AGRI-TAXATION REVIEW 2014

IFA report and analysis

October 2014
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### SUMMARY OF RECOMMENDATIONS

The Agri-taxation working group set out 25 recommendations for reform of the agri-taxation system. These are outlined below. The table identifies which of the recommendations will be implemented in Budget 2015, those that should leave an existing taxation measure unchanged, those that do not have an immediate taxation impact, as require further consultation, and those that are likely to result in no taxation impact (e.g. awareness raising).

<table>
<thead>
<tr>
<th>Number</th>
<th>Recommendation</th>
<th>Impact/Implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Retain relief for certain income from leasing of farm land</td>
<td>No taxation impact</td>
</tr>
<tr>
<td>2</td>
<td>Increase the income thresholds for relief from leasing income by 50%</td>
<td>Budget 2015</td>
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<tr>
<td>3</td>
<td>Introduce a fourth threshold for lease periods of 15 or more years with an exemption for the first €40,000 per annum</td>
<td>Budget 2015</td>
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<td>4</td>
<td>Remove the lower age threshold of 40 years of age for eligibility for the long-term leasing tax relief</td>
<td>Budget 2015</td>
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<td>5</td>
<td>Allow non-connected limited companies as an eligible lessee for the long-term leasing tax relief</td>
<td>Budget 2015</td>
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<tr>
<td>6</td>
<td>Relieve stamp duty on long-term leases (&gt;5 years) for agricultural land</td>
<td>Budget 2015</td>
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<tr>
<td>7</td>
<td>Raise awareness among land owners of the current reliefs for long-term leasing</td>
<td>No taxation impact</td>
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<tr>
<td>8</td>
<td>Retain Agricultural Relief for Capital Acquisitions Tax</td>
<td>No taxation impact</td>
</tr>
<tr>
<td>9</td>
<td>Target Agricultural Relief from CAT to qualified or full-time farmers or to those who lease land out on a long-term basis</td>
<td>Budget 2015</td>
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<tr>
<td>10</td>
<td>Retain Retirement relief from Capital Gains Tax at current levels</td>
<td>Existing measure unchanged</td>
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<tr>
<td>11</td>
<td>For family transfers, extend the eligible letting period of a qualifying asset to 25 years to qualify for CGT Retirement Relief</td>
<td>Budget 2015</td>
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<tr>
<td>12</td>
<td>For transfers other than to a child, as a once-off measure until the end of 2016, allow conacre lettings as eligible for CGT Retirement Relief</td>
<td>Budget 2015</td>
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<tr>
<td>13</td>
<td>Extend Stamp Duty Consanguinity Relief on non-residential transfers to the end of 2017</td>
<td>Budget 2015</td>
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<tr>
<td>14</td>
<td>Retain current stamp duty exemptions on transfers of land</td>
<td>Existing measure unchanged</td>
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<td>15</td>
<td>Retain current Capital Allowances available to the sector</td>
<td>Existing measure unchanged</td>
</tr>
<tr>
<td>16</td>
<td>Retain current stock Reliefs</td>
<td>Existing measure unchanged</td>
</tr>
<tr>
<td>17</td>
<td>Retain CGT relief on farm restructuring, allow whole-farm replacement and extend the measure to end 2016</td>
<td>Budget 2015</td>
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<tr>
<td>18</td>
<td>Retain as tax exempt, profits r gains from the commercial occupation of woodlands</td>
<td>Existing measure unchanged</td>
</tr>
<tr>
<td>19</td>
<td>Examine the broadening of the scope of SEAI’s Accelerated Capital Allowances scheme to incentivise investment in energy efficient equipment by extending it to sole-traders</td>
<td>No immediate taxation impact – further consultation</td>
</tr>
<tr>
<td>20</td>
<td>Retain current taxation measures for farm partnerships- all registered farm partnerships</td>
<td>Existing measure unchanged</td>
</tr>
<tr>
<td>21</td>
<td>Increase Income Averaging from 3-5 years</td>
<td>Budget 2015</td>
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<tr>
<td>22</td>
<td>Allow income averaging where a farmer and/or spouse receives income from an on-farm diversification trade</td>
<td>Budget 2015</td>
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<tr>
<td>23</td>
<td>Examine the scope for extending income averaging to forestry clear-felling profits</td>
<td>No immediate taxation impact- further consultation</td>
</tr>
<tr>
<td>24</td>
<td>Retention of Agri-taxation working group to further examine feasibility of measures such as risk deposit scheme, Phased Transfer Partnership, and barriers to female participation</td>
<td>No immediate taxation impact- further consultation</td>
</tr>
<tr>
<td>25</td>
<td>Better data collection on costs and benefits by Agri-Taxation Working Group</td>
<td>No taxation impact</td>
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2 Background to Review

2.1 Purpose of review

A review of the agri-taxation system was announced by Minister for Finance, Michael Noonan, in his budget speech, October 2013. The stated purpose of the review was to analyse the benefits of the various tax measures to the agriculture sector and the wider economy versus the costs. The overall objective was not to change the level of support to the sector through the tax system but rather to maximise the benefits of the existing level of support and to ensure tax policy aligns with the objectives set out in Food Harvest 2020.

The review was undertaken jointly by Departments of Finance and Agriculture, who engaged Indecon economic consultants to assist (Working Group on Agri-taxation). A consultation process with stakeholders was held in early 2014, with submissions received by over 40 interested parties. The report was published on Budget day, 14th October 2014, and contains recommendations on agri-taxation measures, both for immediate and for longer-term implementation.

2.2 IFA approach to agri-taxation review

IFA identified the agri-taxation review as an opportunity, for the first time in a generation, for all stakeholders to step back and assess how well or otherwise the tax system is working to support the farming sector in Ireland today. The IFA Executive Council and Farm Business Committee met with the Minister for Finance in early 2014 to highlight their concerns and identify the key taxation measures that are critical to support farming.

The key objectives for IFA in the review of taxation were to:

- Ensure valuable tax reliefs, which are critical to the development and growth of the agri sector, are maintained;
- Secure new tax incentives that are necessary to drive structural improvements by incentivising land transfer, mobility and investment;
- Examine how the taxation system can better accommodate the extreme volatility in farm incomes; and
- Examine how tax returns can be simplified to drive down compliance costs.

In its comprehensive submission to the review team, IFA outlined the key characteristics differentiating agriculture from other business sectors, which are critical in developing an appropriate taxation system. These were:

- Farming is a capital intensive industry with significant, recurring, investment requirements;
- With a high level of owner-occupancy of farms, the minimisation of costs to facilitate lifetime inter-generational transfer, is critical;
- The main business structure of family farms continues to be sole-trader, with the result that farm incomes are subject to very high tax rates, even at low profit; and
- Increasing exposure to international markets and competition is driving necessary structural reform, increasing scale and improved efficiency.

Overall, IFA identified a series of taxation measures that would improve the overall structure, efficiency and productive capacity of agriculture. These included measures to tackle volatility, promote on-farm investment, encourage new entrants and earlier lifetime farm transfers and increasing land mobility.

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1 See Developing a Taxation System to support investment and growth in agriculture, on www.ifa.ie for full report
3 Overview of Review Report

3.1 Main findings
The Working Group on agri-taxation recommended continued support for primary agriculture through taxation measures, with some additions and amendments. The group identified 25 recommendations under a series of policy objective headings. Many of these recommendations were announced in Budget 2015, with further discussions indicated on the remaining proposals.

3.2 Key Policy Objectives
In setting out a strategy for agri-taxation policy for the future, the agri-taxation review working group identified the following policy objectives:

1. **Increase the mobility and productive use of land**, in particular to rebalance the letting market in favour of long-term leasing.

2. **Assist succession and farm transfer**, improving the age profile of Irish farming.

3. Complement wider agriculture policies and schemes, including supporting:
   - **Investment to enhance competitiveness**, including assisting new entrants and young trained farmers;
   - **Environmental sustainability**, including the improvement of farm efficiency
   - **Alternative farming models** such as farm partnerships, and
   - **Responses to increasing income volatility**.

3.3 Planned implementation
The taxation measures announced in this year’s Budget will be enacted through the Finance Bill. IFA will be consulting with Department of Finance to ensure that there are no unintended consequences for farmers contained in the detail of the new measures. IFA will consult further with the Agri-taxation working group on the potential for implementation of the other recommendations, including any amendments that may improve the effectiveness and take-up of the taxation measures.
4 Details of Recommendations

4.1 Recommendation 1 – Retain land leasing income relief
The overall recommendation in relation to long-term land leasing incentives was that they should be retained and enhanced, to try and improve the uptake of this activity, and increase the supply of land available for long-term leasing.

4.2 Recommendation 2 - Increase land leasing income thresholds by 50%
It is recommended that the income tax exempt thresholds for long-term leasing are increased by 50%. This means that the new thresholds for long-term leases are as follows:
- 5-7 year leases – up to €18,000 (from €12,000)
- 7010 years – up to €22,500 (from €15,000)
- >10 years – up to €30,000 (from €20,000)

It is important that these new thresholds apply to existing leases.

4.3 Recommendation 3 – Income exemption of €40,000 for >15 year leases
A longer lease threshold of greater than 15 years, with an income exemption of €40,000 has been introduced; to greater align the length of leases with the length of a loan for expanding, younger and new entrant farmers in particular.

4.4 Recommendation 4 - Remove 40 year age threshold for qualifying lessors
This recommendation is aimed at land owners aged under 40 who have inherited farms and do not intend to actively farm themselves. By qualifying for the leased income tax exemption they may be encouraged to put their land into a long-term lease and thereby improve the productive use of the land.

4.5 Recommendation 5 - Extend land leasing exemption to limited companies
With an increase in farming enterprises incorporating, this measure extends the option of an individual entering into a long term leasing arrangement with a farmer who has incorporated and the individual benefiting from the income tax exemption.

4.6 Recommendation 6 – Remove stamp duty on leases of > 5 years
This recommendation removes the anomaly whereby stamp duty is applicable on land leases but not on short-term conacre lettings. It should remove a disincentive to land leasing that the stamp duty presents.

4.7 Recommendation 7 – Raise awareness among land owners of land leasing reliefs
This is a general recommendation encouraging greater engagement with all stakeholders to dispel misconceptions associated with leasing and raising awareness of the taxation benefits associated with it. The report also clarifies that farmers can retain ownership of their EU Basic Payment entitlements once the long-term lease expires under the new system, from 2015 onwards.

4.8 Recommendation 8 – Retain Agricultural Relief from CAT
This is a general recommendation that Agricultural Relief should be retained, where the land is actively farmed, as it identifies that, while a farming business may be asset rich, in many cases the income from the farm could not sustain major tax charges. The report showed that the benefits of Agricultural Relief outweighed its costs to the Exchequer.
4.9 Recommendation 9 – Target Agricultural Relief to farmers/those who lease long-term
To ensure that land is actively farmed by those availing of Agricultural Relief, it is recommended that Agricultural relief is retained for active farmers or for those who lease the land out on a long-term basis.

The report recommends that the farmer is defined carefully, suggesting that the farmer will have to be ‘qualified’ (agricultural education qualifications) or a full-time farmer (spending more than 50% of their time on the farm). IFA is concerned that too restricted a definition could exclude some genuine farmers and will seek to ensure in the Finance Bill that this measure is applied appropriately.

4.10 Recommendation 10 – Retain CGT Retirement relief at current levels
This is a widely used measure in the farming that allows for inter-generational transfers. The report recommends that the benefits from the measure outweigh the costs to the Exchequer of providing the relief, and propose that it should be retained.

4.11 Recommendation 11 – Extend eligible letting period to 25 years for CGT Retirement relief
The report recommends that for disposals of farming assets to children, once the asset has been owned and farmed for 10 years, the period for which it can then be let and still qualify for Retirement Relief should be increased to 25 years, up from 15 years currently. It is stated that this would apply to allow for family situations where successors are too young to take over a farming business and to promote the productive use of land.

4.12 Recommendation 12 – CGT Retirement relief on long-term leased land for disposals outside family
For transfers to an individual other than a child, a qualifying asset for CGT Retirement Relief can included leased land, but only land let on a long-term basis, i.e. conacre does not qualify. To give those who have been using conacre a window of opportunity to dispose of land and avail of this relief, as a once-off measure until the end of 2016, land let on a conacre arrangement will be eligible.

Also, for those who switch to long-term leasing during the period to the end of 2016, their previous conacre arrangements will be disregarded for the purposes of the relief.

4.13 Recommendation 13 - Extend Stamp Duty Consanguinity Relief
It is recommended that Stamp Duty Consanguinity Relief on Non-Residential Transfers is extended but would only apply where transferees are qualified or full-time farmers.

Similar to the Agricultural Relief amendments, it is important that the conditions for qualification for this relief are not so restrictive that genuine farmers are excluded from this relief. IFA’s submission on the Finance Bill will reflect this concern.

4.14 Recommendation 14 – Retain existing stamp duty exemptions
The report recommends that Stamp Duty exemptions are retained for the following categories:
- Young Trained Farmers
- Certain Family Transfers
- Single Farm Payment Entitlements
- Commercial Woodlands (Stamp Duty Relief)
4.15 Recommendation 15 – Retain existing Capital Allowances
The report recommends the retention of existing capital allowances for farm buildings and other works, as it states that the allowances result in a higher level of investment in the sector than would be economically justified if farmers did not have any tax allowances.

4.16 Recommendation 16 – Retain current Stock Reliefs
The report recommends the retention of existing Stock reliefs, as they encourage investment in improving stock quality. The following measures are recommended for retention:

- 25% general stock relief
- 100% stock relief for Young Trained Farmers
- 50% Stock relief for Farm Partnerships
- Relief for Stock transfer due to discontinued farming trade

4.17 Recommendation 17 – Retain CGT relief on farm restructuring
The report states that achieving the targets of Food Harvest 2020 will require further consolidation of farms to increase efficiency. It is proposed that this measure will be further extended to end 2016, and that the rules are amended to include whole-farm replacements.

4.18 Recommendation 18 – Retain profits from woodlands as tax exempt
The retention of profits from woodlands as tax exempt was recommended as it was accepted that the removal of this measure would act as a major disincentive to new investment in forestry.

However, the continued liability of this income to the Higher Income Earners Restriction remains an outstanding issue (see Recommendation 23).

4.19 Recommendation 19 – Examine introduction of accelerated capital allowances for energy efficient investments to sole-traders
The feasibility of extending the accelerated capital allowances programme for investment in energy efficient equipment to sole traders (currently only available to incorporated businesses) will be investigated in advance of Budget 2016.

4.20 Recommendation 20 – Retain existing taxation measures for registered farm partnerships
The existing taxation measures for Milk Production Partnerships are to be extended to all Registered Farm Partnerships. However, the report recommends that taxation measures as they apply to partnerships should be further reviewed to ensure that the tax system does not disadvantage a person who participates in collaborative farming models.

IFA has identified the application of CGT where there is a scission of partnerships as being a real barrier to the formation of partnerships and should be addressed.

4.21 Recommendation 21 – Increase income averaging from 3 to 5 years
The report recommends that the extension of income averaging from 3 to 5 years will give more scope for income smoothing within the commodity price cycle.

While this measure may provide assistance with income volatility, it is not a sufficiently targeted measure and IFA will consult further with the working group on developing additional proposals.
4.22 Recommendation 22 - Extend income averaging where farmer/spouse has additional income from on-farm diversification

It is recommended that farmers can now elect to income average where they or their spouse are in receipt of income from an on-farm diversification trade or profession.

This proposal partially addresses the anomaly identified by IFA whereby a self-employed farmer/spouse with a PAYE source of income could elect to income average, while those with an additional self-employed income may not. However, it will still exclude a number of farmers, as their additional self-employed income may not be specifically related to farming.

4.23 Recommendation 23 – Examine extension of income averaging to clear felling income

It is recommended that income averaging would be extended to full-time farmers and foresters for their clear felling income in an attempt to address the issue whereby these profits are subject to the High Income Earners Restriction.

This recommendation was not announced for implementation in this year’s budget. If is a positive proposals, which, if implemented, could address largely the issue for farm foresters who have put their land permanently into forestry and who, after a period of up to 40 years, are generating an income from their forestry clear-fell operation.

4.24 Recommendation 24 – Examine feasibility of measures including risk deposit scheme and Phased Transfer partnership

Additional recommendations were made on a range of proposals identified by stakeholders during the consultation process. These included:

- Examining further the feasibility of introducing a tax deposit scheme - such as that which operates in France
- Examining further the feasibility of introducing a ‘Phased Transfer Partnership’. This was an IFA proposal to encourage families to work in partnership during the phased transfer of the farm assets.
- Examining the tax system to determine if there are undetermined barriers to female participation

IFA intends to engage further with the Agri-taxation working group over the coming months with a view to developing workable measures that could be implemented in future budgets.

4.25 Recommendation 25 - Improve data collection on costs/benefits of tax measures

The report recommends that the working group should examine how to improve its collection of data on both the costs and benefits of the various agri-taxation schemes.
5 Conclusions and next steps

Overall, the findings of the Agri-taxation review report were positive and contained many of the proposals identified by IFA in its submission to the agri-taxation review team. The report was supportive of the use of taxation measures to underpin the development of the agriculture sector. In line with IFA proposals, the recommendations sought to address structural challenges in farming through increasing lifetime transfer, encouraging new entrants to farming, increasing land mobility, tackling income volatility, improving farm efficiency and increasing alternative farming models.

Many of the recommendations were announced in this October’s budget and will be enacted through the Finance Bill. It is critical that the detailed measures contained in the Finance Bill are correctly structured to ensure that there are no unintended impacts for farmers, or exclusion from reliefs of genuine farmers. IFA will be developing a set of comprehensive proposals in advance of the Finance Bill to ensure the appropriate enactment of these measures.

There are a number of important measures that were proposed by IFA in its submission to the Agri-taxation review team which have not been introduced in this budget. These include the ‘Phased Transfer Partnership’ which would incentivise parents to work in partnership with their child over a period of the phased transfer of the family farm. This proposal, if enacted, would increase the number of lifetime transfers and improve the overall efficiency of family farm enterprises. Another issue that has not been adequately tackled is income volatility, which is a significant concern for many farm enterprises, operating as sole traders. While the enhancement of income averaging is positive, stronger measures are needed to assist farmers to cope with increasing price, cost and weather-related income volatility. In addition, IFA believes that targeted measures to support the investment that farmers are required to undertake as part of the expansion of the dairy industry should have been included in the recommendations of the working group.

IFA will consult further with the agri-taxation working group on these outstanding issues, with the intention of continuing to identify and develop progressive and appropriate taxation measures for the primary agriculture sector into the future.