

The Irish Farmers' Association 2011 Budget Submission



Investing for Growth in the Agriculture Sector, Restoring Equity to the Taxation System, and Developing the Green Economy

Executive Summary

1. Agriculture and the agri-food sector have a key role to play in Ireland's export led economic recovery. While there is positive growth in agriculture in 2010, it remains a low-income sector. It is vital therefore that funding for farm schemes and investment programmes is maintained in Budget 2011. This will provide farmers with the confidence to invest in their businesses, and strengthen and stabilise the recovery.

Farmers also require that Government take action to reduce business costs in the productive sectors, including agriculture, with a commitment that no new costs are imposed.

While understanding that the imbalance in the public finances must be corrected as a priority, IFA believes that sufficient savings can be found in the Department of Agriculture, under the current planned programme of expenditure, while at the same time maintaining funding for farm schemes.

As a priority:

- Funding must be available in the Agriculture Budget to accommodate farmers leaving REPS 3 in the AEOS in 2011;
 - the payment rate of €80 per cow must be fully restored under the Suckler Cow Scheme;
 - the final tranche of funding and the ex gratia payment including interest of 3.5% for the Farm Waste Management Scheme must be paid in full in early 2011;
 - the funding cut of €34m in Disadvantaged Areas must be reversed;
 - funding must be made available for the 5,000 applicants locked out of the Farm Improvement Scheme in October 2007;
 - the forestry premium must be maintained at its current level with funding for the forest road scheme increased; and
 - funding must be provided for Installation Aid hardship cases and a new targeted scheme opened to encourage farm transfer and new entrants.
2. The taxation system must impact equitably on all income earners, must not undermine the competitiveness of the productive sectors in the economy, and must encourage the restructuring of the agriculture sector. This includes:
 - Deduction of Capital Allowances before the calculation of reckonable income for the proposed Universal Social Contribution;
 - a low rate for the Social Contribution with a low-cost and simplified returns system for low-income farmers;
 - introduction of an Earned-Income Tax Credit for self-employed taxpayers;
 - exclusion of farmland and buildings from any proposed Property tax;
 - repeal of the Carbon Tax; and
 - extension of important farm reliefs, including Stock Relief, Farm Pollution Control and Stamp Duty relief for farm consolidation.
 3. The agriculture and forestry sectors are key to the bio-economy and can contribute significantly to meeting Ireland's renewable energy targets and reducing greenhouse gas emissions while increasing employment opportunities in the agricultural sector. Support measures in the Bio-fuels obligation scheme, the Bioenergy Scheme and the REFIT tariff must be improved if Ireland is to achieve its renewable energy targets.

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Introduction – Recovery in Agriculture 2010 and the Achievement of a Competitive Environment to Sustain Future Growth

Ireland's agri-food industry is the largest indigenous productive sector, accounting for over 60% of exports from Irish owned manufacturing. The sector has very low import requirements, resulting in low capital outflows from the country. It is deeply embedded in the Irish economy. This is particularly true of the rural economy; 38% of all households are located in rural Ireland, and 1 in 4 of these is a farm household.

Recent estimates indicate that there are about 250,000 people employed in agriculture, the agri-food industry and in related service industries, representing 20% of the workforce outside Dublin¹.

The economic downturn has clearly shown that it is the indigenous exporting sectors, of which the agriculture sector is a major component, which will drive the economic recovery, and particularly growth in employment. Government must prioritise its policies for employment growth based on a competitive export sector.

While a recovery in farm incomes is expected in 2010, this comes after a horrendous two years, during which time farm incomes fell by 40%. Agriculture remains a low-income sector, with Average Farm Income in 2009 of €12,000, or ¼ of Average Public sector earnings.

Sectoral Incomes	2009	2010 (est)
Average Public Sector Earnings	49,231	49,000
Average Industrial Wage	33,337	34,000
Average Family Farm Income – All Farms	11,968	14,500
Average Family Farm Income –Full-time Farms ²	24,214	29,000

IFA recognises that it is critical that Government continues to work to restore balance to the public finances by 2014. The method by which Government chooses to do this will have serious implications for the speed and strength of our economic recovery.

Farmers cannot afford any cuts in funding for vital farm schemes. It is hugely important that the agriculture sector is supported in Budget 2011, through the maintenance of funding for farm schemes, thereby providing existing participants and highly qualified new entrants into the sector with the opportunity to contribute fully to the economic recovery.

Trends to date in 2010 show that significant recovery is taking place in the agri-food sector. Mid-year estimates from Teagasc³ indicate an increase in the value of farm-gate output of €300m on 2009. The end year figure may be greater than this due to the larger than expected recovery in cereal prices.

The value of agri-food exports is also up significantly on 2009, through a combination of the weakening of the euro and an increase in trade with other eurozone countries. It is estimated that exports will increase by €750m in 2010 to a total of €8bn.

¹ *The Irish Agriculture and Food Industry – Bigger, Brighter, Tougher*, AgriAware 2009 (amended to take account of industry employment reductions in 2009)

² Teagasc Farm Survey, Full-time definition based on Standard Man Day Requirements. This group made up 30% of all farms in 2009.

³ Teagasc MidYear Outlook 2010

The recent Food Harvest 2020 report sets out ambitious targets for smart, sustainable growth for the agri-food sector, including export growth to €12bn and an increase in primary agriculture output of €1.5bn. To achieve these targets, Government must create a competitive economic environment and also maintain a strong CAP. IFA requires Government action in the following areas:

- **Access to Bank Credit** – Due to the difficulties in the banking sector, there has been a significant reduction in the level of competition in Irish banking. The Government must ensure, through its intervention in the domestic banking market, that there are options for farm business customers to access credit at a competitive rate, whether through their existing bank or by moving their business between banks, if necessary.
- **Regulation of Retail Sector** – Regulation of the retail sector is required, through introduction and enforcement of a statutory code of practice and an independent Ombudsman office. At EU level, Government must continue to work to ensure the introduction of regulation and improve price transparency in the food supply chain.
- **CAP Post 2013** – In the ongoing negotiations on the future of the CAP, Government must strongly defend the record of the CAP. The maintenance of a fully-funded CAP budget post-2013, which takes account of the increased membership of the EU and ensures that family farmers are not forced to produce below the cost of production, is vital to securing the production of sustainable, high-quality food produced in Ireland for European consumers.
- **Bureaucratic costs** – Government must reduce administrative costs for farmers and eliminate unnecessary regulation and duplication of services including:
 - A reduction in on-farm inspections, and all inspections to be undertaken by Department of Agriculture Officials only; and
 - Soil Framework Directive – the requirements under this proposed Directive are currently being met by farmers through cross-compliance measures, thereby rendering the introduction of this Directive unnecessary and a potential duplication.
- **Utility Costs** – Government must introduce a livestock rate for Agricultural Water Charges which recognises the usage requirements of the sector and which is in line with the discounted price charged to other significant non-domestic water users.
- **Energy Costs** – While it is vital that Government increases its support of an indigenous renewable energy sector (see Section 3), it must also ensure, through effective regulation and increased competition, that energy prices are at their lowest possible level. This includes the repeal of the non-productive Carbon Tax (see Section 2).
- **Non-productive Environmental Compliance Costs** – The potential of Agriculture to drive economic recovery can be realised if the excessive non-productive costs in the Nitrates Regulations are removed. IFA has identified five critical issues that must be addressed:
 - removal of calendar farming regime;
 - permanent removal of the winter ploughing ban and increased nitrogen application rates for spring cereals;
 - continuation of the phosphorous provision for pig and poultry producers;
 - compensation for lands sterilised where excessive buffer zones are imposed; and
 - continuation of the 250kg Org N derogation for the dairy and livestock sectors.

Section 1: Providing Greater Certainty for Investment in Agriculture

Farm Incomes fell by 40% between 2007 and 2009 due to a number of factors, particularly low product prices in all the main sectors of farming and weather related problems, which resulted in increased costs and lower animal production and crop yields. The reduced availability of credit in the economy, arising from the crisis in the banking sector, also put significant pressure on farm cashflow and incomes.

In addition, farming was targeted for cuts in funding in both the October 2008 and April 2009 Budgets. These cuts included a 14% cut in payments for Disadvantaged Areas, a reduction in payment levels for REPS 4 and its suspension to new entrants, a halving in the rate of funding for the Suckler Cow Scheme and an 8% reduction in the Forestry premium. These funding cuts continue to impact on Farm Incomes, particularly in the livestock sector, and any further cuts would have a devastating impact on the confidence and recovery of primary producers.

Exchequer funding for farm schemes and related expenditure by farmers, is redistributed throughout the rural economy, maintaining and creating jobs, through expenditure by farmers on locally provided inputs, labour, goods and services. IFA believes that savings can be found in the Department of Agriculture budget, under the current planned programme of expenditure, while maintaining funding for farm schemes. The maintenance of this funding will provide farmers with the confidence to invest in their businesses, which will strengthen and stabilise the recovery that is already evident in the sector.

1.1 Funding for Vital Farm Schemes

It is critically important that funding for farm schemes, which support the productive capacity and development of the agriculture sector, is prioritised in the Agriculture Budget 2011.

Funding for farm investment programmes is of critical importance in improving farm competitiveness, through restructuring and modernisation. In 2009, despite farm incomes falling by over 30%, farmers continued to invest, undertaking €600m worth of on-farm investment. It is critical that capital funding for agriculture in Budget 2011 is retained at an adequate level to support the development of the sector and to underpin the targets set out in Food Harvest 2020.

IFA proposes that the Agriculture Budget for 2011 must contain the following funding allocations for farm schemes:

1.1.1 REPS and AEOS

Over the past decades, farmers have contributed hugely to the enhancement of the countryside, increased biodiversity and provided a greater choice of visitor attractions for tourists, all of which is valued by society. The participation of over 60,000 farmers in REPS underlines the willingness of farmers to undertake environmental measures as part of their operations.

In order to build on this success, it is vital that all farmers leaving REPS 3 are accommodated in the new Agri-Environmental Options Scheme (AEOS). **There must be sufficient funding in the 2011 Agriculture Budget to accommodate farmers leaving REPS 3 before mid May in 2011, while retaining funding at its existing level for REPS participants.**

1.1.2 Suckler Cow Scheme and Beef Producer Groups

The Suckler Cow Herd provides the backbone for the €1.9bn beef and livestock sector. However, due to the lack of profitability in the livestock sector at farm level, the Suckler Cow herd is under severe pressure and has fallen by 150,000 head from its peak in 2005.

To restore confidence and encourage investment by farmers in the livestock sector, the payment rate of €80 per cow must be fully restored under the Suckler Cow Welfare Scheme in the 2011 Budget. In addition, resources must be made available to facilitate beef producer group participation, similar to the developments in the Dairy Sector.

1.1.3 Disadvantaged Areas Scheme

The cutbacks in the payment rate for the Disadvantaged Areas Scheme have disproportionately affected lower income farmers, particularly in the livestock sector. This sector continues to struggle with very low-incomes, with margins expected to remain at a similar rate to 2009.

The funding cut of €34m introduced in the October 2008 Budget must be reversed in 2011.

1.1.4 Farm Improvement Scheme

Funding for this capital investment programme for farm modernisation must be provided for participants who are still undertaking investment work.

In addition, for the 5,000 applicants locked out of the Farm Improvement Scheme in October 2007, funding must now be made available for those who wish to commence work.

1.1.5 Farm Waste Management Scheme

Under the Farm Waste Management Scheme, farmers undertook in excess of €2bn in investment in farm pollution control measures, to comply with the Nitrates Regulations.

The final tranche of funding for this farm investment scheme due since 2009 must be paid in full in early 2011. In addition, the ex gratia interest payment must be paid, as agreed, at a rate of 3.5% to all farmers who received phased payment of this grant.

1.1.6 Targeted Agricultural Modernisation Schemes (TAMS)

Under the amended Rural Development Programme, funding is committed to the following programmes: Dairy Equipment scheme, Sheep Fencing, Loose House Sow Welfare Scheme, Poultry Cage Scheme, Water Harvesting, Bio-energy and Central Milk Testing.

In Budget 2011, it is critical that funding is allocated for each of the TAMS, and the programmes opened to all applicants to allow for investment to commence during 2011.

1.1.7 Forestry

The forestry sector has a central role to play in achieving Ireland's climate change and renewable energy targets. The capital expenditure proposals for forestry set out in the Government's *Infrastructure Investment Priorities 2010-2016* are insufficient to achieve the 10,000ha annual afforestation target outlined in the Renewed Programme for Government.

Another major issue is the lack of infrastructure in the private forest sector to access and mobilise this increasingly valuable resource. The Forest Road Scheme has been severely under funded for many years and this has impeded the mobilisation of approximately 500,000m³ in the private sector. If this is not addressed immediately there will be a significant shortfall in forecasted production targets.

In Budget 2011, the forestry premium must be maintained at its current level with total funding sufficient to allow an afforestation programme of 10,000ha per annum, while the Forest Road Scheme funding must be increased to support the construction of the internal road network to mobilise the private timber resource.

1.1.8 Installation Aid

The decision to suspend entry to this scheme, which provides a vital investment in the setting up of a farm business, must be reversed.

In Budget 2011, funding must be provided for the hardship cases as a first priority (individuals who were in the middle of the application process when the scheme was reversed). Thereafter, targeted funding must be made available for new applicants.

1.1.9 Aquaculture

Markets for farmed fish and shellfish show positive potential for the high-quality, independently certified seafood produced by Irish aquaculture farmers. The Irish sector has been hindered in recent years by the Government's unacceptably slow implementation of EU Habitats and Birds Directives which have halted new and renewed licensing as well as capital grant aid. Having endured a delay of 3 years while competing EU countries had access to funds, the Irish industry was finally given access to funding in July 2010.

In Budget 2011, the Government must commit to funding of at least €10m/year in capital grants to support investment in modernisation, environmental standards and marketing. Also the Government-imposed ban on NDP funding for marine salmon farms must be removed.

The aquaculture industry has been adversely affected by the 2007 ECJ judgement against Ireland regarding standards for production in SACs and SPAs. Government must fund the necessary baseline studies to enable up to 600 aquaculture licences to be renewed or reviewed.

1.2 Statutory Levies on Farmers/ Animal Health Schemes

Farmers make a contribution of over €25m annually towards the costs of many services and programmes provided by the Department of Agriculture and its agencies.

There must be no increase in the levies paid by farmers and no reduction in compensation amounts for the Animal Health schemes in the 2011 Budget.

1.3 Funding for Important Rural Schemes and Agricultural Education

1.3.1 Farm Assist and the Rural Social Scheme

Farm Assist is a means tested income support scheme for farmers in Ireland, which allows them to continue farming. Due to the collapse in farm incomes between 2007 and 2009 and a reduction in off-farm employment, the numbers of farm families requiring Farm Assist payments has increased significantly, with over 10,000 farm families receiving support through the scheme in 2010.

The Rural Social Scheme has also proven to be of significant support to low-income farmers who are on Farm Assist or other social welfare schemes. The scheme plays a significant role in rural development and it has impacted at local level.

It is vital that the Farm Assist programme is retained, with sufficient funding available to meet the requirements of low-income farmers, who, by being enabled to continue in production, contribute to the output of the agriculture sector.

In addition, IFA proposes that the number of places on the Rural Social Scheme be increased from the current level of 2,600 places up to 4,000. This should apply in all areas and there should be some relaxation in the rules governing eligibility.

1.3.2 Walks Scheme

The Walks Scheme, introduced in 2008, has led to the development of trails with over 1,100 participating farmers. This scheme has had a significant impact on the development of recreational activities, boosting rural tourism and supporting farmers who provide access to their lands.

IFA proposes that the number of walks covered by the scheme should be doubled.

1.3.3 Agricultural Education

The number of young people seeking to undertake a career in agriculture has increased rapidly in recent years. However, there is insufficient funding to meet the requirements of all applicants to Agricultural Colleges.

IFA proposes that agricultural education should be prioritised and Teagasc must be enabled to take in extra students for 2010/11.

Section 2: Restoring Equity and Encouraging Growth through the Taxation System

In addition to making public expenditure savings, Government has indicated that changes to the taxation system are required in order to broaden the tax base and stabilise revenues.

Significant investment and restructuring in agriculture will be required if the targets of Food Harvest 2020 are to be achieved. IFA proposes that Budget taxation measures must impact equitably on all income earners, improve the competitiveness of the agriculture sector, encourage investment in capital and stock, and promote land transfer and mobility.

2.1 Restoring Equity to the Tax System

In Budget 2010, the Government announced its intention to simplify the system of taxing income, to make it fairer and more broadly based, by introducing just two charges on income in 2011, a Universal Social Contribution and Income Tax. IFA welcomes the intention of the Government to reform the method of taxation of income. The present system, involving four different charges on income, with different definitions of “income”, and with widely different entry points, ceilings and exemptions, is unduly complex, and some elements of it discriminate against self-employed taxpayers.

It is vital that the reformed income taxation system removes the inequities in the current system applying to self-employed workers including farmers. These are:

- **The method of assessment of income for payment of the Income Levy; and**
- **inequity in the tax credit system between self-employed people and people paid through the PAYE system.**

2.1.1 Universal Social Contribution

The Government has stated that a Universal Social Contribution will replace employee PRSI, the Health Levy and Income Levy. The stated purpose and design of the Social Contribution is that it will be paid by everyone at a low rate on a wide base as a collective contribution to public services.

Given these objectives, and to ensure equity between self-employed and employed workers, **IFA makes the following proposals:**

- The Social Contribution should apply to **all reckonable income** with no upper income ceiling. The rate should be **relatively low and at a single rate**.
- Capital allowances **must be deductible in calculating reckonable income. Also**, trading losses **carried forward must be deductible, subject to a minimum contribution level**.
- **The “social insurance” model should be retained**, i.e. people have entitlements to certain benefits based on their contribution record.
- Persons who can demonstrate that **their reckonable income is very low** (e.g. below 30% of average earnings, i.e. below about €11,000 per year) should have the option of making a **flat-rate payment**. For low-income farmers, this could be achieved by the reintroduction of a simplified form, similar to the “Farm Profile” form, which was a successful screening process used by Revenue in the past. This would overcome the requirement on low-income farmers to incur the cost of having annual farm accounts prepared professionally.
- The existing method of providing cover for **self-employed spouses working in partnership** for contributory State benefits, particularly contributory pensions, must be maintained in the new Social Contribution system.
- Cover for self-employed workers should be provided for **long-term invalidity/disability** if agreed qualifying conditions were met.

In addition, the “Farm Assist” scheme plays an important role in enabling about 10,000 low-income farmers to stay working in agriculture in a cost-effective manner to the exchequer. **The Farm Assist scheme must be retained in the reformed income support system.**

2.1.2 Income Taxation – Tax Credits

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 personal tax credit now amounts to €1,830. This means that the total tax credit (including the personal credit also of €1,830) for employees is double that for self-employed people. This provides a tax saving of up to €3,660 to a household with two PAYE incomes when compared with a farm family household.

The Commission on Taxation in its analysis recognised that some differences remain in the method of assessment of income between employees and self-employed, but concluded that the size of the Employee (PAYE) Tax Credit is disproportionate to these.

IFA proposes that an Earned Income Tax Credit of €1,000 should be introduced for self-employed including farmers in the 2011 Budget, and phased up to the same level as the PAYE tax credit over 3 years.

2.1.3 Property Taxation – Site Value Tax

The Renewed Programme for Government agreed between Fianna Fail and the Green Party in October 2009, and the Budget 2010, contains a commitment to the introduction of a Site Value Tax.

The nature of farming is such that a relatively large amount of fixed capital in land and buildings is required to produce a very modest average income per farm family. IFA notes that the Programme for Government refers to the Site Valuation Tax applying to non-agricultural land. While this is welcome, nonetheless it raises a number of concerns. If the Government goes ahead with the Site Value tax proposal, **IFA proposes that the following conditions apply in relation to agriculture:**

- **Farm buildings and facilities must be excluded from the tax as they are obviously on agricultural land.**
- **Intensive farm buildings must be excluded (e.g. pig, poultry, horticulture and aquaculture production units), even where they are located on a relatively small site.**
- **Specialist buildings for farm machinery storage must be excluded.**
- **Where farmland is rezoned to industrial, commercial or residential, but the farmer wishes to remain in farming, this land must be excluded from the site value tax.**
- **Where planning permission is obtained for a site but a sale does not take place for some time, this must be excluded from the site value tax.**
- **Where a non-residential agri-tourism facility is located on a farm it must be excluded from a site value tax.**
- **Land used for bio-energy production must continue to be classified as agricultural for the purpose of the site value tax.**

2.2 Encouraging Growth through the Taxation System

The agriculture sector is in the early stages of recovery in 2010. In order for this recovery to strengthen and for the sector to meet the targets in the Food Harvest 2020 report, it is important that incentives through the taxation system for investment, modernisation and restructuring of the sector are retained. This includes the tax-free land-leasing scheme, which facilitates the transfer of use of land to productive farmers. In addition, non-productive taxes that place the sector at a competitive disadvantage with its trading partners should be removed.

Outlined below are IFA's proposals for encouraging growth in agriculture through the taxation system, including the repeal of the Carbon Tax, the retention of capital taxation incentives for farms and small businesses, and the extension of specific farm taxation reliefs.

2.2.1 Carbon Tax and Energy Costs

The Carbon Tax, introduced in Budget 2010, has resulted in an estimated increase in production costs in agriculture of €24m annually. Due to the absence of alternative energy sources, the Carbon Tax is simply an additional cost to the productive agri-food sector.

Overall, the Carbon Tax has reduced the competitiveness of the exporting sectors against our trading partners. The failure by Government to introduce Border Adjustment Mechanisms to place an equivalent tax on imports means that imports into Ireland are priced more competitively and thus are more attractive for consumers. In addition, the Carbon Tax discriminates against rural dwellers who do not have the option of public transport.

Energy costs are also increasing due to the PSO levy. Because of competition, these costs cannot be passed on to the market and are borne mainly by the primary producers

IFA proposes that in order to improve the competitiveness of the productive exporting sectors, including agri-food, the Carbon Tax must be repealed and must not be reintroduced until a similar tax is imposed on our main European and international competitors.

2.2.2 Capital Acquisitions Tax – Agricultural and Business Relief

The Commission on Taxation proposed a reduction in Agricultural / Business Relief from 90% to 75%. The impact of this recommendation would be to reduce the exempt threshold from €4.15m to €1.7m, a reduction of 60%. The concern for IFA is that the scale of farm required to achieve an income level in line with average industrial earnings is increasing over time due to low product prices, high costs and cutbacks in income support schemes.

IFA proposes that the existing rate of Agricultural / Business relief of 90% should be retained, and the CAT thresholds maintained, as a key element of Ireland's policy on structural reform and competitiveness in agriculture.

The Commission on Taxation also recommended that Business relief and Agricultural relief be amalgamated into a single relief.

IFA proposes that, if Agricultural relief and Business relief are integrated, the detailed legislation should be amended to ensure that the leasing out of farmland is defined as "business" for the purpose of Business relief.

2.2.3 Capital Allowances for Farm Buildings

The Commission on Taxation report contains a recommendation that taxable income should be computed for business income (Schedule D, Case I and II) based on the accounting profits of a business. Accounts depreciation for tax purposes should replace capital allowances. For buildings, this would mean a depreciation rate of 4%/year, but only where such buildings qualify for capital allowances under the existing regime. For farm buildings the implications is that the current regime of 15% per year would change to 4% per year. However, it is recommended that the change could be implemented by the business any time in a 5-year transition period.

IFA proposes that the recommendation to compute taxable income based on accounts depreciation should not be implemented, as it would act as a disincentive to investment on farms.

2.2.4 Capital Gains Tax – Retirement Relief

The Commission on Taxation report recommends the introduction of a ceiling of €3m on the value of an asset transferred to a family member, and that CGT would apply on the part of the gain which is attributable to the amount over €3m.

IFA is opposed to the proposal to introduce a ceiling on CGT Retirement relief for the following reasons. First, the transferor normally receives no payment in the case of inter-generational family transfers. Second, the transfer is subject to the Capital Acquisition Tax payable by the transferee. Third, as CGT is payable only in lifetime transfers, farmers would choose to defer transfers of commercial farms until death.

2.2.5 CGT Relief in the case of CPO Land

IFA considers that the abolition of CGT Rollover Relief in the case of disposals after December 2002 is having a seriously negative impact on farm consolidation, and thereby on the competitiveness of Irish agriculture. For example, the requirement to pay CGT on land of equal size and value which may be swapped between farmers provides a significant deterrent to farm consolidation.

Furthermore, IFA is particularly concerned about the impact of the abolition of Rollover Relief on farmers who have been subject to CPO purchases of their farmland. The issues have become more acute following the increase in CGT rates from 20% to 25%.

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 Rollover Relief should be restored in the 2011 budget for farmland sold under CPOs and subsequently replaced.

2.3 Extension of Farm Taxation Incentive Schemes

Food Harvest 2020 has set out ambitious targets for output and value growth in the agriculture sector to 2020. Farm restructuring and an increase in scale will be critical to supporting the achievement of these targets. IFA’s proposals for a number of the key farm relief schemes, which will underpin the restructuring of the sector, are set out below.

2.3.1 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 2010. These reliefs provide an important incentive for farmers who are building up their stock. Given the targeted output growth outlined in 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 are renewed in the 2011 Budget.

2.3.2 Extension of Special Capital Allowance on Pollution Control Investment

This special accelerated capital allowance for investment in farm buildings and facilities required for pollution control is a recognition that such investment, while necessary for environmental reasons, would involve a major burden on farm income at the time of the investment if normal capital allowances applied.

IFA proposes that the qualifying period for the Special Capital Allowance for Pollution Control Investment be extended for a further 3 years.

2.3.3 Farm Consolidation Stamp Duty Relief Scheme

IFA welcomed the introduction of the Farm Consolidation Stamp Duty Relief Scheme announced in the 2007 budget, which applies to certain transactions conducted between 1 July 2007 and 30 June 2011.

Farm consolidation involving both sale and purchase of land takes time. Therefore, IFA proposes that the scheme be extended to transactions up to 30th June 2013.

The guidelines relating to the scheme – which are issued by the Minister for Agriculture, Food and Forestry in consultation with the Minister for Finance – are unnecessarily restrictive, and are an impediment to the optimum operation of the scheme.

IFA proposes the following reform of Qualifying Conditions:

- (i) **The “whole farm” restriction should be removed.** Currently the sale of an existing farm comprising a number of separate parcels, and the replacement of it by the purchase of another farm comprising a lesser number of separate parcels, is not deemed as consolidation for the purposes of the relief. This condition makes the scheme unduly restrictive and should be removed.
- (ii) **The “bog land” restrictions should be removed.** Under the current guidelines, if the land sold or purchased includes bog land or commonage it is excluded from the relief. There is no justification for this restriction, and IFA proposes that it be removed.
- (iii) **The “residential holding” restriction should be reformed.** Under the current guidelines, if the land purchased or sold contains a residential holding, it is excluded from the relief. IFA proposes that in such situations, if the residence is put into a separate folio the relief should apply to the land.

Section 3: Sustainable Investment in Energy Security and Emissions Reduction

Ireland faces a significant challenge to meet our environmental commitments on renewable energy generation and emission reductions. Renewable energy, in particular bioenergy, is inextricably bound up with farmers and farming activities. The effective utilisation and management of the natural resources of agriculture and forestry are pivotal if renewable energy targets are to be achieved.

Investing in farm-level renewable energy has the potential to contribute to our economic recovery through employment creation particularly in rural areas, reducing carbon emissions and stabilising energy costs by increasing security of supply.

Ireland's National Renewable Energy Action Plan produced earlier this year does not provide enough certainty for farmers to develop an indigenous infrastructure for renewable energy production and use.

The amount of biomass required to meet our renewable energy targets far exceeds current availability, and production of energy crops needs to be rapidly expanded. Given the long time delay in the build up of biomass capacity to the development of production and processing facilities, the current support measures need to be improved in order to achieve Ireland's renewable energy targets.

3.1 REFIT

The current REFIT tariffs are not adequate to encourage farmers to diversify into growing bioenergy crops or developing on-farm renewable enterprise at the scale that is required to satisfy Ireland's renewable energy targets.

The Anaerobic Digestion (AD) and micro-wind generation REFIT tariffs are insufficient to support on-farm investment in renewable electricity production, particularly when the technical difficulties and costs associated with getting grid connection are considered.

The structure of the co-firing REFIT tariff must be simplified, to increase transparency on all costs associated with co-firing. It is not viable to fund additional costs associated with using bioenergy crops in the power plant, such as capital investment, operational and administration costs, at the rates announced.

In order to achieve the Government renewable energy objectives, IFA propose that:

- **The co-firing REFIT tariffs are increased to 14 cents per kWh or should be restructured as an energy only payment, where all other costs associated with using bioenergy crops are funded separately.**
- **The AD, Biomass CHP and micro-wind REFIT tariffs are increased to 22 cents per kWh for an acceptable return on investment.**
- **The term of the REFIT for all types of renewable energy technologies should be extended to 20 years and index linked.**

3.2 Biofuels Obligation Scheme

The Biofuels Obligation Scheme (BOS), which was introduced on the 1st July 2010, does not give Irish producers a level playing field to compete with imported fuels. The BOS requires obligated parties to have a 4% biofuels inclusion in all transport fuels used in Ireland. Most of our transport fuels are imported from the UK at a biofuel inclusion rate of 3.5%.

As a result there is an over supply of Irish certificates in the market and the Irish biofuels sector is dependent on the UK not increasing the biofuels inclusion rate.

The BOS provides no safeguards for Irish producers on the value of the certificate, particularly when the penalty for non-compliance is insignificant and will be absorbed by importers. The BOS will result in the closure of many production facilities previously supported by the Government through the Mineral Oil Tax Relief (MOTR).

IFA proposes that the Government provides a guaranteed market for Irish certificates with a minimum value of 40.92 cents per litre, as per the current MOTR excise duty.

3.3 BioEnergy Scheme

Expansion of bioenergy crops is one of the most realistic methods to increase the supply of biomass to meet Ireland's renewable energy targets. The Government allocated €20m from 2008 to 2012 to fund the establishment of the bioenergy crops. So far approximately €5m has been spent to fund the establishment of less than 4,000ha of bioenergy crops. It is estimated that 45,000ha of bioenergy crops are required to meet the biomass co-firing targets by 2015.

IFA proposes that in order for Government to achieve its renewable energy targets and significantly increase the rate of establishment of bioenergy crops:

- **The funding allocation for the BioEnergy Scheme (BES) should be increased to €7.5m;**
- **capital allowances associated with establishment costs of bioenergy crops must be permitted;**
- **the annual energy payment of €125 per hectare must be reintroduced; and**
- **bioenergy crops (such as willow and miscanthus) must be reclassified to an agricultural crop so that bio-remediation is permitted on the crops.**

3.4 Micro – Wind Generation

Ireland's farm scale wind energy plan is 15 years behind many other European countries. This is despite the fact that Ireland has some of the most favourable prevailing wind speeds for wind energy production. The current REFIT tariff for micro-wind production in Ireland is currently half that of the UK.

Each 10kw turbine can produce 700,000kWh of renewable electricity over its expected service life. Current energy use by farmers indicates that at least 6,000 strategically located micro-wind turbines could deliver substantial declines in fossil fuel usage and CO₂ emissions. The combined output of these 6,000 micro turbines would reduce greenhouse gas emissions by over 2 million tonnes of CO_{2e} over the service life of the turbines.

In order to develop a viable farm-scale wind energy industry, IFA proposes:

- **A double capital allowance tax relief, up to a maximum investment of €50,000, initially on 6,000 units over 3 years;**
- **the introduction of Smart & Net metering;**
- **cost-Sharing between individual & ESB for preliminary desktop surveys; and**
- **removal of the application fee for grid connection for renewable energy projects of 1MWe or less.**

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