

Farmers

About this Guide

The information in this *Guide* explains how Retail Sales Tax (RST) applies to items purchased by farmers. Please note that this *Guide* replaces the previous version dated February 2006. Revisions have been identified by a bar (I).

Definition

Person Engaged in Business of Farming

For RST purposes, a “person engaged in the business of farming” means a person who undertakes farming with a reasonable expectation of profit. Persons engaged in the business of farming are entitled to exemptions from RST on their purchase of eligible goods (i.e., farm implements, farm machinery, farm equipment, farm supplies, agricultural products, building materials, and repair parts), services and insurance that are to be used exclusively in the business of farming.

Note:

Many people have gardens or small holdings and produce fruit, vegetables, or keep livestock for their own consumption or use. This is not considered to be farming for RST purposes. The RST exemptions for farmers are not available in these cases.

Farming

Farming includes:

- breeding of fur-bearing animals for the purpose of selling their pelts
- growing food for human or animal consumption
- growing plants within a hothouse, greenhouse or other similar structure designed for the protection of plants (see Hoophouses in this Guide)
- growing tobacco plants
- raising livestock (cattle, sheep, goats, hogs, poultry, horses, mules, ponies, donkeys, and bees)
- tillage of the soil for the purposes of growing sod, trees, shrubs, bushes, seeds and seedlings, flowers, flowers for use as cut flowers, plants and bulbs from which plants or flowers may be grown
- post-harvest activities, such as the cleaning, sorting, grading, packing, packaging and storing of crops, where these activities are performed by a farmer in combination with the growing of the crops.

Specifically excluded from the definition of farming is the processing of crops or the manufacturing of products from the crops. Examples of processing or manufacturing activities include canning, juicing, slicing/dicing, and freezing.

Specialty Farming

Fish Farming People who produce fingerlings are farmers if they sell the fingerlings to others to stock ponds and rivers. They may purchase fish food exempt from Retail Sales Tax (RST) by providing the seller with a valid Purchase Exemption Certificate (PEC) or presenting their Farmer Identity (ID) card (see Using a Farmer ID Card to Claim Exemption from RST on page 7 of this *Guide*).

People who raise fish for sale to restaurants, food processors or food markets for human consumption are also farmers and are entitled to the exemptions available to farmers.

People who operate stocked recreational fishing areas are not fish farmers. They are required to pay RST on all equipment and supplies purchased.

Pheasant Farmers

Pheasants are considered domestic fowl or poultry when bred in captivity and later sold to individuals, restaurants, markets, etc., for human consumption. Pheasant breeders are not required to collect RST on pheasants sold for human consumption. They are entitled to the exemptions available to farmers.

Breeders who raise pheasants for sale to hunt clubs (including those clubs operated by municipalities or conservation organizations), zoos, municipalities for release, or as pets, are entitled to the farming exemptions. However, they are required to collect RST on the total selling price of the pheasants, including any charges for delivery. If a breeder charges a fee to allow the public to hunt pheasants on the breeder's farm, RST must be paid on the cost of raising the birds. The Ministry of Revenue will allow breeders to use an estimate if the actual cost of raising the pheasants cannot be determined. As an example, the cost may be estimated using a percentage of the normal selling price of the pheasants. This method or any other method to establish the cost must be sent to the Ministry of Revenue for written approval. Breeders requiring written approval should write to Tax Advisory Services Branch, Retail Sales Tax Section, 33 King Street West, Oshawa, ON, L1H 8H5.

Hunt clubs or municipalities who breed and raise game birds for hunting purposes do not qualify as farmers. As the birds are being raised for a sporting activity they are considered wild game rather than livestock, even though they may ultimately be consumed by the hunters. These organizations are required to pay RST on the purchase of game bird products (eggs, day-olds, poults, and adult birds) as well as feed and any equipment required in the raising or breeding operation.

Rabbit Farmers

A person raising rabbits is a farmer, provided the rabbits are raised for the purpose of selling their pelts or are sold for human consumption.

Sod Growers

Sod growers who install the sod they have grown are required to account for RST on the produced cost. To calculate the produced cost, growers may use 80 per cent of the full field selling price of harvested sod as an alternative to actual growing costs. These growers must apply for a Retail Sales Tax Vendor Permit. Once registered, regular RST returns will be mailed. The RST calculated on growing costs is to be remitted on Line 3 of the RST return.

Sod Growers
(continued)

The full field selling price of harvested sod for a supply and install contract may be determined by one of the following methods:

- total contract price less actual freight and recorded labour to install, or
- most expensive field selling price of harvested sod used during the current year, or
- the weighted average of the previous year's field selling prices of harvested sod.

Once one method of calculation has been chosen, a grower may not switch to another method without obtaining written permission from the Tax Advisory Services Branch.

Custom Farming

Custom farmers are persons who contract with farmers to perform farming operations such as:

- custom planting, cultivating, harvesting, fertilizer spreading, or crop spraying
- installing drainage tiles and performing drainage work
(see Irrigation and Drainage Materials on page 4 of this *Guide*).

Custom farmers are entitled to the exemptions available to farmers provided the machinery, equipment, etc., is used exclusively (90 per cent or more of the time) in the above services performed for farmers.

Farm Building Materials

Exemption

Farmers may purchase building materials, such as wood, nails, paint, etc., used to build or modernize structures used exclusively for farm purposes exempt from Retail Sales Tax (RST). Qualifying structures include barns, silos and packing sheds or similar buildings in which farmers clean, sort, grade, pack, package, and/or store their crops. Materials used to build structures designed to house processing or manufacturing activities are not eligible for exemption.

To claim the exemption, farmers must present the supplier with a valid Purchase Exemption Certificate (PEC) or their ID card. Contractors performing construction contracts for farmers, may also purchase building materials for farm structures exempt from RST. To claim the exemption they must provide to the supplier a valid PEC stating the farmer's name, address and the reason for claiming the exemption.

Renovations and repair work are considered modernizing and qualify for the exemption. Also, polyethylene sheeting material qualifies when used in building farm structures such as greenhouses and hoopouses.

Farmers can not claim an exemption from RST on the purchase, lease or acquisition of an existing structure, nor can they claim an exemption from RST on building materials used for the following structures:

- a dwelling house
- an office
- a residential garage
- a road, driveway, or sidewalk
- a bridge.

Where RST is paid in error on farm building materials, a refund of tax may be claimed from the Ministry of Revenue by completing a *General Application for Refund of Retail Sales Tax* form. All refund claims must be received by the ministry within four years from the payment of tax.

Other Exemptions

Greenhouses Building materials incorporated into greenhouse structures qualify for an exemption from Retail Sales Tax (RST). However, the exemption does not extend to building materials used in the construction of a retail outlet run by a greenhouse operator.

Farm Grain Storage Bins and Dryers Materials used to construct farm grain storage bins and grain dryers may be purchased exempt from RST by farmers. To support a claim for exemption, a farmer must provide their supplier with a valid Purchase Exemption Certificate (PEC) or ID card.

Building contractors who buy the materials to construct bins or dryers on behalf of a farmer can purchase the materials exempt from RST. Contractors must provide a valid PEC to the supplier of the materials, stating the name and address of the farmer and the purpose of the purchase.

Irrigation and Drainage Materials Materials and equipment required for irrigation purposes when used exclusively in farming, may be purchased exempt from RST by farmers. This exemption also applies to materials used in the repair of such irrigation systems and drainage tiles. Contractors who perform irrigation contracts exclusively for farmers are considered to be custom farmers and are allowed the exemption when purchasing these materials and equipment.

Exempt materials include pumps, pipe, tiles, valves, fittings and other materials used to create, maintain or repair farm drainage systems. The tile can be of clay, perforated piping, or corrugated galvanized pipe, such as driveway culverts.

Drains installed by municipalities to drain farm lands qualify for exemption. To purchase these materials exempt from RST, a written statement signed by the farmer certifying that these materials will be used exclusively in the business of farming must be provided to the supplier. The written statement can also be signed by an official of a municipality when the materials, equipment or tiles are purchased by a municipality in order to carry out a municipal drainage project for the use of persons engaged in the business of farming.

Hoophouses A hoophouse qualifies for an exemption from RST if it:

- can be used only for crops that lie dormant in the winter
- cannot be artificially or mechanically heated in any way
- cannot be used for growing plants
- is not assessable for purposes of property taxes
- is sealed up completely for the winter months, and
- does not house any fans for ventilation.

Hoophouses are not normally constructed on a permanent foundation.

Items Exempt To Farmers

Implements, machinery and equipment designed for farm use, such as tractors, milking machines, farm wagons, feed grinders, threshing machines, etc., can be purchased by persons engaged in the business of farming without having to provide a valid Purchase Exemption Certificate (PEC) or ID card. Repairs to these items also qualify for exemption.

Farmers must present a valid PEC or their ID card to suppliers when purchasing items that are not generally made for use exclusively in farming, such as:

- antifreeze
- calcium chloride
- electric motors
- fertilizers
- forms for recording animal weight and other data
- generators
- hand tools
- lubricating oil and grease
- pesticides
- watering systems and pumps
- all-terrain vehicles (ATVs) which, at the time of purchase, must
 - (a) have an engine displacement of 200 cc or more, and
 - (b) be equipped with a carrying platform or a carrying rack.

Items Taxable to Farmers

The following are examples of items that are taxable to farmers. PECs or ID cards are not to be presented to the seller, as Retail Sales Tax (RST) must be paid at the time the items are purchased.

- all-terrain vehicles with an engine displacement of less than 200 cc or those sold without a carrying rack or a carrying platform
- ammunition
- automobiles and parts
- automotive trailers* (see below)
- bedding keepers
- computers and accessories used in the home or office
- clothing of all types (except children's sizes)
- freezers and other equipment
- furniture and furnishings
- household refrigerators, stoves, dryers, washers
- lawnmowers** (see below)
- light bulbs
- pipes for home use
- snowmobiles
- trucks, light vans and parts.

*Trailers which are exclusively devoted to farming, such as hay wagons or those used for the transportation of livestock, qualify as exempt farm equipment regardless of whether the trailers are licensed for road use or not. Automotive trailers that are general purpose trailers, such as a box, snowmobile or flatbed, are taxable. Vehicles that are self-propelled and licensed for highway use do not qualify for exemption.

Items Taxable to Farmers (continued)

**Riding lawnmowers used to mow grass are taxable to farmers. Lawn and garden tractors with facilities for attachments, such as power take-off units, 3-point hitch, hydraulic outlet, etc., may be bought exempt by farmers if these tractors are used to till soil, maintain crops or to pull small trailers or other farm equipment. If there are no facilities for attachments, the lawn and garden tractors are taxable.

Insurance

Agricultural Property

Retail Sales Tax (RST) does not apply to insurance premiums for agricultural property provided the:

- insured is actively engaged in the business of farming, or
- agricultural property is being leased to a person actively engaged in the business of farming.

Agricultural property includes farm buildings, structures, equipment and livestock, as well as farm habitats, recreational equipment normally located on the farm and household property. If the property is not owned by, or leased to, a person who is actively engaged in the business of farming, RST must be paid on insurance premiums on the property even if it is on land zoned for agricultural purposes.

There may be instances in which a retired farmer lives on the property and leases the land to a person actively engaged in the business of farming. RST applies to the insurance premium on the residence of the retired farmer but the premium on the balance of the property will qualify for exemption.

Other Property

Insurance premiums for contracts of insurance on property not considered to be agricultural property used by a person actively engaged in the business of farming, are taxable at 8 per cent.

RST on premiums for automobile insurance for motor vehicles that must be insured under the *Compulsory Automobile Insurance Act* (CAIA) was completely phased-out as of April 1, 2004.

Snowmobiles

Insurance premiums for contracts of insurance on snowmobiles purchased for farm use are exempt from RST. Because snowmobiles are not required to be licensed under the *Highway Traffic Act* (HTA), they are considered agricultural property under the *Insurance Act* when purchased by farmers.

ATVs

All-Terrain Vehicles (ATVs) that are registered and authorized under the *Off-Road Vehicles Act* to be driven beyond one's own property, whether on trails, roads or on parts of certain highways, are required to be insured under the CAIA in accordance with the HTA. RST is payable on insurance premiums based on the declining tax rates in effect during the period from May 2, 2000 to March 31, 2004.

ATVs which are not driven beyond one's own property are not required to be insured under the CAIA. These ATVs may be insured under other contracts of insurance which remain subject to RST at 8 per cent. Farmers who insure their ATVs as agricultural property are exempt from RST on the insurance premiums.

Using a Farmer ID Card to Claim Exemption from RST

Farmer ID Card

Effective April 1, 2005, farmers may use an ID card issued by a general farm organization (GFO) in lieu of a Purchase Exemption Certificate (PEC) to claim exemption from Retail Sales Tax (RST) on eligible farm-related goods, services and insurance. ID cards are currently issued by three organizations: Ontario Federation of Agriculture, Christian Farmers Federation of Ontario and the National Farmers Union.

Each time a farmer makes an eligible purchase using an ID card, he/she must show the card to the supplier. The ID card shows the farmer's name and Farm Business Registration number. The vendor is required to document these two pieces of information.

Farmers who do not hold an ID card, choose not to be members of a GFO, or fail to provide the supplier with an ID card at the time of purchase may issue a valid PEC to make eligible purchases exempt from RST.

ID cards may not be used to purchase goods or services for resale or for manufacturing purposes.

More information can be found in ***RST Guide 204 - Purchase Exemption Certificates***.

For repeated orders of the same goods, a rubber stamp certificate in the following form may be used:

<p>ONTARIO RETAIL SALES TAX PURCHASE EXEMPTION CERTIFICATE</p> <p>“I hereby certify that I am in the business of farming and that the goods shown on this invoice will be used exclusively in the conduct of that business.”</p> <p>Date: _____ Name: _____</p> <p>Farm Address: _____</p> <p>Vendor Permit / Identity Card Number : _____</p>	
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This certificate may be hand printed, typed or applied by rubber stamp on the supplier's copy of the purchase order or invoice.

Refunds Available To Farmers

Farmers may claim a refund of the RST paid on vehicles, converted within 30 days from the date of purchase, into unlicensed self-propelled vehicles for specific use in farming. Repair parts for these vehicles also qualify for a refund. Converted means the installation of equipment for crop spraying, manure spreading, hay raking, etc., so that the vehicle becomes farm equipment and not a truck, etc. Unconverted vehicles remain taxable even if they are unlicensed.

Farmers may claim a refund where RST has been paid in error on goods, services or insurance premiums that qualify for exemption. All refund claims must be received by the ministry within four years from the date the RST was paid. See ***RST Guide 700 - Refunds, Rebates and Adjustments*** for more information.

Legislative References

Retail Sales Tax Act: subsection 2.1(8); paragraphs 7(1)13 - 17,19

Regulation 1013 under the *Retail Sales Tax Act*: section 1; section 3; subsection 9(2)

Regulation 1012 under the *Retail Sales Tax Act*: section 1; section 3.2; section 6

For More Information

The information contained in this publication is only a guideline. For more information, please contact the Ontario Ministry of Revenue at 1 866 ONT-TAXS (1 866 668-8297) or visit our website at ontario.ca/revenue.

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