



KEY TAXATION ISSUES FOR FARM BUSINESSES IN 2012

IFA PROPOSALS TO GOVERNMENT – MAY 2012

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1 Introduction and Overview

In 2011, the agri-food sector recorded a second year of growth. The value of farm output increased by €500m, contributing to growth in the value of food and drink exports to a record level of almost €9b. With a high Output Multiplier and low Import content, growth in agriculture has a significant knock-on effect in the rest of the economy.

In the Food Harvest 2020 report, industry leaders identified the potential of the agri-food sector to increase farm gate output by €1.5bn and to grow our export value to €12bn annually within this decade. The growth recorded in 2010 and 2011 demonstrates that these targets are achievable.

IFA fully supports the objective of maximising the contribution of the agri-food sector to the Irish economy. The achievement of the *Food Harvest 2020* targets requires a sustained major improvement in the competitiveness and efficiency of primary agriculture. The major barriers to achieving this are structural, including low land mobility, farm fragmentation and the unfavourable age structure of Irish farmers.

In addition, the sector must be better equipped to deal with commodity price volatility. In 2012, increasing costs and falling prices are already impacting on the sector, putting pressure on farm incomes.

The agriculture sector has been negatively affected by cuts in funding for vital farm schemes over a number of budgets since 2008. Low-income farms, mainly drystock, have been particularly impacted by the cuts to Disadvantaged Areas and agri-environment programmes.

It is critical that existing taxation measures to support restructuring, farm investment and land mobility are retained and, where necessary, extended, where their current restriction is proving a barrier to the development of the agriculture sector.

This submission outlines IFA's key taxation proposals for farming for 2012/ 2013. These proposals have been developed with reference to the severe constraints that exist in the public finances. IFA believes that the implementation of these proposals will increase efficiency, encourage timely farm transfers and overall, increase output at farm level, leading to an increase in earnings for the economy.

2 Farm Transfers

2.1 Agricultural Relief

Agricultural Relief operates by reducing the market value of 'agricultural property' by 90%, for the purpose of calculating gift or inheritance tax (CAT). The objective of this measure is to facilitate the intergenerational transfer of farms (and small businesses in the case of Business Relief) and to prevent the breakup of family farms or selling of assets in order to pay a tax liability upon farm transfer. With the scale of farm required to achieve an income level in line with average industrial earnings increasing over time, it is critical that this relief is retained.

The CAT thresholds for parent-child transfers have been reduced by over 50% in recent years, which has reduced significantly the value of the asset that can be transferred without a CAT liability (from €5.4m to €2.5m).

IFA proposes that the 90% Agricultural Relief is retained for recipients who put the land into efficient agricultural use. In addition, there must be no further reduction in the CAT tax exemption thresholds.

2.2 Stamp Duty Relief for Young Trained Farmers

Relief from stamp duty applies to transfers of land and farm buildings, by gift or sale, to young trained farmers. Stamp duty applies to farm transfers within a lifetime and not on inheritance.

Stamp duty relief is therefore an important incentive to encourage the transfer of farms at an early age, without placing a heavy taxation burden on the young farmer. In the absence of this relief, many farms would only be transferred through inheritance. There would therefore be no gain in revenue for the Exchequer and the process for the efficient transfer and operation of farms would be undermined.

IFA proposes that stamp duty relief for young trained farmers is renewed at end 2012, as it is an important instrument to ensure timely succession, land transfer and productive use of agricultural assets.

3 Land Mobility

3.1 Land Leasing Tax Exemption

A major encouragement for transferring land use from less productive to more productive farmers is the Land Leasing Income Tax Exemption scheme. Under this scheme, landowners who lease out their land for a period of 10 years or more qualify for an income tax exemption of €20,000 per year (with lower thresholds for leases between 5-10 years).

This scheme is directed at certain landowners, e.g. part-time farmers and elderly farmers, who do not farm at the same level as full-time commercial farmers. It seeks to transfer the use of the land to commercial farmers for a defined period, consistent with good farm management.

IFA proposes that the land leasing tax exemption is continued, as it improves land mobility and efficiency of land use, particularly where land sales are infrequent.

In addition, under the terms of the existing scheme, the tax exemption is only available where the lessee is a person (individual). This definition currently excludes farm businesses that have incorporated. This is discriminating against lessors who lose the income tax exemption where the lessee (farmer) incorporates, and is proving a barrier to land mobility.

IFA proposes that the land leasing tax exemption scheme is extended to include a company (incorporated body) that is operating for the purpose of farming as a qualifying lessee.

Under the scheme, a qualifying lessee must also be unconnected to the lessor (e.g. family member). While acknowledging that restrictions are required, e.g. to prevent the delay of farm transfer between parent and child, IFA believes that restrictions for some other family members should be lifted.

IFA proposes that the land leasing tax exemption scheme is extended to include certain family members (e.g. Group B category for CAT purposes) as qualifying lessees.

3.2 CGT Relief for Farm Consolidation

Farm fragmentation is a key barrier to efficient farm production in Ireland, with an average number of parcels per farm of 3.5.

The reduction of Stamp Duty rates for farmland in Budget 2012 was a positive move to encourage land mobility and increase lifetime transfers. However, to maximise the positive impact of this change on land mobility, there is a need to introduce relief from CGT for the purpose of Farm Consolidation.

IFA believes that relief from CGT for the purpose of Farm Consolidation would have no negative revenue implications. The CGT liability is currently preventing farmers from undertaking the land disposals and therefore eliminating any potential revenue stream.

Farm Consolidation will improve the efficiency of farm operations, generating additional output and exports, income and tax revenues and contributing to the achievement of the targets for expansion and growth for the agri-food sector set out in *Food Harvest 2020*.

IFA proposes that relief from CGT is introduced for transactions occurring for the purpose of Farm Consolidation¹.

In addition, farmland sold by farmers as involuntary sellers under the CPO system is liable to CGT even where the farmer subsequently replaces the farmland. The Commission on Taxation recommends that: *“Capital gains tax rollover relief should apply to the gains on disposal of farm land pursuant to a compulsory purchase order where the proceeds are re-invested in farm land”*.

IFA proposes that CGT relief should be restored for farmland sold under CPOs and subsequently replaced (within a period beginning twelve months before the disposal of the farm land and ending three years after the date of the disposal of the farm land).

¹ Farm Consolidation to be certified by Teagasc

4 Farm Investment

4.1 Stock Relief

The existing general 25% stock relief for farmers and the special 100% incentive stock relief for certain young trained farmers are in place until 31st December 2012. These reliefs provide an important incentive for farmers who are building up their stock. The 100% relief for Young Farmers is of particular importance, given the reduction in direct support for young farmers in recent years, e.g. the suspension of Installation Aid. With targeted output growth at farm level outlined in *Food Harvest 2020*, it is vital that these reliefs are retained.

IFA proposes that the 25% Stock Relief Scheme for all farmers and 100% for Young Trained Farmers is renewed at end 2012.

4.2 Farm Partnerships

In Budget 2012, an enhanced 50% stock relief (100% for certain young trained farmers) for registered farm partnerships was introduced and will run until 31 December 2015. The purpose of this relief is to incentivise investment in expansion. The limitation of this relief to Milk Production Partnerships discriminates against farm partnerships operating in other farm enterprises.

IFA proposes that the additional 50% Stock Relief for Milk Production Partnerships introduced in Budget 2012 must be extended to registered farm partnerships in other enterprises.

4.3 Universal Social Charge – Milk Quota

The Universal Social Charge excludes Milk Quotas from the list of business capital allowances that can be deducted prior to the calculation of gross income for the purpose of the Universal Social Charge. The purchase of milk quota is a capital expenditure, forming part of the asset of the farm business, and therefore the capital allowance associated with this should be included in the deductions for the Universal Social Charge calculation.

IFA proposes that capital allowances for Milk Quota are included in the list of capital allowances that may be deducted prior to the calculation of gross income for the purpose of the Universal Social Charge.

5 Other Taxation Issues affecting Farm Businesses and Families

5.1 Carbon Tax

Under the Programme for Government, a clear commitment was given to “*exempt farm diesel from further increases in the carbon tax*”. In Budget 2012 the carbon tax was increased by a further 1/3, by €5/tonne to €20/tonne, on a number of fuels, including Marked Gas Oil (Farm Diesel).

To offset this measure, farmers will be able to make a double income tax deduction for the increased costs arising from the increased carbon tax rate on farm diesel. This measure will be ineffective in offsetting the costs to farmers for the following reasons:

1. The double income tax deduction will not fully offset the increased costs, even at the highest rate of tax (41%);
2. The burden of identifying and calculating the increased costs will fall on the farmer and his accountant; and

3. There is both a direct and indirect cost of the carbon tax, with indirect costs arising from increased contracting charges in particular.

IFA proposes that farmers should be allowed to a double income tax deduction of the full cost of the carbon tax (i.e. €20/tonne). This would more accurately compensate farmers for the full costs incurred by the most recent increase (€5/tonne) in the carbon tax on farm diesel.

5.2 Property Tax

As part of a number of measures to broaden the tax base, and in line with commitments in the EU/ IMF Memorandum of Understanding, Government is proposing the introduction of a residential property tax to replace the household charge.

IFA believes that, while the imbalance in the public finances must be corrected, any further taxation measures must be fairly applied. Many farm families, along with others, continue to operate on very low incomes.

IFA proposes that:

- **The scope of the property tax must remain residential only;**
- **To ensure equity and to minimise the tax burden for those who can least afford it, there should be a waiver from the property tax for the lowest income households; and**
- **The property tax should be calculated, on a self-assessed basis, with the rate of tax proportionate to the value of the house and taking into account remoteness from services.**

5.3 Income Taxation

Farmers and other self-employed taxpayers have been denied significant personal tax credits available to employees and others paid through the PAYE system. The PAYE tax credit is €1,650, with the result that the total tax credit for employees is double that for self-employed people. The Commission on Taxation recognised that, while some differences remain in the method of assessment of income between employees and the self-employed, the size of the Employee (PAYE) Tax Credit is disproportionate to these.

With increasing commodity price volatility, Income Averaging is an important mechanism that allows farmers to manage their farm enterprise efficiently and better cope with changes in product prices and input costs. Income Averaging is, however, prohibited where the farmer or spouse has an additional self-employed source of income. This is not the case where either or both parties have an additional PAYE income source, where Income Averaging is allowed.

IFA believes there must be a commitment to removing anomalies in the income tax system that have resulted in discrimination against farmers and other self-employed, including:

- **Introduction of an Earned Income Tax Credit for self-employed taxpayers; and**
- **Extension of Income Averaging system to farm households where the farmer or spouse has an additional self-employed source of income.**