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## 2012 Finance Bill – IFA Submission

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## 1. Carbon Tax – Offset of increased costs for farmers

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, it was proposed that farmers would be able to make a double income tax deduction for the increased costs arising from the increased carbon tax rate. This proposal 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%) and will fall far short of offsetting the costs where a farmer pays his income tax at the standard rate (20%);
2. The burden of identifying and calculating the increased costs will fall on the farmer and his accountant. This will be administratively difficult and potentially costly and will result in many farmers not getting any of the benefits of the proposed offset; and
3. As identified by Teagasc<sup>1</sup> there is both a direct and indirect cost of the carbon tax. The farmer experiences increased costs directly through the purchase and use of fuels affected by the carbon tax increase. There are also increased costs arising indirectly from increased contracting charges in particular. The double income tax deduction proposal does not address these indirect costs.

**IFA proposes that Finance Bill 2012 must make provision for two methods through which the costs for farmers arising from the increase in the carbon tax can be offset:**

- (i) **VAT Registered reclaim:** There are an estimated 5,000 VAT registered farmers who, due to their scale and enterprise, will be most affected by the increase in the carbon tax. VAT Registered farmers and registered agricultural contractors must be able to claim a direct refund on the additional carbon tax costs. This can be done in an administratively efficient way at the same time as they make their VAT returns.
- (ii) **Point of Sale deduction:** Unregistered farmers, who have a herd/flock/cereal number certified by the Department of Agriculture should pay, at point-of-sale, a fuel price net of the carbon tax increase<sup>2</sup>. The fuel distributors then claim the rebate in bulk from the Revenue Commissioners.

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<sup>1</sup> *Cost Implications of a Carbon Tax on Fuel Used in Agricultural Production in Ireland*, Teagasc Briefing Note No. 2010 / 1

<sup>2</sup> Unregistered farmers would make a signed declaration that they are not registered and thereby qualify for the point-of-sale deduction.

## 2. Capital Gains Tax Relief – 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.

A major remaining barrier to farm consolidation is Capital Gains Tax (CGT). This is charged on any gain that is made on the disposal of land, regardless of whether the land is sold or not. Since 2008, the rate of CGT has been increased in successive budgets, from 20% to 30%.

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*.

The relief would be ring-fenced, with Farm Consolidation defined as:

- A reduction in the number of separate land parcels in the existing farm (e.g. sell two parcels and buy one parcel);
- An overall reduction in the distance between existing parcels in the farm (e.g. sell a parcel some distance away and buy a parcel closer to the existing farm); or
- The sale of an existing farm comprising a number of parcels and replacement with a farm comprising a lesser number of parcels.

In addition, land parcels containing bog land or commonage should qualify for the relief.

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

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.**

### **3. 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.

**IFA proposes that, to ensure equitable treatment of different farming enterprises, the increased stock relief must apply to all registered partnerships and not just Milk Production Partnerships.**

### **4. Vat refund for Wind Turbines**

The existing VAT refund order, which provides for the refund of VAT paid by un-registered farmers on the construction of farm buildings, fencing, drainage and reclamation of farm land, will be amended to provide that such farmers may claim a refund on wind turbines purchased from 1 January 2012.

Under the current VAT refund order, claims for repayment of VAT must be made within 4 years from the end of the taxable period to which the claim relates. The extension of the VAT refund to purchases of wind turbines from January 2012 onwards only discriminates against farmers who have made these purchases in the last four years.

**IFA proposes that, in line with the general functioning of the VAT Refund scheme, unregistered farmers should be able to claim the refund of VAT on wind turbines purchased during the past four years.**