Investing in Agriculture for Economic Growth

Irish Farmers' Association
2014 Budget Submission
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Executive Summary

1. Following two years of growth, farm incomes fell significantly in 2012. The main factor affecting farm incomes and profitability was the dreadful weather, which resulted in a reduction in output in some commodities and an increase in input use. The difficulties continued into 2013, with fodder shortages experienced across the country resulting in increased feed costs and pressures on farm viability.

   Notwithstanding these pressures, agriculture and the agri-food sector continue to play an important role in the country's economic recovery, with an increase recorded in both employment numbers in agriculture and continued growth in agri-food exports in early 2013.

2. Since the commencement of the economic downturn, funding for farm schemes has been significantly reduced in successive budgets through cuts to, or closure of, a number of schemes such as the Less Favoured Areas, REPS and Suckler Cow schemes. Within the agriculture budget itself, farm schemes have been targeted for disproportionate cuts.

   With the conclusion of the CAP reform negotiations, the next seven year Rural Development Programme will commence in 2014. The budget allocation for agriculture in 2014 must ensure that the full amount of EU funding that is available to Ireland is drawn down and that there is sufficient national funding to fully support all farm schemes. This requires a Government commitment of 50% national co-financing of EU Rural Development funding.

   An estimated €290m of EU Rural Development funding is available for farm schemes in 2014, which is an increase of over €100m compared with the 2013 budget allocation. This funding will be available at no additional cost to the exchequer. IFA is demanding that, in addition to this increased EU Rural Development funding, national exchequer funding for farm schemes in 2014 is maintained at 2013 levels.

   As agriculture is the only sector to generate a significant level of EU funding, the continued rigid adherence to a reduction in the Gross Ceiling in the Agriculture Budget for 2014, given the increased EU funding that will be available, does not make sense.

   A strong funding allocation is required for the agri-environment schemes and Less Favoured Areas, with increased support for the Suckler Cow herd and funding for discussion groups across all sectors. Under capital expenditure, funding must be provided for on-farm investment, including the horticulture and forestry programmes, and support for young farmers.

3. IFA fully supports the objective of maximising the contribution of the agri-food sector to the Irish economy and acknowledges Government action in recent years to maintain taxation measures to support restructuring, farm investment and land mobility. In parallel with a strong CAP and funding for farm schemes, the retention of key taxation measures and introduction of new measures will be critical to continue the ongoing development and growth of the sector. This includes:
   - Retention of 90% Agricultural Relief and no further reductions in CAT exemption thresholds ;
   - Maintenance of the Pay & File dates for self-assessment;
   - Extension of the land leasing tax exemption scheme to encourage uptake and land mobility;
   - Incentives for dairy farmers to invest in industry expansion; and
   - Enhanced stock relief to encourage investment across all farm enterprises.

   At a more general level, the burden of taxation on farm families has, in common with other sectors, increased significantly in recent years. Marginal rates of tax are now at a very high level, and lower income farmers have been negatively affected through introduction of the USC and a reduction in personal tax credits. In addition, increases in the rates of capital taxes and reductions in tax-free thresholds have added to the costs of investment and asset transfer. IFA believes that, to encourage investment and enterprise, and to support overall economic recovery, there cannot be any further increases in personal income or capital taxes.

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Introduction - Farm Incomes and Outlook 2013

Following two years of growth, farm incomes fell significantly in 2012. The main factor affecting farm incomes and profitability was the dreadful weather, which resulted in a reduction in output in some commodities and an increase in input use. The difficulties continued into 2013, with fodder shortages experienced across the country resulting in increased feed costs and pressures on farm viability.

Product price and input cost volatility remains a constant challenge for farmers today, with product prices varying across the commodities in 2012, while input costs rose across the board, on top of a major cost increase experienced in 2011. The result was a fall in farm incomes of 15%. The fodder crisis in the first half of 2013 will also have a negative, as yet unknown, impact on farm incomes. In the short term, it has resulted in serious cashflow pressures on thousands of farms across the country, and will take some time for farmers to recover.

Notwithstanding these pressures, agriculture and the agri-food sector continue to play an important role in the country's economic recovery. The most recent employment data from the Quarterly National Household Survey indicates that the primary agriculture sector is providing a significant source of employment growth (with an increase of over 15,000 employed in the sector in the past year). An increasing number of individuals are commencing a career in farming or returning to farming as their main source of employment.

Increased employment in farming in all parts of the country has both a positive social and economic impact, as farmers live and work in the local community, with the majority of their expenditure on goods and services undertaken at local level. In the recent study undertaken on behalf of IFA by UCD Professor of Agricultural Economics, Alan Renwick, it was shown that for every €1 of output produced on cattle farms, an additional €1.49 of output is generated in the Irish economy (for the agriculture sector in general, the multiplier effect is €0.73). In addition, every €1 of support for the cattle sector, through direct payments, underpins over €4 of output in the economy.

At a national economic level, the agri-food industry is also contributing to economic growth, with food and drink exports in 2012 exceeding €9b for the first time. Despite a difficult economic environment in our main export markets, export growth has continued into 2013, with an increase in value of 6% in the first five months of the year.

Funding for farm schemes underpins farm incomes and output in the agriculture sector, which is delivering employment growth and increased economic activity. As a new CAP reform programme commences in 2014, including a seven-year Rural Development plan, the Government must clearly show its support for agriculture through strong funding for farm schemes in Budget 2014.

Funding for Farm Schemes in the Context of the RDP 2014-2020

2.1 Recent budget cuts to farm schemes

Since the commencement of the economic downturn, funding for farm schemes has been significantly reduced in successive budgets through cuts to, or closure of, schemes such as the Less Favoured Areas, REPS and Suckler Cow schemes.

In order to meet the targets for expenditure reduction set out under the EU/ECB/IMF programme, funding for the Agriculture Budget has been reduced by a greater amount proportionately than across other Government departments. Since 2011, total funding for agriculture has been cut by 13%, compared to an average reduction across all Government departments of 5%[1].

Within the Agriculture Budget itself, farm schemes have been targeted for disproportionate cuts. Total expenditure on farm schemes between 2011 and 2013 has fallen by 18% or €119m[2]. This is by comparison with a reduction in expenditure of 8%, or €60m across all other budgetary headings within the Agriculture budget[3].

It is clear that decisions have been made over the past two budgets to directly target the farm schemes to achieve the savings required in the agriculture budget. It is unacceptable that such disproportionate cuts have been imposed, with a resulting direct hit on already low farm incomes. Over the same time period, many other budget lines within the agriculture budget have been left largely untouched, or reduced by a much smaller amount.

2.2 Rural Development Programme 2014-2020 and Budget 2014

With the conclusion of the CAP reform negotiations, the next seven year Rural Development Programme is due to commence in 2014. The national budget for agriculture in 2014 must ensure that the maximum EU funding that is available to Ireland through the Rural Development programme is drawn down. The funding allocation for farm schemes in Budget 2014 must be consistent with the requirements set out in Ireland's Rural Development plan 2014-2020, which will be submitted to the EU Commission in late 2013.

Under the proposed Rural Development programme 2014-2020, it is estimated that an average of €290m EU funding/year will be available for farm schemes.

A Government commitment to 50% national co-financing of EU funding is required to provide certainty of funding for important farm schemes over the next seven years. To support vulnerable sectors and deliver sustainable programmes, IFA believes that the funding should be distributed on a proportionate basis over the time-frame of the programme.

2.3 Maximising exchequer and Rural Development funding for farm schemes

Farm schemes have taken an unfair and disproportionate cut in the past number of budgets, and cannot be cut further. The savings required in the Agriculture Budget for 2014 must be found from within other budget headings.

Additional funding of over €100m[4] should be available for farm schemes, through the Rural Development programme, in 2014. This funding will be available at no additional cost to the exchequer. IFA is demanding that, in addition to this increased EU Rural Development funding, national exchequer funding for farm schemes in 2014 is maintained at 2013 levels.

[1] See Table A1 [2] See Table A2 for further details
[3] See Table A2 [4] Based on an EAFRD funding allocation of €176m in 2013 and an estimated EAFRD funding allocation of €290m in 2014

Outlined below are IFA's specific proposals for the individual farm schemes and funding programmes:

2.3.1 REPS/AEOS

Over the past two decades, farmers have participated in agri-environment schemes, which have contributed to the enhancement of the environment and increased the amenity value of the countryside. In addition, expenditure by farmers on goods and services through the REPS/AEOS programmes contributes to economic activity in the local economy. The AEOS 3 scheme was introduced in late 2012, with 6,000 farmers accepted into the scheme and 3,500 farmers rejected as the funding ceiling was reached.

IFA proposes that the 3,500 farmers who applied for the AEOS 3 scheme and were rejected are accepted into the scheme from 1st January 2014.

There are 30,000 farmers currently in the REPS 4 scheme. 13,000 of these farmers have contracts that finish at the end of 2013.

IFA proposes that a new agri-environment scheme is made available for farmers due to leave REPS 4 in 2014 under the Rural Development Plan 2014-2020. In the absence of such a plan being ready, IFA is alternatively proposing that the contracts for these 13,000 farmers are extended for a further year and that they would be in a position to join a new agri-environment scheme in 2015 under the new Rural Development Programme.

2.3.2 Programme of support for Suckler Cow Herd

The Suckler Cow Scheme, which ran between 2008 and 2012, provided valuable support to a low-income sector, resulting in improvements in animal welfare, the collection of breeding data and an overall increase in the competiveness and reputation of Irish beef and live exports. The abolition of this scheme was short-sighted and a backwards step for the overall industry.

IFA proposes that, as part of the Governments overall investment and enterprise strategy for the Irish economy, a meaningful funding programme to support the maintenance and improve the competitiveness of the Suckler Cow herd must be introduced in Budget 2014.

2.3.3 Less Favoured Areas Scheme

The Less Favoured Areas Scheme is of huge importance in ensuring the continuation of farming activity in difficult land areas throughout the country.

IFA proposes that funding for the Less Favoured Areas Scheme is maintained for all categories in 2014. In the context of additional EU monies being available from the Rural Development fund from 2014, payment rate increases should be specifically targeted at farmers in mountain and Severely Handicapped Areas.

2.3.4 Targeted Agricultural Modernisation Scheme (TAMS)

The uptake of the TAMS schemes is unlikely to utilise all EU funding available in the current Rural Development Programme. While there have been some changes to the TAMS scheme to increase participation, nevertheless additional items must become eligible for grant aid.

IFA proposes that specific supports are made available to suckler farmers for structures and handling equipment and that the Dairy Equipment Scheme is broadened out to cover feeders, including augers. In addition, a drainage scheme must be introduced to deal with the deterioration of land as a result of poor weather over the last number of years.

The new Rural Development programme also provides the opportunity for the development of a broader farm investment programme, with expected funding commitments from 2015.

2.3.5 Installation Aid

The number of young people wishing to enter farming has increased significantly over the past five years. IFA believes that young farmers must be provided with additional support to meet the start-up costs of their business.

In the context of the next Rural Development plan, IFA proposes that the Young Farmers Installation Scheme is reintroduced at a rate of €15,000. The financial commitment for this would be minimal in 2014, but would increase to an estimated €7m/year from 2015.

2.3.6 Discussion Groups

Participation by farmers in discussion groups has been shown to improve on-farm efficiency and management practices, and IFA supports the extension of this form of peer learning to all sectors.

IFA proposes that continued funding is provided, through the Rural Development programme, to support discussion groups in all sectors.

2.3.7 Animal Health

Significant progress has been made to date in improving the health status of our national herd. Continued improvements will contribute to increased returns for the sector and the broader agri-food industry.

To ensure continued progress in the improvement of the health status of the national herd, the following support measures are required in Budget 2014:

- **Continued support for the BVD programme, including direct support for farmers for the disposal of PI calves and a payment for the suckler cow, to ensure it achieves the programme objectives of eradication.**
- **Financial support for farmers to improve their management practices in order to control and reduce the levels of Johnes disease in the national herd**
- **No reduction in compensation amounts for the Disease Eradication Compensation schemes (TB and Brucellosis)**

2.3.8 Forestry

The forestry sector has a central role to play in achieving Ireland's climate change and renewable energy targets. As a priority, sufficient funding must be made available in 2014 to maintain existing forestry premium payment levels for farmers who have already committed their land to forestry.

In Budget 2014, the forestry premium must be maintained at its current level. This must be funded through the National Exchequer, with no dilution of support through the inclusion of forestry into the Rural Development programme. In addition, funding for the afforestation and forest road scheme must be increased to meet future timber supply demands and support the construction of the internal road network essential to mobilise the private timber resource.

2.3.9 Horticulture

Maintaining the NDP Commercial Horticultural Grant Scheme is critical to the expansion of the horticulture sector. The existing annualised structure of the grant scheme is preventing many farmers from participating in the scheme and undertaking important investment.

The Horticulture Grant scheme must be extended to 2014, as it is a critical support for investment in the sector. It should be implemented on a two-year cycle, rather than annually as currently exists, to take account of the seasonality of certain crops and the time required to obtain planning permission. In addition, the scheme should be extended to include potatoes.

2.3.10 Aquaculture

Ireland continues to lose significant market share and competitiveness due to a lack of investment in its aquaculture sector. Due to the absence of a working licencing system, no licence renewals have so far been issued in marine NATURA 2000 areas. This is blocking over 90% of legitimate producers from accessing capital grant aid.

In Budget 2014 the Government must remove any impediment to accessing capital grant aid for aquaculture licensees awaiting decisions from the Department of Agriculture. A budget of €15m in 2014 is required for investment in modernisation, application of environmental standards and marketing. In addition, the Government imposed ban on NDP funding for marine salmon farms must be immediately removed.

2.4 Other expenditure programmes of importance to Farm Families

2.4.1 Farm Assist

The Farm Assist scheme continues to be a vital support to low income farmers. However, the cuts in the income and child disregards over the last two budgets have reduced the payments to farmers by around €20 per week.

IFA proposes that the income and child disregard are restored to their pre-budget 2013 levels. Additionally, the means test must be much more reflective of the farm family's current income position and not just its historic income position.

2.4.2 Capital Asset Test for Maintenance Grants

Budget 2012 signalled that certain assets would be included in the assessment process for the maintenance grants system. Any changes are scheduled to be introduced from September 2014.

Productive assets, such as farmland, are required by self-employed businesses to generate income and are not a measure of additional ability to pay. Farmland and other productive assets cannot form any part of a fair means assessment. In addition, the existing system already penalises farmers and other self-employed by disallowing a number of legitimate expenses in the calculation of income for the means test. This includes capital allowances, lease payments, stock relief and interest on borrowing for capital purposes.

IFA is fully opposed to any move to include productive assets, such as farmland, in the assessment of third level maintenance grants. This would discriminate against farming and the self-employed sector. Any changes that are introduced to the maintenance grants system must not restrict low-income families from any sector from access to third-level education.

2.4.3 Rural Social Scheme (RSS)

The Rural Social Scheme continues to be a vital support to low-income farmers in areas where job opportunities are limited.

IFA proposes that the number of places in the RSS is doubled from its current number of 2,600 to 5,200.

2.4.4 Walks Scheme

The Walks Scheme which was introduced in 2008 is now up for renewal and contracts are being extended for 40 walks as they become due. The scheme has had a significant impact on the development of recreational activities, boosting rural tourism and supporting farmers who provide access to their land.

IFA proposes that the number of walks covered by the scheme is increased to 80 and that the allocation is increased from €2m to €4m.

2.4.5 Fair Deal Scheme – Means assessment of non-residential assets

While IFA is fully supportive of and encourages lifetime transfers of farms, it is clear since the implementation of the Fair Deal scheme that there are difficulties arising with the costs of care where the asset has not been transferred, or where it has been transferred, but within the previous 5 years. A key concern for farm families remains the potentially uncapped liability for non-residential assets. This creates uncertainty and anxiety that the viability of the family farm business will be undermined when attempting to meet the costs of care.

IFA proposes that:

- **Under the Fair Deal scheme, there must be a cap on the maximum % charge that can be applied to non-residential assets, in all circumstances, regardless of the duration of care. The maximum number of years for which a non-transferred asset can be taken into account in the means assessment must be five. This would provide certainty for farm families and allow them to make the most appropriate decision in meeting the costs of care.**
- **Clearer guidelines must be developed relating to the treatment of assets that have been transferred prior to going into nursing home care, but for less than 5 years.**

Taxation Measures to Encourage Investment & Enterprise in Agriculture

IFA fully supports the objective of maximising the contribution of the agri-food sector to the Irish economy and acknowledges Government action in recent years to maintain taxation measures to support restructuring, farm investment and land mobility. In addition, the introduction of new measures, such as CGT relief for farm restructuring and stock relief for all farm partnerships will have a positive impact on the structure of farming and the potential for expansion. In parallel with a strong CAP and funding for farm schemes, the retention of key taxation measures and introduction of new measures will be critical to continue the ongoing development and growth of the sector.

At a more general level, the burden of taxation on farm enterprises and families has, in common with other sectors, increased significantly in recent years. Marginal rates of tax are now at an extremely high level, and lower income farmers have been negatively affected in the most recent budgets through introduction of the USC, reduction in the personal tax credits and an increase in the minimum PRSI contribution. In addition, increases in the rates of capital taxes and reductions in tax-free thresholds have added to the costs of investment and transfer of assets, affecting farmers particularly. IFA believes that, to encourage investment and enterprise, and to support overall economic recovery, there cannot be any further increases in personal income or capital taxes.

Outlined below are IFA's key taxation proposals for farming for 2014, which have been developed with reference to the constraints that remain within the public finances.

3.1 Encouraging farm transfer, land mobility and investment

3.1.1 Retention of Agricultural Relief and CAT thresholds

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. Any reduction would significantly reduce the value of farm and small-business assets that could be transferred, with many moderate-sized farms facing a CAT liability.

In addition, over the past five years, the rates of CAT and Capital Gains Tax have increased by over 60% (from 20% to 33%), while the CAT exemption thresholds have been reduced by over 50%. The current Group A threshold (parent: child) is €225,000. The result is that, with 90% Agricultural Relief, the maximum value of farmland and buildings that can be transferred without a liability for CAT is now €2.25m, down from €5.4m in 2008. The argument for the reductions in the thresholds over the past number of years has been that asset values were also falling. However, over the past two years, the value of agricultural land has stabilised and has even begun to increase slightly. A reduction in the CAT thresholds therefore represents a real reduction in the value of assets that can be transferred tax free.

To encourage the transfer of family farms of a sufficient scale to support a viable farm enterprise for the next generation, IFA believes it is essential that the 90% Agricultural Relief must be retained on all qualifying transfers. Those entering farming must not be faced with a significant tax liability, which could necessitate the breakup of family farms or selling of assets.

In addition, IFA believes that, with rising farm asset values, there is a strong argument for an increase in the CAT exemption thresholds to reflect this, for example, through index-linking.

3.1.2 Extension of Land Leasing Tax Exemption to encourage uptake

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 up to €20,000 per year (with lower thresholds for leases between 5-10 years). The scheme seeks to transfer the use of the land to farmers for a defined period, consistent with good farm management practice.

Under the current scheme, a farmer who has leased out land long term can avail of Capital Gains Tax Retirement relief if they transfer the land subsequently to a child[5]. However, where the successor is not a child, or where the land is sold, the farmer does not qualify for CGT Retirement relief.

Many farmers do not have a direct successor, or require some part of their land to be sold to provide for their retirement. IFA believes that the prohibition on qualifying for CGT Retirement relief for land sales or for land transfer to favoured niece/nephew is preventing more farmers from entering into long-term leases, and therefore preventing access to land for other farmers.

IFA proposes that farmers who lease out their land long-term should qualify for Capital Gains Tax Retirement Relief if they subsequently sell the land (up to €750,000 threshold) or if it is transferred to a favoured niece/nephew.

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. The option of incorporating is currently being pursued by a small, but growing, group of farmers. This prohibition is discriminating against lessors who lose the income tax exemption where the lessee (farmer) incorporates.

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.

3.1.3 Farm Partnerships – CGT Relief on Dissolution

IFA welcomed the extension of 50% stock relief for Farm Partnerships in Budget 2013. The removal of barriers to entering partnership is very important to ensure that the benefits of farming in partnership, including increased efficiency and output, can be further realised. Prior to 2008, individuals were potentially liable for Capital Gains Tax arising from the dissolution of a partnership. This barrier to entry was removed in Finance Act 2008, whereby relief from CGT was given to individuals where there is a break up of a partnership.

IFA believes that, in order to continue to encourage farmers to enter into farm partnerships, the relief from Capital Gain Tax that is currently available where there is the dissolution of a farm partnership should be extended beyond 2013.

3.1.4 Stock relief to encourage investment

IFA acknowledges the retention of the 25% general and 100% Young Farmer Stock relief in the 2013 budget. These reliefs provide an important incentive for investment for farmers who are building up their stock. It is of particular assistance as the majority of farmers are sole-traders and therefore face a high marginal tax rate on income earned, reducing the amount available for re-investment. An increase in the general stock relief to 50% would provide an important support for farmers who are expanding and increasing the value of their stock.

IFA believes that an increase in general stock relief from 25% to 50% would provide an important incentive to encourage farmers to invest in their stock and improve the overall efficiency of their farm enterprises.

3.2 Other taxation issues affecting farm businesses and families

3.2.1 Maintenance of Pay and File Dates for Self-Assessment

With future budgets scheduled for the earlier date of mid-October, it is critical that the existing 'pay and file' date of October 31st for self-employed Income Tax and Capital Gains Tax is retained.

As farmers receive the majority of their Direct Payments during the month of October, bringing forward the date of payment would cause serious cashflow difficulties for farmers and businesses depending on payments and expenditure by the farming sector. Ultimately, it would put at risk the tax compliance of the farming sector, which, traditionally, has had a strong record of compliance.

IFA proposes that, while future budgets are scheduled for October, the 'pay and file' date of October 31st for self-employed Income Tax and Capital Gains Tax, and the extended filing date for those who pay and file online, must be retained.

5 Provided the farmer fulfils the other general terms and conditions of CGT relief – i.e. they are aged over 55 and owned and farmed the land for 10 years prior to leasing it out.

3.2.2 Water charges

In its submission to the Department of the Environment's consultation on the reform of the water sector in Ireland, IFA welcomed the proposal to reform the delivery of water services, believing it a necessary measure to reduce water costs to customers and end duplication and inefficiency in the delivery of the service.

In the event that water charges are introduced for domestic users in 2014, it is critical that farm enterprises are treated fairly and do not face a double-charge for water provision. Specifically, IFA proposes the following:

- **Where farmers and households supply their own water source, they must face no charge for water, in line with the commitment given by Minister for the Environment, Phil Hogan.**
- **For farmers and households on group water schemes, there must be no additional water charge, on top of the charge they already pay for these schemes.**
- **For farm enterprises where there is combined domestic and business use, the existing 50,000 gallon domestic usage allowance must be retained, before application of water charges.**
- **Overall, as water charges are applied across all domestic users, charges should be reduced for farmers and other larger-volume users who already pay for water. The cost of supplying the service should be spread equally over the larger number of users of the public water supply.**

3.2.3 Income taxation issues for farm families

The income tax system continues to discriminate against the self-employed, impacting particularly at lower income levels. The PAYE tax credit of €1,650 results in employees entering the income tax net at twice the income level of self-employed, including farmers (€16,500 v €8,250). As a result, for a single-self-employed farmer, with taxable income of €20,000, their tax liability, (including income tax, PRSI and the USC) is €3,870 or 19% of their income. By contrast an employee with the same taxable income has a tax liability of €2,220 or 11% of their income.

Government must make a commitment to removing anomalies in the income tax system that discriminate against the self-employed. This includes the introduction of an Earned Income Tax Credit for self-employed taxpayers.

The introduction of any further mandatory increases to PRSI rates for the self-employed would simply be an additional tax on employment and will have a negative impact on output and employment in the self-employed sector.

Under the existing PRSI system, employees receive benefits that are not available to the self-employed, such as Jobseeker's and Illness benefit. If there is to be an increase in the PRSI rate for the self-employed, this must be voluntary, and accompanied by an increase in the range of benefits that are available to this group.

IFA proposes that any change to the PRSI system for the self-employed can only involve a voluntary, opt-in system, which would provide the option for a self-employed worker to increase their level of PRSI contribution in order to qualify for additional benefits. Where a self-employed worker chooses not to opt in to this system, their PRSI contribution must remain at the current rate of 4%.

3.2.4 Retention of Marked Diesel

IFA notes the introduction of a rebate scheme for licensed road hauliers in Budget 2013 and welcomes the series of measures introduced over the past two budgets to strengthen Revenue powers to combat the criminal laundering of marked gas oil. This included the introduction of a marked fuels trader's licence for every trader producing, holding, dealing in, or delivering marked gas oil or marked kerosene.

IFA believes it is critical that the marked system of agricultural diesel is retained. The equalisation of excise rates for diesel and introduction of a rebate scheme for farmers and other users of marked gas oil (agricultural diesel) would increase costs and the administrative burden for both users and those overseeing the system.

3.2.5 Moratorium on Local Authority Rates

Small businesses starting up in rural Ireland are faced with significant administrative and regulatory costs. This often acts as a disincentive to increasing the number of employees. The high cost of local authority rates can often absorb cash-flow, which could alternatively be used to increase employment and to grow and develop the business.

IFA proposes that new business start-ups should receive a five-year moratorium on local authority rates, to support local micro-enterprise development in rural areas.

3.3 Sector-specific tax proposals

3.3.1 Investment in dairy expansion – tax treatment of mandatory share purchase

As part of the planned dairy expansion following the abolition of quota in 2015, many dairy farmers are undertaking investment both on-farm and directly in the dairy industry. One element of this expansion is the requirement for farmers to purchase shares, or increase their shareholding in their cooperative. This expenditure is a legitimate business expense that the farmer must incur to ensure that there is sufficient capacity at processing level to match his/her on-farm milk production into the future. The expenditure is, in effect, a licence to produce milk.

IFA believes that the investment that is being undertaken by farmers in the dairy industry, through mandatory share purchase, should be treated as a business expense. It should therefore be deductible prior to the calculation of taxable income or, alternatively, deemed a capital expenditure, similar to the current tax treatment for the purchase of milk quota.

3.3.2 Taxation of forestry income

Forestry is a unique investment where the majority of the revenue is realised at the end of the growing cycle (typically 40 years). The "High Income Earner Restriction" introduced in the 2007 Finance Act limits the tax reliefs on forestry income and this has become an issue for forest owners that are in the process of thinning or clearfelling their forest plantations. The "High Income Earner Restriction" was introduced to tackle tax avoidance measures of high income earners. Forestry income represents a once-off payment for years of input and accumulation, IFA believes that it should not be treated in the same manner.

Ambitious production targets have been forecast for the private forest sector. However, it is unlikely that these production targets will be achieved as forest owners will (i) choose a non-thin management policy and/or (ii) stagger their harvesting operations, so that income earned is below the tax relief threshold. This will have major implications for the sawmilling and emerging wood energy sectors, as almost all the forecast increases projected are from the private forest sector. Another unintended consequence of the tax relief limits on forestry income is that it will act as a disincentive to afforestation. The afforestation programme has been declining in recent years and, in 2011, was the lowest in 24 years.

The treatment of forestry felling income, which comes as a once-off payment at the end of a long-term growing cycle, should not be the same as other income that falls within the Higher Income Earners restriction. IFA proposes that forestry income should be allowed to be declared over a number of taxable years (similar to the averaging of sugar beet restructuring payments over a six-year period).

3.3.3 Tax-relieved loan scheme for investment in dairy industry

The expansion of the dairy industry, following the abolition of milk quota in 2015, provides an opportunity for expansion at farm and industry level, and the growth of output and export markets. In addition to the €1.5b that will have to be spent on farms to deliver a 50% expansion in milk production, €400m will be required for additional and/or rationalised processing capacity and investment in R&D and marketing.

IFA, in conjunction with the dairy industry, proposes a tax-relieved loan scheme open to farmers and non-farmers, and believes it will prove a key component in securing finance for the required expansion of the dairy industry.

3.3.4 VAT on bloodstock sales

Currently, the sale of bloodstock in Ireland falls into the same VAT category as livestock, with a reduced VAT rate of 4.8%. In March 2013, the European Court of Justice found that the supply of horses and greyhounds (other than for use in the preparation of foodstuffs), the hire of horses and insemination services could not be deemed necessary to cover basic social needs. The judgement implies that a higher VAT rate would have to be applied to some or all sales of bloodstock. This will have implications for the sales price of bloodstock.

In addition, if bloodstock are not treated the same as other livestock for VAT purposes, it is likely to have implications for the VAT status of many farmers. The majority of farmers are not registered for VAT, with fewer than 10,000 farmers registered. If farmers were required to register for VAT for the purpose of breeding and selling of livestock, it would add a significant administrative and compliance burden, both for the farmer, who is generally a sole-trader, and the tax authorities. It is likely that a requirement to register for VAT and the additional compliance burden would prove enough of a disincentive to some farmers that they would decide not to continue in the breeding of bloodstock.

Irish farming has a long tradition of bloodstock breeding as part of the overall farm enterprise. This underpins the €1b world-leading Irish bloodstock industry. Many farmers in Ireland keep breeding stock on their farms and invest in the production of horses, from foals to five-year olds normally, or at such a point as they go into training. The progeny of such stock is normally sold between these years.

IFA believes that the reduced livestock VAT rate (4.8%) should continue to apply to the vast majority of horse sales, as the rearing and breeding of bloodstock is primarily an agricultural activity. Until such time as the animal enters the training cycle/ leaves the agricultural production cycle, it should be treated the same as all other livestock for VAT purposes.

Beyond this point, IFA believes that a reduced 9% VAT rate that currently exists for certain tourism services should be applied to the sale of bloodstock, as there is a strong link between the bloodstock and tourism industries.

Appendix I: Breakdown of expenditure on Agriculture Budget and Farm Schemes 2011-2013

Table A1: Funding for Agriculture Budget vs. all Government Departments 2011-2013

€ (000s)	2011	2012	2013 (allocation)	% change
All Government Departments	57,496,654	55,945,717	54,576,917	-5%
Agriculture	1,421,366	1,318,011	1,241,740	-13%

Table A2: Expenditure On Farm Schemes And Agriculture Budget 2011-2013

€ (000s)	2011	2012	2013 (allocation)	% change
Agriculture Budget - Gross ceiling	**1,421,366**	**1,318,011**	**1,241,740**	**-13%**
Farm Schemes & Grant programmes				
REPS	260,952	198,266	148,575	-43%
AEOS	14,107	54,947	51,800	267%
Disadvantaged Areas	233,757	206,300	195,000	-17%
Early Retirement	27,305	20,300	14,000	-49%
Installation Aid	397	182	80	-80%
TAMS	462	15,174	20,100	4251%
BTAP/ STAP	0	4,400	9,000	-
Farm Improvement Scheme	3,511	3,356	600	-83%
Horticulture	3,013	3,211	3,250	8%
Forestry – Afforestation	104,000	101,614	106,490	2%
Suckler Cow	30,845	28,200	10,000	-68%
Total expenditure on farm schemes & grant programmes	**678,349**	**635,950**	**558,895**	**-18%**
Agriculture budget excluding farm schemes	**743,017**	**682,061**	**682,845**	**-8%**

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