

# BACKGROUND DOCUMENT

## FARM LAND IDENTIFICATION PROGRAM (FLIP)

MARCH 2022

### BACKGROUND

The Department of Agriculture, Aquaculture and Fisheries, in association with Service New Brunswick and the Department of Finance and Treasury Board, is initiating a stakeholder engagement process in support of a review of the Farm Land Identification Program (FLIP).

The **purpose** is to engage agricultural landowners to gather feedback on their experience with the FLIP, and potential options, including whether to improve the existing program or develop an alternative tax relief program for farmland.

The **overall goals of the FLIP review** are to:

- Increase the amount of land in agricultural production.
- Increase available farmland by encouraging idle land back into production.
- Ensure farmland eligible for tax benefits is in active production.
- Address FLIP program issues raised by industry stakeholders.
- Consider the merits of modifications to FLIP versus an alternate program.
- Allow comparable financial benefits for the majority of farmland in active production currently enrolled in the FLIP.
- Respect fiscal responsibility of government.

### SURVEY

As part of the engagement process, a survey has been developed that may be accessed using the link below, or on the Department of Agriculture, Aquaculture and Fisheries' website.

<https://www.surveymonkey.com/r/KMJ6WBB>

**Prior to completing the survey**, you are strongly encouraged to review the information below, which provides an overview and other considerations relating to the FLIP. Your input is very much appreciated. Please note the deadline for completion is **April 8, 2022**.

### FARM LAND IDENTIFICATION PROGRAM (FLIP)

#### Overview

The FLIP is a voluntary program that provides for the deferral of provincial property taxes on eligible farmland and outbuildings to encourage the preservation of real property for agricultural use. The portion of the local or municipal tax rate that is above the average Local Service District (LSD) rate for the province is also deferred. Registration is open to all owners of real property. To be eligible, land must be in active

use by an agricultural operation or if not in active use, must be suitable for use by an agricultural operation in accordance with the *Farm Land Identification Program Regulation* under the *Real Property Tax Act*.

The FLIP is administered by the Department of Agriculture, Aquaculture and Fisheries and other partner provincial departments. Owners of farm properties must apply to be considered for registration. The department evaluates applications and monitors the ongoing eligibility of registered properties. Registration is a long-term commitment to maintain land in agricultural use and there may be substantial financial costs associated with exiting the program. When a property registered in the FLIP is deregistered or withdrawn from the program by the assessed owner, the deferred taxes to a maximum of 15 previous years together with associated interest become due and payable. The total amount of interest added to the deferred taxes payable upon deregistration or withdrawal from the FLIP, on or after September 1, 2007, is limited to a maximum of 50 per cent of the total taxes deferred. An estimated 50 per cent of all New Brunswick farmland is currently registered in the FLIP. Current annual deferrals are close to \$8 million and total cumulated deferred taxes are approximately \$103 million.

The FLIP was established in 1979 to provide a tax incentive to landowners to maintain active use of agricultural land, and to create a financial disincentive to change the use of agricultural land to another use. There have been three major revisions to the program since 1979. In 1989, farm outbuildings became eligible to be registered in the FLIP. Nine years later, in 1998, the allowable number of years of deferral increased from 10 to 15. Finally, accumulated interest was capped at 50 per cent of deferred taxes in 2007.

There are currently two ways of exiting the FLIP:

- 1) **Deregistration** - Land use changes may trigger deregistration, such as turning a barn into a storage facility for boats or building a subdivision on farmland. However, turning farmland into a woodlot does not trigger deregistration. Voluntary withdrawal from the FLIP also triggers deregistration. *When deregistration occurs, all deferred property taxes, and associated interest costs, are due and payable.*
- 2) **Changing Status** - When a property is no longer capable of, or available for agriculture, it may be placed in Changing Status by the FLIP Registrar (*e.g., a barn no longer capable of agricultural use due to lack of maintenance, or land that has reverted to forest*). If a property is converted to a woodlot either by intentional planting or by letting it revert to a wild state, a request to the FLIP Registrar can be made for Changing Status. *Changing Status requires the landowner to begin paying the current year's full property taxes. Each year that current property taxes are paid, the oldest year of deferral and its associated interest costs are dropped. The property will be removed from FLIP once there is no remaining property tax deferral or associated interest.*

### **Concerns Identified by the Agricultural Industry**

- Topsoil stripping is occurring on land registered in the FLIP without it being deregistered.
- Idle farmland remains in the FLIP even if it is not in production.
- Renting available land is a challenge when landowners only provide one-year agreements. One year is too short a time frame to invest in lime and other nutrients. Lacking these, soil health and productivity declines.
- Changing Status rules are considered too restrictive.
- Changing the use on a portion of the farmland triggers full deregistration.
- Subdivision rules on lands registered under FLIP have restrictions in place. Currently, new housing is only allowed for family members working on the farm. It does not include housing for farm labour.

- Farm outbuildings does not allow storage of other farmers' products.
- Financial liability of the deferred property taxes and associated interest creates concerns to financial institutions and potential farm property buyers.

## **Other Provinces**

New Brunswick is the only province that offers a property tax deferral program for farmland and farm outbuildings. The others use property tax rate or assessment-based reduction, exemption, or rebate programs. All other provinces, except one, link property tax relief programs to the land being in production.

### **A wide range of features are included in farmland property relief programs by other provinces such as:**

- Farmland must be actively farmed, so idle land is not eligible.
- Canadian citizenship or permanent residency is required to qualify.
- A minimum income earned from farming activities requirement.
- Qualified farmers (earning the specified minimum farming income) pay a percentage (e.g. 25 per cent) of residential property tax or assessment rates.
- Low property tax rates for farmers based on the quality of land.
- Higher property tax rates for non-farmers, which are lower than residential rates, who rent their land to farmers.
- Designated property assessment reduction (a current option for eligible charities and non-profit organizations in New Brunswick).
- Multiple year leases are required.
- Penalties imposed if property is taken out of farming.
- No property taxes on active farmland, but those on farm buildings are at a preferable rate.
- Property tax breaks on farmland are on a sliding scale based on the level of farming income.

## **Potential Options of an Alternative Agricultural Property Tax Program**

If New Brunswick was to consider alternatives to the current FLIP, options may include:

- a property assessment reduction program, or
- a property tax rate reduction program

including a number of the features from other provinces identified above.