2013 Finance Bill No.2 – IFA Submission

Introduction

The achievement of the *Food Harvest 2020* growth targets for the agri-food sector requires a sustained improvement in the competitiveness of primary agriculture. Taxation measures that encourage restructuring and farm investment are critical supports to achieve increased efficiency and investment on farms.

The IFA submission for the Finance Bill No.2 2013 contains proposals on a number of the farm taxation measures announced in Budget 2014 and the first draft of the Bill published on the 24th October. It is critical that these measures are implemented in a straightforward manner, with low compliance costs for farmers.

1. Pay and File Dates for Self-Assessment

With future budgets scheduled for the earlier date of mid-October, the IFA is clear that the existing 'pay and file' date of October 31st for self-employed Income Tax must be maintained. As farmers receive the majority of their Direct Payments and a significant portion of their income stream during the month of October bringing forward the date of payment would cause serious cashflow difficulties for farmers and related businesses depending on payments and expenditure by the farming sector. Ultimately, it would put at risk the farmers' capacity to comply with their tax obligations. The IFA will be making a submission to the Department of Finance on this issue.

IFA proposes that, 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 on line must be retained.

2. Land Leasing Tax Exemption

A major encouragement for transferring land from less productive to more productive farmers is the Land Leasing Income Tax Exemption scheme. This scheme is directed at certain landowners, e.g. part-time farmers and elderly farmers, who do not farm at the same level as full-time farmers. It seeks to transfer the use of the land to commercial farmers for a defined period, consistent with good farm management.

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

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

3. Dairy Industry 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 mandatory supply license. It should therefore be deemed a capital expenditure, similar to the current tax treatment for the purchase of milk quota.

4. Taxation of Forestry Income

Forestry is a major commitment by a farmer where the land is sterilised for all other use and 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. As forestry income represents a once-off payment for years of input and accumulation, 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).

5. Taxation of Farm Disposals and Transfers

A. Over the past five years, the rates of CAT and Capital Gains Tax have increased by 65% (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. The 20% capital gains tax rate was introduced in 2000 with the quid pro quo of the removal of inflation indexation relief and roll-over relief.

   In the context of increased capital gains tax rates, a reduction in the CAT exemption thresholds and rising farm asset values the IFA believes that there is a strong argument for the re-introduction of indexation and roll-over relief for disposals of agriculture assets.

B. While the IFA welcomed the announcement in Budget 2013 of relief from Capital Gains Tax for farm restructuring, the conditions under which the relief now operates are too restrictive. A number of legitimate transactions are currently ineligible to avail of the relief; Land sold under CPO and subsequently replaced and; the sale of an existing farm and the replacement of it by the purchase of another farm.

   The IFA proposes that, to ensure the initiative succeeds in encouraging land mobility and consolidation, the following transactions must qualify for Capital Gains Tax relief:
   - **Farmland that is sold under CPO and subsequently replaced;**
   - **The sale of an existing farm and replacement with a more viable consolidated holding.**

6. 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. There should be no restriction to the implementation of Stock Relief introduced in last years Budget.