Farm Transition Plain Language Guide

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Term	Plain Language Explanation
Addendum	A minor change to a will.
Balance Sheet	A financial statement reporting assets liabilities and shareholder equity at a specific point in time, like a financial snapshot.
Beneficiaries	A beneficiary is an individual who receives a benefit which is often a monetary distribution.
Butterfly	A butterfly transaction is used when multiple shareholders owners all want to legally splitting up a corporation's assets.
Buy-Sell Agreement	A Buy-Sell agreement controls what would happen if one owner dies, such as who has the option/ obligation to buy the owner's interest in the business, the price that would be paid, and how it would be funded.
Canada Pension Plan (CPP)	CPP is an earning-related public pension plan in Canada. This social insurance program gives monthly taxable benefits to Canadians who have worked and contributed to the plan, except in Quebec, which province has its own program.
Canada Revenue Agency (CRA)	Canada Revenue Agency collects taxes administers tax laws for the government
Capital Gains	The increase in value of an asset compared to the original price paid for it.
Cash Flow Statement	A financial statement showing all the income and expenses of a business, giving a picture of all the transactions going through the business for a given time.
Codicil	A legal document used to make a minor change to a will.

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Cohabitation Agreement	A legal contract between a couple who has chosen to live together. It protects your current and future property and specifies how financial responsibilities will be divided between the partners. Local jurisdiction advice.
Common Shares	Common shares are parts of ownership of a corporation with voting rights, usually one vote per share, as dictated by the shareholder agreement.
Continuity Planning	Continuity planning is the process of creating a prevention and recovery system from potential threats that can disrupt an organization.
Corporation	A legal business entity that is separate from it's owners. However, like individuals, it can enter contracts, loan and borrow money, sue and be sued, hire employees, own assets, and of course pay taxes. In Canada the corporate tax rate is lower than for individuals.
Credit Insurance	Credit insurance is bought by the borrower to protect against bad debts, and commonly sold by lending agents.
Disability Insurance	Disability insurance is a type of health insurance replaces income if you are unable to work due to a disability such as chronic pain, longterm health issues.
Estate Freeze	An estate freeze is a way of locking in the current value to help with planning for intergenerational tax and tax liability.
Estate Plan	An estate plan arranges for the disposition and management of one's estate at death or in case of incapacity.
Executor	An executor is an individual appointed to administer the will of a deceased person. They're appointed by the individual who makes the will or if that wasn't done ahead, by a court.
Fair Market Value (FMV)	Fair Market Value is the price of an asset (or product) would sell for on an open market and is different than market value and appraised value.

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Health Care Directive (Living Will)	Health directives or living wills are legal documents giving another person the authority to make health and other types of personal and non-financial decisions for you, if you were to become mentally incapable of doing so for yourself. See Power of Attorney.
Income Statement	A business's Income statement focuses on the revenue, expenses, gains, and losses of a company during a particular period. Also known as a profit and loss (P&L) or a revenue and expense statement.
Incorporated (Inc.)	Inc. is short form for incorporation and when used after a company's name means that it has formally designated itself as a corporation.
Inheritance Tax	In Canada you don't have to pay taxes on money you inherit, and you don't have to report it as income. However, at death, CRA assumes the person sold everything they own at fair market value, even though no sale occurred amd the gain is taxable. (See LCGE)
Intergenerational Farm Rollover	Intergenerational Rollover Rule is a tax shelter that allows Canadian farmers to transfer qualified farm assets to direct descendants. Specific eligibility must be confirmed by an accountant.
Joint Venture (JV)	A joint venture is an agreement that 2 or more parties agree to pool their resources to accomplish a specific task and sharing profits, losses, control and resources. Usually JV's are limited to a single enterprise for a given time.
Lifetime Capital Gains Exemption (LCGE)	Canada's Lifetime Capital Gains Exemption allows for a portion of the net gain in value of assets since purchasing to be tax-free when it's sold.
Limited (Ltd.)	Limited is a corporate structure available in countries including the U.K., Ireland, and Canada.
Memorandum of Understanding (MOU)	An Memorandum of Understanding is an agreement of an intended line of action between multiple parties. Although is not legally binding, it shows the commitment and cooperation of the parties involved.

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Mentoring	Mentoring is to advise or train typically between 2 people. It can be formal or informal.
Net Farm Income (NFI)	Net Farm Income is gross farm income(from farm cash receipts) minus production costs and is the return to farmers for their labour, management and capital. In other words, the amount left over for debt payment and to pay yourself.
Old Age Security (OAS)	Universal retirement pension available to Canadians when they reach 65 years of age.
Partnership	A formal arrangement of two or more individuals to operate a business and share in its profits.
Power of Attorney	Power of Attorney is a legal document you sign that gives authority to one or more people to manage your money and property on your behalf, if you are incapacitated. Varies by province. See Healthcare Directive
Preferred Shares	Preferred Shares are part ownership of a corporation with no voting rights as dictated by Shareholder Agreement.
Prenuptial Agreement	A contract between 2 people before they marry stating their respective property rights, and how support will be calculated, if they divorce or one person dies. Local jurisdiction advice.
Probate	Probate is the general administration of a deceased person's will, or the estate of a deceased person without a will.
Promissory Note	A promissory note is written and signed note to repay a sum of money in exchange for a loan or other financing. Typically it contains all the terms involved, such as the principal debt amount, interest rate, maturity date, payment schedule, the date and place of issuance, and the issuer's signature.
Qualified Farm Property	Qualified farm property in Canada is real or immobile property like land or buildings or quota that is used to carry on a farm business.

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Registered Disability Savings Plan (RDSP)	Registered Disability Savings Plan is a Canadian savings is designed to help parents and others save for the financial security of disabled people. Although contributions are not tax deductible, when withdrawn, they're not included in the beneficiaries income, plus substantial grants are available.
Registered Education Savings Plan (RESP)	In Canada an RESP is an investment vehicle for caregivers to save for post secondary education which can be withdrawn (contribution and growth) at the student income tax rate, usually low. There is a government grant to compliments these contributions.
Registered Retirement Savings Plan (RRSP)	A Canadian savings account in which contributions are exempt from being taxed in the year they are saved. Pretax money is place into an RRSP and grows tax-free until it's withdrawn and then it's taxed at a the contributor's personal tax rate (based on their income for the year it is withdrawn).
Section 85 – Rollover	Section 85 of Canada's Income Tax Act allows a tax payer to transfer personal property into a taxable corporation at adjusted cost base instead of at fair market value. It is often used to defer taxes owed at disposition or when moving from sole proprietorship to corporation.
Shareholders' Agreement (SHA)	A Shareholders' Agreement (SHA) describes how a corporation should be operated and outlines shareholders' rights, obligations, privileges and protection and may include information on the management of the company.
Silent Partner	A silent partner in a partnership agreement is when one partner is not involved in the day-to-day operations of the business. May or may not have voting rights.
Sole Proprietorship	An unincorporated business with one owner who pays personal income tax on the business' profits. A sole proprietorship is easy and inexpensive to establish and dismantle.
Succession Planning	A business process and strategy for replacement and passing on leadership roles.

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Tax Free Savings Account (TFSA)	Canada's tax-free savings accounts allow for interest earned, dividends, and capital gains to grow tax-free. Money withdrawn from a TFSA is also tax free and can be used for any purpose. TFSAs can hold cash, funds, securities, and bonds and there's a limit on annual contributions and carryovers.
Term Life Insurance	For Term life insurance you pay a premium for a chosen time and once that time is up, your insurance does provide a payout. Term insurance does not provide an cash value or survival benefits.
Transition Planning	The process for preparing the transfer of ownership and management of a business.
Trust	A trust is a legal entity giving another party, known as the trustee, the right to hold title to property or assets for the benefit of a third party. There are 6 main types of trusts including, living or testamentary, funded or unfunded, and revocable or irrevocable.
Vendor Buy-Back (VBB)	Also known as Vendor Take Back, refers to a financing arrangement where the seller of a business (outgoing generation) agrees to finance or hold the mortgage for a portion of the purchase price. The buyer repays this amount over a set term at an agreed-upon interest rate. VBBs are commonly used in farm succession as they can be flexible to accommodate income variability, create affordability for the incoming generation, support retirement cash flow for the outgoing generation, and reduce reliance on external lenders.
Whole Life Insurance	Whole life insurance is a permanent insurance that never expires as along as you keep paying premiums and pays a specific amount to beneficiaries and has a cash value.
Will	A will legally declares how a persona wants property, assets, and guardianship of their children dealt with after they die.