Written Submission for the Pre-Budget Consultation in Advance of the Upcoming Federal Budget

Jockey Club of Canada

Recommendation : That the Government restore tax fairness to rural Canada and the farming sector by repealing the outdated Section 31 of the Income Tax Act. This will improve Canada's competitiveness in the equine sector of agriculture, support rural economic growth, and advance the objectives of Canada's National Food Security Strategy, without introducing new spending.

Executive Summary

Canada’s equine sector, including horse racing, supports over 70,000 jobs and generates more than $8 billion in economic activity annually. Yet Section 31 of the Income Tax Act (Restricted Farm Losses) continues to discourage investment and growth not only in the equine sector, but across the broader farm economy.

Section 31 limits the farm losses that can be deducted against other income to a maximum of $17,500 annually. Originally introduced in the 1950s to address “hobby farm” tax shelters, the rule can now penalize bona fide farm businesses—particularly smaller, family-run and diversified operations that rely on off-farm income to manage volatility, invest and remain in production. Recent U.S. tax changes have further widened the competitive gap for Canada’s equine industry.

The Jockey Club of Canada recommends repealing Section 31 to restore tax fairness, improve competitiveness and support rural growth. Doing so would not only boost Canada’s struggling equine sector, but also advance other agricultural initiatives like the National Food Security Strategy’s goals of stronger domestic production, productivity and resilience by removing a structural tax barrier to private agricultural investment. This is an opportunity for meaningful support for multiple industries without creating a new spending program.

Context

The equine sector is a vital part of Canada’s agricultural and rural economy, encompassing breeding, training, racing, veterinary services, feed production, transportation, tourism, and other related industries. The jobs in the equine sector are concentrated in rural areas, where economic diversification is limited and employment opportunities are often scarce. Many equine operations are small or family-run businesses that rely on diversified income streams to manage risk in a capital-intensive and volatile sector—a reality shared by many smaller farm operations across Canada.

The farm loss deduction limits in Section 31 of the Income Tax Act make Canada’s horse racing industry—and the broader agricultural sector—a less attractive environment for investment. By restricting the ability to deduct legitimate business losses against other income, the provision disproportionately affects horse owners, breeders, and farmers who rely on diversified income streams to remain financially viable. In many cases, these operations at particular points in time do not meet the chief source of income test required for full loss deductibility, resulting in a capped deduction that is not applied to other sectors. This restrictive treatment can impair cash flow, discourage investment, and undermine job creation and stability across the farm economy.

The deduction limits, unchanged in structure for decades, also fail to reflect modern farm costs. Rising expenses for feed, fertilizer, fuel, equipment and transportation have intensified cash-flow pressures, particularly for smaller operations that may depend on off-farm income while continuing to operate bona fide commercial farms.

Budget 2023 amendments also reinforced a narrow interpretation of eligibility for full farm-loss deductions, increasing uncertainty for legitimate farm businesses.

Meanwhile, the United States introduced 100% immediate expensing for qualifying racehorse investments under the 2025 One Big Beautiful Bill Act, further strengthening its already competitive investment environment. This significant tax advantage places Canada at a growing disadvantage, at a moment in history where we need to be as competitive as possible. This new US incentive means that Canada risks losing investment, economic activity, and industry growth to the United States, undermining the long-term competitiveness and sustainability of Canada's racing and breeding sector.

Effects on Industry and Rural Canada

More favourable U.S. tax treatment, combined with Section 31, is increasing pressure on Canada's equine sector and the rural businesses that depend on it. The sector supports a broad rural supply chain—including feed suppliers, veterinarians, transportation providers and other small businesses—so lost investment has effects well beyond racetracks and breeding operations.

When equine jobs disappear, alternative employment and retraining opportunities are limited. Recent closures—including Rideau Carleton Raceway in Ottawa, and Hastings Racecourse and Fraser Downs in British Columbia—illustrate the growing pressures on the sector.

At a time when the federal government is prioritizing rural development, productivity and domestic resilience, removing barriers to agricultural investment is timely and necessary. Allowing full deductibility of legitimate business losses would:

- Improve cash flow for equine operations and other businesses in the farm economy
- Enable reinvestment in infrastructure, breeding, and innovation
- Support long-term productivity and sector sustainability

The fiscal cost of reform should be weighed against the benefits of increased private investment, productivity and rural economic activity.

Many farm and equine operators rely on diversified income to manage market volatility, rising costs, climate-related disruptions and trade uncertainty. Section 31 can penalize that diversification even where farming is a bona fide commercial enterprise, making it harder for smaller and family-run farms to absorb losses and reinvest.

Repealing Section 31 would improve the investment environment for equine and other legitimate farm businesses, strengthen rural communities and support productivity across the agricultural economy.

Alignment with Canada's National Food Security Strategy

Repealing Section 31 would directly complement the National Food Security Strategy by removing an existing barrier to private agricultural. It would align tax policy with the Strategy's goals of stronger domestic production, productivity, resilience and rural economic growth.

Section 31 can work against those goals when it restricts legitimate losses for smaller, newer, diversified and family-run farms that rely on outside income while building scale, navigating volatile markets or investing in productivity improvements.

The National Food Security Strategy, launched in June 2026, seeks to strengthen Canada's food system through increased domestic production, productivity and innovation, lower unnecessary costs and greater resilience. It also recognizes tax and regulatory policy as tools to encourage agricultural investment.

Conclusion

Section 31 is a legacy policy that no longer reflects modern agriculture. It discourages investment in the equine sector and can constrain legitimate farm businesses, working against the productivity, resilience and domestic capacity the Government is seeking to strengthen.

The issue is increasingly urgent as U.S. tax changes have improved the competitiveness of the American equine industry. Without action, Canada risks further capital flight, job losses and erosion of domestic agricultural investment.

Repealing Section 31—or otherwise restoring a fair pathway for bona fide farm businesses to claim unrestricted losses—would be a targeted, practical and fiscally responsible reform that would:

- Provide fairness to the sector
- Improve Canada's competitiveness
- Retain and stimulate increased investment and jobs
- Strengthen rural communities

The Jockey Club of Canada urges the Government to address this issue in Budget 2026 to strengthen the equine sector, the broader farm economy and the objectives of the National Food Security Strategy.

About The Jockey Club of Canada:

The Jockey Club of Canada is a national non-profit organization dedicated to promoting, recognizing, and advancing Canadian horse racing and breeding. The organization supports the long-term growth of the Canadian racing industry through advocacy, leadership, and industry collaboration.