Investing in Agriculture to Deliver Economic Growth

The Irish Farmers' Association
2012 Budget Submission

Executive Summary

1. Agriculture and the agri-food sector are playing a key role in Ireland's export led economic recovery. The positive growth in the sector seen in 2010 has continued into 2011, with output growth in primary agriculture and export growth in food and drinks far outpacing the rest of the economy. However, farming remains a low-income sector, with average farm incomes in 2010 of less than €18,000.

   It is vital therefore that funding for farm schemes and investment programmes is maintained in Budget 2012. The UCD study on *the Importance of Agriculture and the Food Industry to the Irish Economy* demonstrates clearly the importance of these schemes in driving agricultural production, supporting farm incomes and underpinning the agri-food sector's contribution to economic 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.

   As a priority:
   - The AEOS scheme must be reopened for all farmers leaving REPS 3, with a restoration of the maximum rate to AEOS 1 level (€5,000), and an increase in the payment rate to €150/ha for Natura areas;
   - Funding must be retained at its current level for all other farm schemes - Disadvantaged Areas, Suckler Cow Welfare and REPS 4;
   - The on-farm investment programme, TAMS, must be reopened;
   - The forestry premium must be maintained at its current level with funding for the forest road scheme increased; and
   - There must be no increase in farmer levies or cuts in disease eradication schemes.

2. The taxation system must impact equitably on all income earners, and must support improved competitiveness and efficiency at farm level through restructuring and investment. This includes:
   - Retention of existing CGT Retirement Relief and Agricultural Relief for farm transfers;
   - Reduction of stamp duty rates on farmland for all transactions to improve land mobility and increase farm transfers;
   - Retention of Capital Allowances to encourage farm investment;
   - Exclusion of farmland and buildings from the proposed Household Charge; and
   - No further increase in the Carbon Tax on Marked Gas Oil (Farm Diesel).

3. Ireland faces a significant challenge to meet its environmental commitments on renewable energy generation and emission reductions. Government commitment to a land-based renewables strategy will create new jobs and stimulate economic activity across the country, contributing to balanced regional development. 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 – Growth in Agriculture Critical to Economic Recovery

Ireland's agri-food industry is the largest Irish owned productive sector, accounting for over 60% of exports from Irish-owned manufacturing. The economic downturn has clearly shown that it is the exporting sectors that will drive the economic recovery.

Growth in agriculture has a huge knock-on effect in the rest of the Irish economy. For every €100 of Agricultural Output, there is a further €73 of output in the wider economy.

In 2010, farm output increased by over €500m, pushing up the value of food and drink exports by 11% or €800m, to €8bn. This growth has continued into 2011, with export growth in food and drinks of almost 20% in the first half of the year far outpacing the rest of the economy.

More than any other industry, the benefits of agricultural growth, both economic and social, are widely dispersed throughout the county. Farmers and farm families spend almost €8 billion per year in the Irish economy, both on farm inputs and services and household expenditure. Agriculture and the food industry support 300,000 jobs across the economy.

However, farming remains a low-income sector. The recovery in farm incomes in 2010 came after a horrendous two years, during which time farm incomes fell by 40%. Average Farm Income in 2010 of €17,770 was just over half of the Average Industrial Wage.

While IFA recognise that it is critical that the Government continues to redress the imbalance in the public finances, it must prioritise funding for the sectors that are growing, and have the potential to further contribute to economic growth. Agriculture, if properly supported, has this potential.

The proposed funding allocation for the Agriculture Budget in 2012 outlined in the *National Recovery Plan 2011-2014* represents a cut of over 20% from the 2011 allocation. This is far in excess of the cuts expected of any other Government Department, and must be revised.

Farmers simply cannot afford any further cuts in funding for vital farm schemes, as this will undermine activity and output at farm level, damaging the potential of the agri-food industry and reducing growth in the national economy, thereby putting further pressure on the public finances.

In Food Harvest 2020, the national strategy for the development of the agri-food sector, industry leaders identified the potential of agriculture to increase farm gate output by €1.5bn and to grow our export value to €12bn. The achievement of these targets requires cooperation across the entire agri-food industry; however, Government investment is also critical.

Agriculture must be supported in Budget 2012, through the maintenance of funding for farm schemes and the retention of supportive taxation measures, thereby allowing existing participants and highly qualified new entrants in the sector to contribute fully to economic recovery and growth.

Section 1: Investment in Agriculture Vital for Farmers and Rural Economy

Price and income volatility at farm level has increased greatly with the reform of the CAP, the removal of price supports, and greater exposure to the world market. Not only is there a price cycle for the farm product, but there is also an input cost cycle, often occurring at different times.

In 2007, average farm income was €20,000, and had fallen by 40% to €12,000 within just two years. The 2010 recovery in prices resulted in a regaining of ground for a lot of farmers. However, in 2011, rising incomes from higher commodity prices will be diluted by increased input costs.

As outlined in the UCD report, *The Importance of Agriculture and the Food Industry to the Irish Economy,* Direct Payments are critical to supporting stability in agricultural production and farm incomes. These national and EU payments include the Single Farm Payment, REPS/ AEOS, Disadvantaged Areas, Suckler Cow Welfare and Sheep Grassland Schemes. These schemes also support the provision by farmers of non-market public goods, including enhancement of the environment, increased biodiversity and high animal welfare standards

In 2009, almost all farmers received a price for their product below the cost of production, with Direct Payments accounting for 143% of Farm Income. It is estimated that €660 m of farmgate output would not have occurred in the absence of Direct Payments that year. Even with the recovery in prices in many sectors in 2010, Direct Payments accounted for over 90% of farm income.

1.1 Funding for Farm Schemes and Investment Programmes

The maintenance of funding for farm schemes must be prioritised in the Agriculture Budget 2012. In addition, funding for farm investment programmes is of critical importance in improving farm competitiveness, and achieving the *Food Harvest 2020* targets. The allocation of €150m in 2012 for capital expenditure outlined in the Four Year National Recovery Plan represents a cut of over 40% from the 2011 allocation of €269m. This is totally insufficient to meet the investment needs of the sector, and must be increased.

The required funding for farm schemes and investment programmes in Budget 2012 is set out below.

1.1.1 REPS/ AEOS

Over the past two decades, farmers have participated in agri-environment schemes, which have contributed hugely to the enhancement of the environment and increased the amenity value of the countryside. The participation of over 60,000 farmers in REPS, and application levels for the new AEOS programme, underlines the willingness of farmers to undertake environmental measures as part of their farm enterprises.

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).

IFA proposes that the AEOS scheme must be reopened for all remaining farmers leaving REPS 3, with a restoration of the maximum payment rate for this programme to AEOS 1 levels (€5,000). In addition, there must be an increase in the payment rate to €150/ha for Natura areas.

1.1.2 Disadvantaged Areas

The Disadvantaged Areas Scheme is of critical importance in ensuring the continuation of economic activity in areas of natural handicap. Cutbacks in the payment rate for this programme introduced in 2009 disproportionately affected lower income farmers, particularly the drystock sector.

To ensure the continuation of activity and production in farms operating in areas of natural handicap across the country, funding for the Disadvantaged Areas Schemes must be maintained in 2012.

1.1.3 Investment in the Livestock sector – Suckler Cow Scheme and Beef Discussion Groups

The Suckler Cow herd provides the backbone for the €1.9bn beef and livestock sector. In 2011, following a number of very difficult years, there is a renewed confidence in the sector, with growth targets of 40% identified in the *Beef 2020 Activation Group*.

To encourage investment by farmers in the livestock sector, and stabilise the Suckler Cow herd, payment levels for the Suckler Cow Scheme must be maintained. In addition, resources must be made available to facilitate beef producer discussion groups.

1.1.4 Targeted Agricultural Modernisation Schemes (TAMS)

Under the amended Rural Development Programme, funding is committed to the following investment programmes: Dairy Equipment scheme, Sheep Fencing, Pig and Poultry Welfare Schemes, Water Harvesting and Bio-energy.

IFA proposes that the TAMS programme is reopened, with funding allocated under each of the programme headings.

1.1.5 Forestry

The forestry sector has a central role to play in achieving Ireland's climate change and renewable energy targets. A commitment to an annual 14,700-hectare afforestation programme is set out in the *Programme for Government*; however, sufficient funding must be made available in 2012 to maintain existing forestry premium payment levels for farmers who have already committed their land to forestry.

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 500,000 m^3 in the private sector. If this is not addressed immediately there will be a significant shortfall in forecasted production targets.

In Budget 2012, the forestry premium must be maintained at its current level, while the forest road scheme funding must be increased to support the construction of the internal road network to mobilise the private timber resource.

1.1.6 Horticulture

Maintaining the NDP Commercial Horticultural Grant Scheme is critical to the expansion of the Horticulture Sector.

IFA proposes that the NDP Horticultural Grant scheme is implemented on a two-year cycle, rather than annually as currently exists, to take account of the seasonality of certain crops and the time involved in getting planning permission. In addition, the scheme should be extended to include potatoes.

1.1.7 Aquaculture

There is strong growth potential in the markets for farmed fish and shellfish, with demand for the high quality, independently certified seafood produced by Irish aquaculture farmers. The sector has been hindered in recent years by the Government's slow implementation of the EU Habitats Directives, which has halted new and renewed licensing as well as capital grant aid. Following a delay of 4 years while competing EU countries had access to funds, funding was made available to the Irish industry in July 2010. However, this funding is restricted by the calendar-year implementation of the scheme.

In Budget 2012 the Government must commit to funding of at least €10 m/year in capital grants for aquaculture to support investment in modernisation, environmental standards and marketing. The calendar year implementation policy must be dropped to facilitate normal business practice. In addition, the Government-imposed ban on NDP funding for marine salmon farms must be removed.

1.1.8 Animal Health – BVD Eradication programme

The successful eradication of BVD from Irish cattle herds has the potential to improve farmer returns, increase the value and volume of our national output and ensure we are best placed to maintain and further develop our high value export markets. In addition, the improved health status would contribute positively to the environmental efficiency of the national herd.

IFA proposes that Government provide a funding commitment of €0.5m to support the efficient rollout of a nationwide BVD eradication programme in 2012.

1.1.9 Statutory Levies on Farmers

Farmers make a contribution, through statutory levies, of over €25 m annually towards the costs of many 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 2012 Budget.

1.2 Funding for Important Rural Schemes

1.2.1 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. Since the beginning of the economic downturn, the numbers requiring Farm Assist payments has increased significantly, with over 11,000 farm families receiving support in 2011.

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 community development at local level.

It is vital that funding for the Farm Assist programme is maintained, thereby enabling low-income farmers to continue in production.

In addition, IFA proposes that the number of places on the Rural Social Scheme is increased from 2,600 places up to 4,000.

1.2.2 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 increased, up to 80 walks.

Section 2: Taxation Measures To Support Growth & Restructuring In Agriculture

IFA fully supports the objective of maximising the contribution of the agri-food sector to the Irish economy. It is clear that 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, in particular the relatively small size of Irish farms, low land mobility, farm fragmentation and the unfavourable age structure of Irish farmers.

IFA is aware of the commitment in the EU-IMF 'Memorandum Of Understanding' to reform capital gains tax, capital acquisition tax and stamp duty by end 2011. However, the reduction or removal of key farm taxation incentives would have the effect of reducing both the productivity and growth potential of the agriculture sector.

2.1 Encouraging Entry to and Exit from Farming

Over 25% of farmers today are aged over 65, with only 7% of farm owners aged under 35. The taxation system must encourage farmers to transfer their farm in their lifetime, and must not financially penalise the person to whom the farm is transferred, potentially undermining the viability of the business.

2.1.1 Stamp Duty Relief for Young Trained Farmers

Stamp duty relief for Young Trained Farmers is 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. Teagasc have recently revised their Agricultural Certificate (Green Cert), in line with FETAC guidelines.

IFA proposes that the revised Teagasc Green Cert must be accepted as qualification for Stamp Duty Relief for Young Trained Farmers.

2.1.2 CGT Retirement Relief

Capital Gains Tax Retirement Relief allows qualifying farmers aged over 55 to dispose of their farm to family members (son/daughter/favoured niece and nephew) without becoming liable for Capital Gains Tax (CGT). This encourages lifetime transfers of family farms to the next generation.

The Commission on Taxation report[1] recommends the introduction of a ceiling of €3m on the value to an asset transferred to a family member, with CGT to apply on the part of the gain which is attributable to the amount over €3m. The imposition of a ceiling on CGT relief for inter-family transfers would have the effect of preventing transfer of commercial family farms within the lifetime of the farm owner.

IFA is opposed to the proposal to introduce a ceiling on CGT Retirement relief for the following reasons:

- **The transferor normally receives no payment in the case of inter-generational family transfers.**
- **The transfer is subject to the Capital Acquisitions Tax (CAT) payable by the transferee.**
- **As CGT is payable only in lifetime transfers, farmers would choose to defer transfers of commercial farms until death.**

[1] *Report of the Commission on Taxation*, Dublin, September 2009

2.1.3 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 Commission on Taxation proposed a reduction in the rate of Agricultural Relief from 90% to 75%. It also proposed a limit of €3m as the maximum amount of relief where CAT applies.

The CAT thresholds have been reduced by 38% in recent years. The proposed reduction in the rate of Agricultural Relief rate to 75% would result in the maximum exempt threshold for farm transfer being cut from €3.3m to €1.3m, i.e. a 60% decrease. The outcome would be the break up of family farms or the selling of assets to pay the tax liability, thereby undermining the viability of the business.

IFA proposes that the 90% Agricultural Relief is retained for recipients who put the agricultural property into efficient agricultural use.

2.2 Supporting Land Mobility

Low levels of land mobility also prove a barrier to expansion and growth at farm level. There is very little farmland transferred by sale on the open market and farm fragmentation remains an issue, with an average of 3.5 land parcels per farm. However, mobility in land use has improved, with 33% of all farms now renting in land.

A major encouragement for transferring land use from less productive to more productive farmers in Ireland is the Land Leasing Income Tax Exemption scheme. There is great potential for the further development and take-up of this scheme, if properly promoted. Other measures required to increase land mobility are outlined below.

2.2.1 Stamp Duty Rates for Farmland

Stamp Duty on farmland is paid on lifetime transactions and not upon inheritance. This is providing a significant barrier both to lifetime transfers of farms (where the transferee is over the age of 35 and ineligible for Stamp Duty Relief) and for general land mobility. In 2010, an estimated 41,339 acres[2], or less than 0.5% of the total agricultural land area, was offered for sale.

IFA proposes that, to increase the number of land transactions, incentivise lifetime transfers and improve efficiency at farm level, stamp duty rates for farmland should be reduced in Budget 2012.

2.2.2 Capital Gains Tax Relief for Farm Consolidation

Farm fragmentation is a key barrier to efficient farm production in Ireland, with the average number of parcels per farm of 3.5. A major remaining barrier to farm consolidation is CGT, which is charged on any gain that is made on the disposal of land, regardless of whether the land is sold or not.

IFA proposes that relief from CGT is introduced for transactions occurring for the purpose of farm consolidation (whether this is sale of land and purchase of another holding closer to the main farm, or a land-swap between farmers for the same purpose).

In addition, it is unfair that farmland sold by farmers as involuntary sellers under the CPO system is liable to CGT in situations 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.

[2] *Agricultural Land Price Report 2010*, Irish Farmers Journal, March 2011

2.3 Other Taxation Issues affecting Farm Businesses and Families

2.3.1 Promoting Investment - Capital Allowances

Farming is a capital-intensive profession and farms require regular re-investment to improve the efficiency of the operation. Capital allowances and stock relief remain important incentives for on-farm investment, particularly given that most farm businesses are operated as sole-traders.

Over the past decade, farmers have undertaken an average investment of €600m per annum (excluding 2007 and 2008, where farmers undertook investments of €1.4bn and €2bn, due, in the main, to the Farm Waste Management Scheme)[3]. The replacement of capital allowances with accounts depreciation for tax purposes, as proposed by the Commission on Taxation, would threaten the viability of farm enterprises by forcing farmers to forgo necessary investment.

IFA proposes that capital allowances are retained, as a vital incentive for investment on farms.

2.3.2 Property Taxation – Household Charge

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 has announced the introduction of a Household charge in Budget 2012, with further modifications to the charge in future years.

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. These must not be included in any calculations for the household charge.

IFA proposes that the scope of the household charge must be residential property only and must not apply to farmland or farm buildings.

2.3.3 Carbon Tax

The Carbon Tax, introduced in Budget 2010, has resulted in an estimated increase in production costs in agriculture of €24 m annually. The Carbon Tax on Marked Gas Oil (Agricultural Diesel) accounts for the majority of this increase. Due to the absence of alternative energy sources, the Carbon Tax is simply an additonal cost to the productive agri-food sector.

IFA proposes that, as a measure to retain competitiveness in agricultural production, and in line with the commitment in the Programme for Government, there must be no further increase in the Carbon Tax for Marked Gas Oil (Farm Diesel).

2.3.4 Removing Inequities in the taxation system

Government must commit to removing the anomalies in the taxation system that have resulted in sector-specific and inequitable reductions in income.
These include:

- Tax Credit System – Farmers and other self-employed taxpayers have been denied significant personal tax credits available to employees and others paid through the PAYE system, with the result that the total tax credit (including the personal credit) for employees is double that for self-employed people.
- Pension Levy – the 0.6% pension levy, which is levied on private pension funds only, will have the impact of reducing retirement income for self-employed farmers, and other private sector workers, or require an increase in pension fund contribution to maintain future income.

IFA believes that the Government should examine revenue-raising measures with a view to restoring equity in the taxation system. This includes the introduction of an Earned Income Tax Credit for self-employed and the introduction of compensatory tax relief at time of pension drawdown to offset losses due to the pension levy.

[3] Teagasc National Farm Survey 2000-2009

2.3.5 Delivery of Public Services – Proposed Septic Tank Charge

The proposed septic tank charge that the Department of Environment is seeking to impose will cost rural dwellers over €22m. It remains unclear if the Department intends to impose this charge on a recurring basis or if this charge is once-off. IFA remains strongly opposed to any additional charges being imposed on rural dwellers.

IFA proposes that, where problems with wastewater treatment and disposal are identified, a retrofit scheme, providing tax relief and grant support must be introduced, similar to the Warmer Home Scheme.

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.

The development of an indigenous renewable energy sector has important environmental benefits and is critical to Ireland's ability to reduce greenhouse gas emissions

Government commitment to a land-based renewables strategy will create new jobs and stimulate economic activity across the country, contributing to balanced regional development. Specific measures required to develop a sustainable bioenergy and micro-energy generation sector are set out below.

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. Realistic REFIT tariffs, guaranteed for 20 years, are required to stimulate investment in the sector.

IFA proposes the immediate introduction of REFIT tariffs of:

- **22 cents per kWh for biomass CHP, AD and micro-energy.**
- **14 cents per kWh for co-firing in peat power plants with wood, miscanthus and other biomass products.**

The tariff must be structured as an energy-only payment to allow for an acceptable return on investment.

3.2 BioEnergy Scheme

Sustainable Energy Authority of Ireland (SEAI) estimate that to satisfy the renewable electricity and heat targets an additional 60,000 hectares of energy crops will need to be established. This is a significant challenge given that since the BioEnergy Scheme (BES) was introduced in 2007 approximately 4,000 hectares have been established.

IFA proposes that Government provide a co-ordinated response that supports the large-scale establishment of energy crops through:

- **Re-introduction of an annual energy payment of €125/ha.**
- **Amendment of the BES to allow capital allowances on the establishment costs of bioenergy crops.**
- **Re-classification of BES crops to an agricultural crop to permit bio-remediation and increase the economic viability of the crops.**
- **Expansion of the BES to support the diversification of biomass feedstocks that will produce higher yields and can be efficiently processed into fuel, such as black oats.**

3.3 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.

EU research has shown that the continuation of tax exemptions together with an obligation scheme is the most successful policy measures in terms of higher growth in biofuels consumption[4]. The report shows that a shift to an obligation scheme and removing tax relief causes difficulties, which is clearly evident from Ireland's experience.

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).

To restore confidence in the indigenous biofuels sector, IFA proposes that Government provide a guaranteed minimum price of 41 cents per litre for indigenous biofuel certificates in the short-term, until the biofuels market stabilises.

3.4 Micro – Wind Generation

The wind energy sector is also a source of significant job creation. It is estimated that each MW installed creates between 15 and 22 jobs. In Denmark the Danish Wind Turbine Manufacturers' Association have identified the potential to create 17 manufacturing and 5 installation jobs from every MW of installed capacity. In Belfast, part of the former Harland and Wolff ship building site is now a wind technology manufacturing hub, creating significant local employment.

Despite the economic, environmental and sustainability opportunities, on-farm wind energy development in Ireland is in decline, with approximately 50 new installations of micro-energy turbines built each year.

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

- **Investments in on-farm micro-energy installation must be eligible for full VAT Refund. A stimulus package is required in the form of a double capital allowance tax relief, up to a maximum investment of €50,000 with tax reliefs sought for 6,000 units over 3-years**
- **The definition of micro-energy should be increased to 50kW for single phase and three-phase distribution, to achieve the scale required to develop a vibrant micro-energy sector in Ireland.**

[4] Policies to Support Biofuels in Europe: The Changing Landscape of Instruments, Augusto Ninni, University of Parma and IEFE/Bocconi University, Milan, Italy

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