory derived through a crop or livestock share or lease are required to report their income and expenses based on their percentage share.

Custom/Contract Work

All contract work/machine rental income and expenses are considered non-allowable under the Program, with one exception of trucking expenses for transporting eligible inputs and / or commodities between the farm operation and market. Income generated from these non-allowable services is excluded from the Production Margin calculation. In addition, an amount equal to 30% of reported contract work income will be deducted from allowable expenses. If 30% is an inappropriate deduction for the operation, the AgriStability Program Administration may consider the use of a different percentage, and where appropriate, request supporting documentation.

Allowable Expenses included in Custom/Contract Work

Custom/contract work expenses are considered non-allowable under the AgriStability Program. There are some components of the custom work expense, such as arm's length labour and direct production input costs such as fuel that are considered allowable provided that the amounts can be verified. Vendor's invoices (or other documentation acceptable to the Administration) that itemize the allowable and non-allowable components of the custom work expenses may be considered as acceptable supporting documentation.

Custom-Feeding Operations

In order for income and expenses from a feeding operation to be considered allowable, the operation must have made an appreciable contribution to the growth and maturity of the livestock. In the case of cattle, an appreciable contribution will have been made if the animals are fed for at least 60 days or gain an average of at least 90 kilograms (200 lbs.). A custom-feeding operator may own all, some, or none of the animals and must grow or purchase the feed used in the operation. Operations are not considered to have made a contribution to the growth and maturity of the livestock, and their income and expenses are therefore non- allowable, if they are:

1) Acting as an agent or broker for the sale of livestock;
2) Buying livestock for short-term resale; or
3) Assembling and preparing livestock for shipment.

Income and expense amounts reported as custom feeding must be limited to allowable income and expense items. For example, for income based on feed plus yardage charges, the feed portion would be considered allowable, while the yardage fees are not.

Where actual yardage is not broken out, an amount equal to 5% of reported custom feeding income/expense will be deducted to account for yardage fees. If 5% is an inappropriate deduction for the operation, the Administration may apply a different percentage based on supporting documentation.

Custom Grazing versus Pasture Rent

Although custom grazing is allowable in the AgriStability Program, the participant may be required to provide assurance that the transaction is custom- grazing and not pasture rent. (In a custom-grazing operation, the operator actively manages the forage resources of the land base in contrast to renting out pastureland to a livestock owner.) To verify reported custom-grazing income or expenses, the Administration may require a written agreement demonstrating that:

1) The custom-grazing operator assumed responsibility for the feeding, health and/or safety of the livestock;
2) The custom-grazing operator charged fees on a weight gain or on a daily per head basis; and
3) The expense claimed reasonably approximates the value of the replaced feed.

Pasture rent is considered to be a non-allowable income/expense, (capital purchases and interest expenses are also considered non-allowable expenses).

Unlike custom-feeding operations, yardage fees are not assumed to be included in custom-grazing income.

Note*: Structural change adjustments may be applied to Reference Margins to reflect any changes in the methods used for record keeping and/or farming practice.*

Non-Edible Horticulture

Income and expenses related to tree production must be generated through farming activity to be allowable under the AgriStability Program. Farming activity would include the planting, nurturing and harvesting of trees, with significant attention paid to managing the growth, health, and quality of the trees. Eligible tree-producing operations involve the regular seeding and harvesting of trees, shrubs, herbaceous perennials, or annuals, including ornamental, fruit, and Christmas trees. These operations incur normal input and harvesting costs and the crop is considered an agricultural commodity. The Administration considers the income and expenses associated with these commodities to be allowable, and they should be included as inventory on the AgriStability Supplementary Information Forms.

Income and expenses generated in the production or harvesting of trees for use as firewood, construction material, poles or posts, fiber, pulp and paper, or for use in reforestation are considered non-allowable under the AgriStability Program and should not be included as inventory on the

AgriStability Supplementary Information Forms. The Administration may adjust reported income / expenses to remove the non-allowable portion.

Horses & Other Livestock

Income/expenses from a horse farming operation where production is realized through births or raising of horses, is allowable for the AgriStability Program. Income and related expenses from training or boarding horses is non-allowable. Prize money and purses from the racing of horses/other

livestock are considered non-agricultural and therefore non- allowable for AgriStability and should be identified separately from farming income. Income and expenses incurred in supplying stock to rodeos are considered to be rental income/expenses and therefore not allowable. However, prize money from the showing of livestock in agricultural events such as fairs or expositions is considered agricultural and is therefore allowable income.

Income received from the buy-out of PMU contracts will be allowable to the extent it is paid in lieu of the commodity income otherwise receivable under the contract. Penalty fees and other compensation that may be paid in addition to the amount in lieu of commodity income will be considered non-allowable.

Processing & Re-sales

Re-sales are defined as the buying and selling of a commodity not produced by the participant's farming operation. The income and expenses associated with re-sales are not allowable in the AgriStability Program.

Processing is defined as a changing the state of the commodity (e.g. milk to cheese, strawberries to jam, beeswax to candles, beef to beef jerky, grain to flour).

For the AgriStability Program, income from processing will be allowable to the extent that the commodities processed are produced on the participant's farm operation and the income and expenses are reported as farming income or loss.

Other Non-Allowable Items

Income and expenses related to aquaculture and peat moss production are not allowable under the AgriStability Program.

Income and expenses related to farming activities outside of Canada are not allowable under the AgriStability Program. For example, a beef producer who ships cattle to the United States for feeding but retains ownership is deemed to have sold the cattle at the border at fair market value, and subsequent out-of-country transactions are non- allowable. In this instance, the deemed "sales" are to be reported on Schedule 3 and the associated income included in revenue at the appropriate fair market value. Any subsequent sales in the United States are non-allowable income and will not be reported on Schedule 3.

Conversely, if the livestock is returned to Canada, deemed "purchases" are to be recorded on Schedule 3 with an associated expense reported at the appropriate fair market value.

- See 4.3 Allowable and Non-Allowable Income and Expenses section of the Sustainable Canadian Agricultural Partnership – Program Guidelines