Feirmeoirí Aontaithe na hÉireann
The Irish Farmers' Association
IFA

Developing a Taxation System to Support Investment and Growth in Agriculture

Submission by the Irish Farmers' Association to the Agri-Taxation Review

March 2014

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Summary and Overview

Introduction

The Irish Farmers' Association is the representative organisation for 90,000 farm families throughout the country and is the recognised voice of Irish farmers in Europe and internationally. The objective of IFA is to provide focused leadership to deliver improved income and living standards for all farm families. The Association promotes the ongoing development and competitiveness of Irish agriculture and the food industry, which is making an important contribution to Ireland's economic recovery.

IFA believes that this review provides an opportunity to ensure that the taxation system provides a coherent support for the achievement of the key policy goals for agriculture outlined in *Food Harvest 2020.* These include promoting on-farm investment, encouraging new entrants to farming and greater numbers of lifetime transfers, increasing land mobility, and improving the overall structure, efficiency and productive capacity of agriculture, which will result in an increase in output, employment and exports.

Summary

IFA's submission focuses on the existing main tax reliefs relevant to farming, whether they can be adapted to work more effectively, whilst also proposing a number of new measures to address particular problems in the sector.

The overview section sets out the current market and policy environment facing Irish agriculture and IFA's objectives in the taxation review. In addition, the key characteristics of and issues facing Irish agriculture are identified, which will require an integrated approach to farm taxation reform. The final piece outlines the economic gain arising from the achievement of growth at farm level, facilitated by a supportive taxation system.

Within the main body of the report, IFA's specific taxation proposals are outlined. Section 1 addresses in detail the disincentives for investment that exist in the current income tax system and makes proposals on how the system can be adjusted to support farmers to achieve the growth objectives of *Food Harvest 2020.* In addition, proposals are outlined on measures that are necessary to address growing volatility of farm incomes, including a new mechanism for income smoothing through a specialised deposit account.

Section 2 addresses the issues surrounding farm transfer, succession, and land mobility, including the age structure of farmers and the size, structure and fragmentation of family farms. IFA proposals examine why some measures are not working effectively and make specific recommendations to improve the uptake of land mobility and transfer initiatives, including an innovative proposal of a model for encouraging greater and earlier lifetime transfers through a `Phased Transfer Partnership` (PTP).

Section 3 highlights the existing measures that support farm partnerships and identifies how these should be further extended, while Section 4 makes proposals on tax issues affecting specific farm sectors.

Sections 5 and 6 outline IFA's proposals on the Pay and File dates for self-assessed tax returns and for a simplified Income Tax Return respectively.

Market and Policy Environment facing Irish 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 support restructuring, farm investment and land mobility. The introduction of new measures, such as CGT Relief for farm restructuring and Stock Relief for all farm partnerships is welcome, however more needs to be done.

At a national economic level, the agri-food industry is contributing to economic growth, and in 2013 delivered almost €10bn in food and drinks exports and significant employment growth. This growth comes in the context of a difficult economic environment in our main export markets and at a time when Ireland has experienced a general fall in manufacturing exports. The clear message emerging is that the primary productive sector is contributing to economic recovery and growing export earnings.

Despite this significant contribution of the farming sector to national economic recovery, the steady erosion witnessed in farm incomes continues to threaten both the viability and sustainability of the Irish family farm and the sector's growth prospects. In 2013 average family farm income was just €21,400 compared to €32,200 for average industrial earnings and €48,300 for average public sector earnings.

The past number of years has highlighted the major challenges farmers face in dealing with huge volatility in both weather and product prices. These extremes were particularly evident during the fodder crisis, where a combination of prolonged bad weather, major cost increases for inputs and reduced output prices in some commodities resulted in significant income and cashflow problems for thousands of farm families. While recent trends have seen a significant increase in product prices, these gains have largely been eroded by increased input costs.

Against this backdrop, 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, which is removing resources required for investment in the farm enterprise. In addition low income farmers have been negatively affected through the introduction of the USC and a reduction in personal tax credits, which is undermining the viability of their farm. Increases in the rates of capital taxes and reductions in tax-free thresholds have added to the costs of investment and asset transfer.

Key objectives for IFA in agri-taxation review

The key objectives for IFA in the independent review of taxation and upcoming National Budget 2015 are 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.

Specific Characteristics of Irish Agriculture

Family farming in Ireland has the following characteristics which need to be taken into account when reviewing the taxation system:

1. **Farming is a capital intensive industry with significant investment requirements:** An exceptionally high level of capital is required in farming (land, farm buildings, machinery, livestock and environment control facilities) to generate an income equivalent to average industrial earnings. Furthermore, a significant amount of capital upgrading or replacement is required annually.
2. **Inter-generational Transfer:** Ireland has a high level of owner-occupancy of farms, and the sustainability and viability of the sector requires that the family farm can be transferred between generations with the minimum of administrative complexities, legal costs and tax exposure.
3. **Sole Trader:** The main business structure of family farms continues to be that of sole trader, reflecting their self-employed status, relatively small scale and also the significant administrative and compliance costs associated with corporate structures. As a result, farm incomes are subject to very high tax rates, even at low profit.
4. **Structural Reform and Competitiveness:** As Irish and EU agriculture becomes progressively more exposed to international competition, the scale of individual viable family farms increases. Developments in technology, larger machinery and equipment, better disease control, etc. all facilitate increased scale and improved competitiveness.

Because many of the current agri-taxation measures have emerged over time to deal with specific issues as they arose, they do not form a coherent, effective, structure. This has limited their effectiveness in achieving policy goals and overcoming barriers at farm level. IFA is proposing tax measures which promote economic growth in line with *Food Harvest 2020* targets and which address the constraints on investment currently placed on farm families. Farmers must be incentivised to fund investment and expand production from their after tax income, given the refinancing terms and conditions available in the market place, whilst taking account of the risks associated with increased income volatility. In addition, a comprehensive suite of measures is required to support lifetime farm transfer, encourage new entrants and different models of farm partnership and increase land availability and mobility.

Achieving Food Harvest 2020 – the economic gain

The importance of the agri-food sector as a source of employment and economic activity across the entire country has become clearly evident during Ireland's economic downturn. Agriculture has a very high output multiplier, with the result that increases in output at farm level have a hugely positive knock-on effect for the overall economy. IFA's detailed analysis of the value of agriculture by county shows the thousands of jobs in the rural economy supported by agriculture, both directly and indirectly, including food processing, input suppliers, agricultural contractors, jobs in auctioneering, transport, construction and engineering and in accountancy, legal, veterinary and other agri-advisory services[1].

The tax system must support the clear policy objectives set out in the medium term Agri-Food development strategy for the period to 2020, *Food Harvest 2020,* which targets expanded farm production and which will require significant on-farm investment. *Food Harvest 2020* outlines how the agri-sector can make the maximum contribution to our export-led economic recovery and includes ambitious growth targets, including an increase in primary output of €1.5bn, an increase in value added of €3bn, and export growth to €12bn by 2020.

In the dairy sector IFA estimates that the achievement of the 50% *Food Harvest* expansion targets has the potential to create a total of 9,426 jobs, both direct and indirectly, and a 53.9%, or €1.3b increase in export revenue. The increased employment will be on-farm, in primary and secondary dairy processing, marketing and research and development, in ancillary service jobs, and in the short-run, additional construction jobs[2].

In the cattle and sheep sectors, a 2013 UCD study by Professor Alan Renwick, identified both the economic reach of these two sectors across all parts of Ireland and the economic gain that would result from increased output if *Food Harvest 2020* targets were reached. The €2.3b output in 2012 from beef and sheep production contributed over €3.2b to national income (GDP), while achievement of the *Food Harvest 2020* targets for these sectors could lead to an increase of €1.6b in output for the Irish economy[3].

The pigmeat, poultry, horticulture and aquaculture sectors are highly labour intensive, with the result that increases in output result in significant increases in employment, at both primary production and processing level and in the case of aquaculture much needed employment in peripheral areas. An increase in output across the different farming sectors will result in a sustained increase in demand for domestically grown feedstuffs.

From a revenue perspective, the achievement of *Food Harvest 2020* targets will result in a significantly increased tax take from the additional economic activity generated at farm, processing and industry services level. Increased tax revenue will also accrue due to additional employment in primary agriculture and the wider agri-food and related services sector. Overall, taxation measures that encourage on-farm investment, assist farmers in managing volatility, encourage new entrants and increase land mobility will provide major benefits for the overall economy, through increased output and earnings, employment and export growth.

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[1] Available at http://www.ifa.ie/CrossSectors/Economics/ValueofAgriculture.aspx

[2] IFA estimate broken down in greater detail IFA Proposal for a Loan Scheme to invest in the Development of the Irish Dairy Industry

[3] Further details provided in; Renwick, A. (2013) *The Importance of the Cattle and Sheep Sectors to the Irish Economy,* UCD.

1. Income Tax

Income Taxation Structure – Impeding Investment

The burden of taxation on farm families has, in common with other sectors, increased significantly in recent years. With the majority of farm enterprises operating as sole traders, farm incomes are subject to very high tax rates, even at low profit levels [4]. This is starving farm enterprises of working and development capital and impeding investment. The high personal tax rates are impacting on farmers' ability to expand production or improve efficiency through investment. These tax rates are outlined in the table below.

Table 1.1: Tax rates applying to a farmer with single rate bands[5]

Profit Levels	Rate of Tax
Between €10,036 and €16,016	28%
Between €16,016 and €32,800	31%
Between €32,800 and €100,000	52%
Over €100,000	55%

Integrated approach to Farm Taxation Reform

IFA believes strongly that an integrated approach is necessary to deal with the shortcomings of the income tax system. To be effective, new or adapted tax measures must be coherent and take account of the range of issues influencing growth and development in agricultural production, including;

- Increased income volatility due to a greater exposure to world commodity markets and weather extremes;
- Income tax system where farmers at even moderate profit levels become exposed to high tax rates, leaving little for investment after living expenses have been deducted;
- A tightening of lending conditions and increased cost of finance; and
- A clear national policy to expand output and the value of production at farm level, in line with Food Harvest 2020 Targets.

[4] Combined Income Tax, PRSI and Universal Social Charge

[5] For married farmers these figures may be doubled, i.e. between €32,032 and €65,600 the tax rate is 31% and 52% in excess of €65,600. If the farmer's spouse is working then he/she will be utilising their tax free credits and rate bands, meaning that the farming profits would now be taxed at a single person's rate i.e. tax at 52% on profits in excess of €32,800.

Against this background, IFA is making a number of proposals which will address key policy goals and allow farmers to grow their business towards 2020. In the following sections, IFA proposals on Capital Allowances, Stock Relief, and new measures to deal with increased income volatility and the need for on-farm investment, are presented in greater detail.

1.1 Capital Allowances – Increased rate for farm investment

The achievement of *Food Harvest 2020* growth targets will require significant investment by farmers in all sectors by 2020. In the dairy industry for example, IFA estimates that €1bn will be required for non-livestock capital investment in order to deliver a 50% increase in output, this investment will be required to comply with environmental and animal welfare standards and for the modernisation of farm equipment and structures. A special capital allowance regime is required which recognises the major burden this investment outlay will place on farm income at the time of the investment, and reflects the repayment terms for some investments. The requirement for cashflow will be at its greatest in the initial years of investment.

In parallel with the existing Capital Allowances system for farm buildings, IFA proposes the introduction of an optional system of increased Capital Allowances. This would provide Capital Allowances of up to 50% over the first two years (i.e. up to 25% per annum subject to claiming a minimum of 15% in any one year). The balance of 50% would be spread over the remaining 5 year writing-down period at the rate of 10% which could be supplemented by "unused" percentages from the first two years (similar to the discontinued accelerated allowance scheme for pollution control; section 659 of the Taxes Consolidation Act).

In addition IFA proposes that Capital Allowances be made available for the establishment costs of bioenergy crops.

1.2 Stock Relief

1.2.1 Increased Stock Relief

Stock Relief provides an important incentive for investment by farmers who are building up their stocks and will be key to achieving output targets set out under Food Harvest 2020. For the dairy industry IFA has estimated that cow numbers will increase by around 380,000 cows to deliver the additional milk output required. In addition, at individual farmer level, there will be a requirement to grow the breeding herd for suckler beef and the national sheep flock.

To enable the industry to achieve increased output targets for Food Harvest 2020, IFA proposes that the 100% Young Trained Farmers' Stock Relief is made available to all farmers, for a period of 4 years, up to 2020.

1.2.2 Stock Relief for Young Trained Farmers

Under the conditions of the current Young Trained Farmers Stock Relief, relief is restricted to 4 years, commencing from the 1st day of farming. In many cases the relief cannot be utilised in the first year as other expenditure may be required (e.g. infrastructure, sheds, pollution control, etc.)

IFA proposes that the qualifying period for Young Trained Farmers be extended to the first 6 years of trading.

1.2.3 Interaction of Stock Relief and unused Capital Allowances

Currently if a farmer claims stock relief then unused capital allowances or losses cannot be carried forward. The increase in farm level investment required to meet Food Harvest 2020 targets will come through a combination of increased stock numbers and investment in facilities. A relaxation of this measure is required which would allow both the claiming of stock relief and the carry forward of Capital Allowances and losses so as to facilitate cashflow within the business in what will be a significant period of investment for many farms.

IFA propose that farmers claiming stock relief should be also able to carry forward unused capital allowances and losses.

1.2.4 Compulsory Disposal Stock Relief / Compulsory Disposal Averaging

Compulsory Disposal Stock Relief and Averaging are important reliefs for farmers struck down by disease outbreaks on their farm, allowing them to reinvest in their businesses and not face a significant taxation cost that could arise from the compulsory disposal.

To continue to support farmers to meet high animal health and welfare standards, as part of the overall growth objectives of Food Harvest 2020, IFA proposes that Compulsory disposal Stock Relief and Averaging are retained.

1.3 Mechanisms to address income volatility

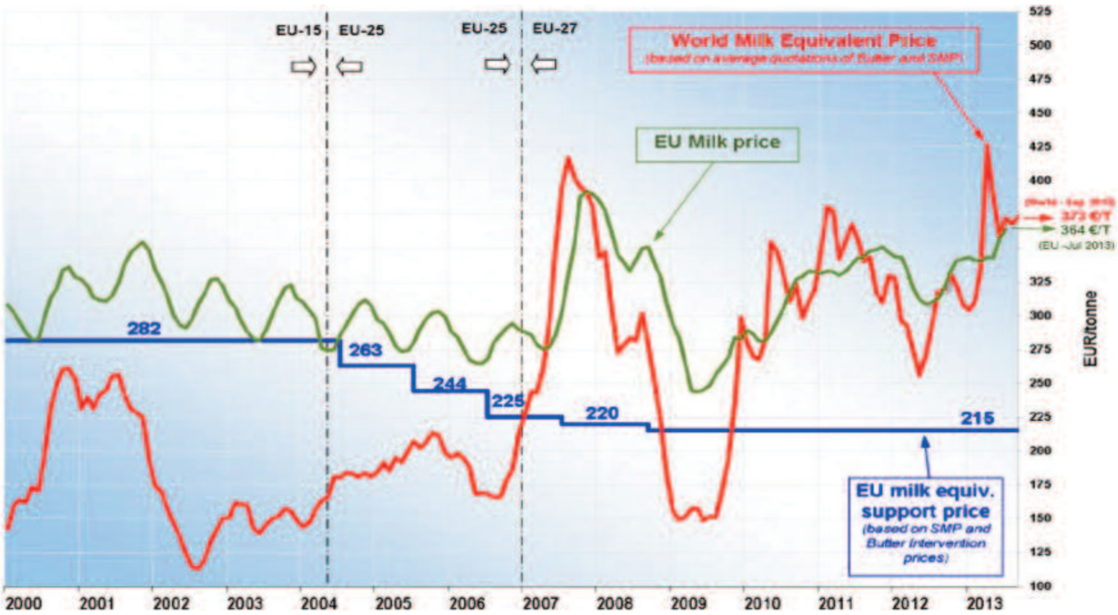
Income Volatility is an inherent feature of agricultural production. In the past IFA negotiated the introduction of an Income Averaging system which gives the farmer the option to average their income over a 3 year rolling period for tax purposes.

However, with the progressive withdrawal of market support measures as part of the CAP reform process, EU and Irish agriculture is becoming increasingly exposed to price fluctuations on world commodity markets. With the abolition of milk quotas in 2015 price volatility which has characterised both dairy (figure 1) tillage markets in recent years is set to increase further.

Furthermore Irish agricultural systems, including our predominantly pasture based livestock systems, are inextricably linked to increased weather volatility. This was exemplified by the fodder crisis during the winter and spring of 2012 - 2013 and which resulted in significant losses to Irish agriculture.

With high tax rates applying at moderate income levels and against the backdrop of increasing weather and commodity price volatility, there is growing interest in the potential of applying supplementary taxation structures which would provide integrated, effective tools to smooth the peaks and troughs of farm income over time. IFA proposals to address this volatility are presented below.

Figure 1.1: Increasing Volatility in EU Milk Price



EU Commission (2013)

1.3.1 Income Averaging

With increasing weather and commodity price volatility, Income Averaging is an important mechanism that allows farmers to manage their farm enterprise efficiently, and cope more effectively with changes in product prices and input costs.

The table below shows that when profits are rising there is an immediate benefit from income averaging. However, when profits are falling, there is a claw-back of taxable profits from the previous year in which the tax was saved (see following example where in Year 4 the profits were €48,000 while the farmer was assessed to tax on €60,000).

Table 1.2: Income Averaging worked example

Year	*Profit*
Year 1	€48,000
Year 2	€60,000
Year 3	€72,000
Total Profit for 3 years:	€180,000
Average Profit for 3 years	**€60,000**
This results in Year 3 taxable profit of €72,000 being reduced to €60,000.	
Consider the position if profits fall back to €48,000 in Year 4.	
Year	*Profit*
Year 2	€60,000
Year 3	€72,000
Year 4	€48,000
Total Profits for 3 years: €180,000	
Average Profit for 3 years	**€60,000**
The taxable profit for year 4 of €48,000 has been increased to a taxable profit of €60,000	

The farmer has the choice to opt out of income averaging, however, the Tax Inspector has the right to revise Years 2 and 3 to actual profit levels rather than the originally averaged profit if it will yield extra tax to the Revenue Commissioners.

If a farmer stays on Income Averaging over a prolonged period of time, he will not pay tax on more profits than he has earned, as Income Averaging was introduced for the purpose of levelling out fluctuating incomes. The dilemma faced in the worked example is where the farmer has to find cash in Year 4 to pay the additional tax i.e. in a year in which there is scarcity of income.

Many accountants, as a matter of policy, shy away from Income Averaging because they must continuously remind farmers of the impact of falling profits in Income Averaging. In a year in which profits have dropped there will be the negative feedback from an unprepared farmer being asked by their accountant to pay additional tax.

Income Averaging is a worthwhile mechanism which many farmers utilise effectively for income smoothing and should be retained. However, taking account of the deficiencies of Income Averaging, and, with the expectation of increased income volatility, there is a need to establish supplementary taxation structures which would provide integrated, effective tools to smooth the peaks and troughs of farm income over time. Income-smoothing systems for the farm sector, which utilize the taxation structure are already in operation in many OECD countries[6].

[6] Various income smoothing tax tools as operated in OECD countries are summarised in Appendix 7.3.

1.3.2 IFA Proposal to deal with volatility, risk and facilitate investment

With high tax rates applying at moderate incomes and against the market backdrop of increasing income volatility, (due to the progressive withdrawal of EU market supports and increased exposure to world market prices for commodities), there is a growing need for income smoothing tools which address the cash flow pressures being faced by farmers.

To support farm enterprises in managing volatility, while allowing farmers invest for expansion in their businesses, IFA is proposing a supplementary income-smoothing mechanism that would operate within the income tax system. This system would allow a farmer place on deposit a portion of their pre-tax income, in a designated commercial farming account. This could then be drawn down by the farmer and used for the running of his business when required (generally in a lower profit year) and would be taxable in the year it was drawn down. The mechanism would also include a banking off-set facility for the calculation of bank interest payable and the potential to set-up a Farm Development Fund [7].

1.3.3 Extension of Income Averaging to self-employed spouses

Income Averaging is prohibited where the farmer or spouse has an additional self-employed source of income either by themselves or in partnership with others. This includes cases where either the farmer or their spouse is a director, employee or office holder of a trading company and own or can exercise control over more than 25% of the ordinary share capital of a company. In addition, if a farmer is carrying on farm contracting work, for example, they are disallowed from availing of Income Averaging.

IFA proposes that, where a farmer or their spouse has an additional self-employed source of income, Income Averaging should be allowed on his farm profits.

1.4 Equity in the Income Tax System - PAYE Tax Credit

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. This is despite the fact that the self-employed pay tax on a current year basis which removes the original justification for the different treatment of self-employed and PAYE workers.

Government must remove the anomalies in the income tax system that discriminate against the self-employed and discourage entrepreneurial endeavour. IFA proposes the introduction of an Earned Income Tax Credit similar to the PAYE tax credit for self-employed taxpayers. This would not apply to taxpayers dependent on unearned income.

[7] IFA proposals for a tax mechanism to deal with volatility, risk and facilitate investment is developed in greater detail in Appendix 7.2

2. Farm Transfer, Succession and Land Mobility

While the agri-sector is currently working towards achieving the target of €12 billion worth of exports set out in *Food Harvest 2020*, significant challenges lie ahead. In particular, structural issues such as farm size and fragmentation, coupled with low land mobility and an ageing demographic profile negatively impact on the competitiveness and efficiency of primary production. There are a number of important structural deficits that are impacting on competitiveness:

- Small farm size – 42% of farms are less than 20ha.
- Farm fragmentation – 47% of all farms are fragmented into three or more parcels.
- Ageing profile – 51% of farmers are 55 years of age or older with 25% over 65 years of age.
- Young farmers - The number of owners less than 35 years of age has halved since 2000.
- Formal education – over 40% of farmers have only received primary education.

Government policy must support and encourage the continued expansion of the farming sector, enabling them to invest and build productive capacity.

2.1 Capital Acquisitions Tax (CAT)

The taxation code plays an important role in supporting Farm Transfer, Land Mobility and investment. However, since 2008, the rates of CAT and Capital Gains Tax have increased by over 60% (from 20% to 33%), while the CAT 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. At current value this equates to a 62 ha dairy farm with capital infrastructure, stock, buildings, equipment, and environmental facilities[8].

2.1.1 CAT - Retention of thresholds

Reductions in the CAT thresholds over the past number of years has been justified by Government on the basis that asset values were falling. However, farm assets values have stabilised over the past number of years, with the result that the real value of tax exempt thresholds is being eroded. A corresponding reduction in the value of farm assets that can be transferred tax free has the potential to undermine the transfer of viable family farms.

[8] This is based on a number of assumptions; average land price €10,500/acre, stocking rate of 2.47 cows/ha at DAFM livestock compensation values of €1,800/cow and Teagasc estimated net capital cost per cow of €2,350 capital (low cost green field).

IFA proposes that the CAT tax-free thresholds must, at a minimum, be maintained and should be adjusted to take account of inflation through index-linking.

In addition, over time, account should be taken of the need to increase these exemption thresholds, as the minimum scale for viability of farms increases.

2.1.2 CAT – Agricultural Relief

Agricultural Relief operates by reducing the market value of 'agricultural property' by 90%, (similar to Business Relief for business properties) for the purpose of calculating Capital Acquisitions Tax. The objective of this measure is to facilitate the intergenerational transfer of farms and to prevent the breakup of family farms or selling of assets in order to pay a tax liability upon farm transfer. The scale of farm required to achieve an income level in line with average industrial earnings is increasing over time.

Any reduction in Agriculture Relief would significantly reduce the value of farm and small-business assets that could be transferred, and many moderate-sized commercial farms would face a CAT liability. Many of these farms are operating on low incomes and do not have the capacity to absorb a significantly increased tax liability. Any reduction in Agriculture Relief would therefore result in the breakup of some family farms and/or the selling of assets to pay tax. This would ultimately undermine farm restructuring, accession, and the viability of farm businesses, all of which would run contrary to the policy goals of Food Harvest 2020.

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 for 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.

2.2 Phased Transfer Partnership (PTP) – A Progression Model of Farm Transfer

Increasing the number of lifetime transfers of family farms requires a number of barriers and concerns on the part of the farm owners to be overcome. One issue for farm families that may be delaying the lifetime transfer of farms is the requirement for both parties to derive an income stream from the farm. In addition, where both parent and child are of working age, the full transfer of the family farm may be considered too abrupt a change. IFA believes a Phased Transfer Partnership (PTP) mechanism should be developed, which would encourage the lifetime transfer of family farms, while allowing both parties to work together for a defined time period.

IFA proposes Phased Transfer Partnership (PTP). This is a progression model in which there would a defined, phased transfer of the family farm over a set time period. This would require an agreed transfer contract where both parent and child (favoured niece/nephew) would work together in partnership over the period of the phased and progressive transfer of assets. The maximum length of contract would be 10 years. As an incentive to the farm holder/parents to enter into the contract they would receive tax relief on a portion of their farm income, up to an agreed ceiling[9].

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[9] IFA proposals for a progression model to promote timely succession are developed in Appendix 7.4.

2.3 Land Leasing Income Tax Exemption Scheme

A major constraint to the development of a viable, competitive farm structure in Ireland is the rigidity of the owner-occupier system which dominates land tenure in this country. In contrast, in many other EU countries, medium-term and long-term leasing of land plays a major role in commercial agriculture. In Ireland, farmers wishing to expand their holding or young qualified farmers wishing to establish a business are over-dependent on either the short-term insecure rental system or the very limited land purchase market, both of which are expensive.

2.3.1 Improving uptake - Increasing awareness

A major encouragement for transferring land use from less productive to more productive farmers / land mobility is the Land Leasing Income Tax Exemption scheme. Under this scheme, landowners who lease out their land for a period of 5 years or more qualify for an income tax exemption. The scheme seeks to transfer the use of the land to farmers for a defined period, consistent with good farm management.

The 2014 Budget amended the conditions of CGT Retirement Relief whereby land that been let for a minimum of 5 years and subsequently transferred to persons other than a son/daughter, or sold, qualifies for the relief.

The level of uptake of the Land Leasing scheme is clearly dependent on the response of the potential lessors. As it is based on income tax relief, it is only relevant to land owners who are in the income tax net. In addition the attraction of the short term (conacre) system has remained high. Nonetheless, IFA believes that the scheme has further potential but needs greater promotion, to overcome the passive or negative attitude to the scheme by auctioneers and other professionals dealing with farmers and an historic fear of land leasing by some land owners.

IFA proposes that the Land Leasing Income Tax Exemption Scheme should be continued.

In addition, IFA proposes that the Department of Agriculture, together with IFA, operates an information campaign for land owners and for professionals providing a service to land owners on the details of the scheme.

2.3.2 Improving uptake - Extension to incorporated farm businesses

Under the terms of the existing scheme, the tax exemption for long term leases is only available where the lessee is a person (individual). This definition currently excludes farm businesses that have incorporated. With high tax rates at moderate income levels, the option of incorporating is currently being pursued by a number of farmers.

IFA proposes that, to remove an impediment to land mobility, the land leasing tax exemption scheme should be extended to include a company that is operating for the purpose of farming as a qualifying lessee.

2.3.3 Improving uptake - Removal of age limit for qualifying lessors

Under the current conditions of the scheme, a qualifying lessor must be over the age of 40 years. There is no rationale for excluding younger land owners including those who may have off-farm employment and are not in a position to put some or all of their land into productive use.

IFA proposes that the 40 year age limit for qualifying lessors be removed to increase the availability of land under the scheme.

2.4 Capital Gains Tax

Farming is a capital intensive but low income sector. Capital Gains Tax (CGT) Retirement Relief allows qualifying farmers aged over 55 to dispose of their farm to family members, or to sell land up to a certain value, without becoming liable for CGT. As CGT is not payable upon inheritance, these reliefs are important to encourage lifetime transfer of family farms to the next generation and to improve land mobility through sale or disposal to non-related parties.

IFA proposes that the CGT Retirement Relief is an important measure to facilitate lifetime farm transfers and farm sales, and must be retained.

2.4.1 CGT Retirement Relief – disposal other than to one's children

From the 1st of January 2014, for disposals other than to one's children (including favoured niece/nephew), the lifetime threshold for CGT Retirement Relief has been reduced from €750,000 to €500,000 on disposals by farmers aged 66 and older. The stated purpose of this restrictions was to encourage farmers to commence transfer of some part of their holding before the age of 66.

In the case of disposals other than to one's child, the reduction in the lifetime aggregate threshold to €500,000, once the disponer reaches the age of 66, has effectively removed the incentive for the individual to dispose of assets before reaching the age 66. Even if they make a substantial transfer before the age of 66, e.g. of €250,000, once they reach the age of 66 the balance they can transfer is now €250,000 (based on a €500,000 lifetime threshold). This is the same threshold that is available to a farmer who makes no transfer before reaching the age of 66.

IFA proposes that, where a farmer disposes of some of their assets before the age of 66, the full €500,000 lifetime tax-exempt threshold should remain available to them after the age of 66, provided that the total value of disposals since the farmer's 55 birthday does not exceed €750,000. For example, where an individual disposes of €250,000 before 66, the lifetime ceiling should be €750,000. In the case of an individual who disposes of €100,000 before 66, the lifetime ceiling would be €600,000.

2.4.2 Relief from Capital Gains Tax for farm restructuring

IFA welcomed the announcement in Budget 2013 of relief from Capital Gains Tax for farm restructuring. However, the conditions under which the relief operates are too restrictive. A number of legitimate transactions are currently ineligible to avail of the relief, including 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.

IFA proposes that the CGT Relief for farm restructuring is extended beyond 31st December 2015.

In addition, to ensure the initiative succeeds further 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.
– The sale of a land parcel and reinvestment of the sale proceeds into farm capital infrastructure.

2.4.3 Re-introduction of indexation

The CGT rate was reduced from 40% to 20% in 1997 with the quid pro quo of the removal of inflation Indexation Relief and Roll-Over Relief. Since 2008, the rate of CGT has increased by over 60% (from 20% to 33%), based on falling asset values. Over the past two years, the value of agricultural land has begun to stabilise.

In the context of increased CGT rates, and rising farm and other asset values, IFA proposes that indexation should be reintroduced.

2.4.4 Site to Child Relief

An exemption from CGT applies to the transfer of a site from a parent to a child for the purpose of enabling the child to construct a principal private residence on the site.

IFA proposes that the relief should be retained as it is an important tool to allow the retiring farmer provide for non-farming children without placing an additional burden on the new enterprise.

2.4.5 Windfall Tax

A windfall gains tax of 80% is currently charged in respect of a disposal of development land, where the land has been rezoned since October 2009.

IFA considers the 80% windfall tax is artificially distorting the development of the land market, and proposes that it be removed.

2.5 Stamp Duty

2.5.1 Stamp Duty Relief for Young Trained Farmers

Relief from stamp duty applies to transfers of land and farm buildings, by gift or sale, to young trained farmers. Stamp duty applies to farm transfers within a lifetime and not on inheritance. Stamp Duty Relief is therefore 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.

IFA propose that Stamp Duty Relief for Young Trained Farmers must be retained, as it is an important instrument to ensure timely succession, land transfer and productive use of agricultural assets. This is very relevant today in the context of increasing demand for agriculture as a career and an increase in the number of young trained farmers.

2.5.2 Stamp Duty Consanguinity Relief

Consanguinity Relief is a relief which halves the normal stamp duty rate on the transfer of non-residential property between certain relatives. The relief is scheduled to cease to apply to non-residential property after 31 December 2014. In the case of family farm transfers, e.g. parent, brother, sister, uncle, aunt, nephew, niece etc. the rate of stamp duty is half the rate that would otherwise ordinarily apply (1% instead of 2%).

To encourage the transfer of family farms to the next generation, IFA believes that Consanguinity Relief for non-residential property should be retained on all qualifying transfers after the 31st December 2014.

3. Tax Relief Measures for Partnerships

3.1 Retention of existing reliefs for farm partnerships

The removal of barriers and the provision of incentives/reliefs for farm partnerships is very important to ensure that the benefits of farming in partnership, including increased efficiency and output, can be realised.

IFA proposes that the following reliefs should be retained and extended to all registered farm partnerships:

- *CGT Retirement Relief for Milk Production Partnerships*
- *Enhanced Stock Relief for Registered Farm Partnerships.*
- *Special Income Averaging provisions for Milk Production Partnerships.*

3.2 CGT Relief on Farm Partnership Dissolution

Prior to 2008, owners of land held in joint tenancy were potentially liable for CGT arising from the dissolution of a partnership. This disincentive to enter partnerships was removed in Finance Act 2013, whereby relief from CGT was given to individuals where there was a break up of a partnership. However this provision did not help to alleviate transfer barriers where joint tenancies existed and land was not farmed in partnership.

IFA believes that, in order to continue to encourage farmers to enter into farm partnerships, as per Government policy, the Joint Tenancy Ownership Relief from Capital Gain Tax that was available until December 2013 where there was the dissolution of a farm partnership should be reinstated and the definition of partnerships and entities qualifying should be extended. IFA proposes that this relief be restored to individual partners that continue to farm for a minimum of 5 years post the breakup and the definition of entities qualifying should be extended.

4. Sector specific tax proposals

4.1 Compulsory purchase of supply licenses (co-op shares)

Dairy sector expansion plans under *Food Harvest 2020* and the end of the milk quota regime from 2015 are creating the need to establish "supply licences" to provide transparency on milk volumes and assist with investment planning at farm, processing and marketing levels. Supply licences and or other forms of compulsory financial contributions will also be used to fairly distribute the cost of partially funding industry investment to deal with the additional milk.

The Irish dairy industry is owned by farmers through a co-operative structure. Co-op shares, which have been nominally valued at IR£1 (€1.27) or €1 and are not generally traded, will for many co-ops form the basis of new supply licenses. Some co-ops intend to require dairy farmers to hold a minimum level of shareholding or to make a compulsory financial contribution as a pre-condition to supply milk, as is the case in most dairy co-operatives internationally.

Dairy farmers will have to purchase additional co-op shares or pay a financial contribution to either cover their existing supplies (shares having over the decades become separated from production, most often as a result of family settlements) or to cover new, increased supplies.

In light of the significant cost of on-farm expansion, IFA is keen to explore all avenues to alleviate non-productive costs of expansion and free up farmer resources for on-farm, productive, investment.

IFA proposes that the compulsory purchase of co-operative shares as a proxy for supply licenses, or other forms of compulsory financial contribution fulfilling the same role, be treated by the tax code as a qualifying capital expenditure. Farmers should be allowed write off this expenditure over a 7-year period, similar to the treatment of milk quota purchases since 2000. IFA proposes this would only apply to new purchases of mandatory share purchases/licenses/financial contributions.

A similar approach could be adopted for the tax treatment of other supply licenses/obligatory contributions in other sectors in the future, such as the development a new sugar beet and bioethanol industry for Ireland.

4.2 Tax-relieved loan scheme for investment in the dairy industry

Following the abolition of milk quotas in 2015, and in response to fast growing international market demand, the Irish dairy industry has a real opportunity to expand at farm and industry level, and to grow output and exports. This increased activity will generate additional export revenue and jobs.

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, with an additional €500m annual working capital requirement for the processing sector.

IFA, in conjunction with the dairy industry, proposes a tax-relieved loan scheme open to farmers and non-farmers who wish to invest in the development of the Irish dairy industry. Such a funding mechanism would prove a key component of securing finance for the processing sector from national and international banks for the required expansion of the dairy industry.[10]

4.3 High Income Earner Restriction for farm forestry

Forestry is a unique investment where the majority of the revenue stream is realised at the end of the growing cycle (typically after 40 years of input). The "High Income Earner Restriction" (introduced to tackle tax avoidance measures of high income earners in the 2007 Finance Act) has resulted in a limit on the tax relief available on forestry income. This has become an issue for forest owners that are in the process of thinning or clearfelling their forest plantations and an immediate one for those hit by windblow in recent storms.

Ambitious production targets have been forecast for the private forestry sector. However, the impact of this restriction will undermine the achievement of these production targets 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 High Earners Threshold. This will have major implications for the sawmilling and emerging wood energy sectors and runs the risk of disincentivising afforestation.

Furthermore there is an immediate need to address this issue for those farms affected by the windblow of an estimated 5,000 to 7,000 hectares of forestry during the 2013 winter storms[11]. Private farm forest owners affected by windblow are now trying to maximise the salvage value of their plantations so as to minimise their losses. Many of these windblown forests will have considerable timber value. Crisis management on these farms will result in some farmers becoming exposed to significant income tax liabilities on the forced disposal of windblow material as a result of the "High Income Earner Restriction".

Forestry felling income, which comes as a once-off payment at the end of a long-term growing cycle, should not be treated 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).

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[10] Details of this proposal are contained in the *'Proposal for a loan scheme to invest in the development of the Irish Dairy Industry'* IFA 2012

[11] Department of Agriculture Food and the Marine "Windblow Taskforce" estimates.

5. Maintenance of Pay and File Dates for Self-Assessment

With future budgets scheduled for the earlier date of mid-October, IFA is clear that the retention of the existing 'pay and file' date of October 31st for self-employed Income Tax is critical for the farming sector.

It is IFA's view that none of the 3 proposals as outlined by the Department of Finance in their consultation on the 'Pay and File' date are workable for farmers and that the status quo should remain.

IFA believes that the current 'pay and file' date for tax returns must not be moved forward and there must be no mandating of farmers' Single Farm Payment. Extremes in income and weather volatility in the recent past have highlighting the importance of the SFP for cashflow, paying bills and ultimately meeting tax obligations. Farmers have a proven track record as tax compliant citizens and credit worthy customers which should not be threatened by changes in the 'pay and file' date[12].

[12] See Appendix 7.5 for IFA's full submission on the Pay & File Date, November 2013

6. Simplification of Taxation System for SMEs

The present system of calculating farm profit for income tax purposes has been developed over the years, since farmers first became liable to income tax in 1974. Income tax is levied on farm profit which includes:

a. On the receipts side, all incoming revenue to the farm, which mainly consists of (i) sales of farm products and (ii) direct payments.

b. On the expenses side, all input costs and expenses that are incurred wholly and exclusively in carrying out the farming trade. Normal reliefs relevant to the calculation of taxable farm profits include:
   i. current production costs, for example, feed, fertilizer and energy;
   ii. Capital Allowances;
   iii. the farm share of certain expenses shared by the farm household and farm business, i.e. car running costs, energy and telecommunications; and
   iv. relief specific to the nature of farming including Income Averaging, stock relief and valuation of livestock.

Prior to its removal in 2002, the Farm Profile was a simplified return of income designed for farmers to enable them to make returns without the need to produce full farm accounts, thus ensuring a lower compliance cost to the farmer.

The introduction of form "11S" provides a simplified method of tax return for self-assessed individuals. However it is not generally available to farmers and other self-employed as the Revenue select individuals who may submit the form. This restricted availability means the majority of farmers must fill out forms "11" or "11E", which results in high compliance costs.

IFA proposes a simplified system of farm income assessment for farmers with low turnover. IFA believes that all farmers should have the choice of submitting full farm accounts for tax purposes. However, the requirement to have farm accounts and related tax returns prepared professionally is a substantial cost burden on farms, particularly smaller enterprises.

IFA proposes that form 11s should be adjusted to incorporate more information on the farmer's trade. Farmers with a non-complex farming system could then elect to file this form in full compliance of their income tax obligations.

7. Appendices

7.1 Income Volatility in Irish Agriculture

With high progressive tax rates and against the market backdrop of increasing income volatility (due to the progressive withdrawal of EU market supports since the 2003 CAP reform) there is a growing need for income smoothing tools which address the cash flow issue for farmers.

In the past IFA negotiated the introduction of an Income Averaging system which gives the farmer the option of adding his farming profits for three years together and dividing by 3 in order to arrive at an average income for tax purposes. The issue with this system as highlighted earlier is that in poor financial years such as that experience in 2009, the farmer has to find cash to pay the additional tax i.e. in a year in which there is scarcity of income.

As a result of the deficiencies of Income Averaging and with the expectation of increased volatility post quota there is a growing need to provide supplementary taxation structures such as the Australian Farm Management Deposit scheme (FMDs) or New Zealand Income Equalisation Scheme which are targeted at smoothing income over time to address the issue of income volatility.

It is generally accepted that deposit transfer systems such as those operating in Australia and NewZealand suit established farms better as it is easier for them to put money aside. To be in a position to put money into a Government account, the farm business has to be profitable and have cash to deposit. For this reason, these schemes tend to suit large farms, where, after drawings for living expenses there is still income to be deposited. For the same reasons by taking cash out of the operating system (albeit temporarily) it tends not to achieve the important goal from the Irish perspective of facilitating expansion and investment in the context of *Food Harvest 2020*.

7.2 Tax Mechanism to cope with Income Volatility & Risk – IFA Proposals

There are a number of schemes worldwide which allow a tax payer to receive a tax deduction for amounts withdrawn from the business bank account and placed on deposit in a designated Government deposit account (see Appendix 7.3) The money can be withdrawn (after the expiry of 12 months) and lodged back into the business bank account. The amount transferred back is now regarded as taxable income in the year in which it is received back in the business bank account. This facilitates a taxpayer to save tax in a year in which profits are above average and feed the cash back in as taxable income in the less profitable years. In most countries there is a five year cut off limit beyond which income placed on deposit in year 1 is automatically clawed back as taxable income. This occurs only if it has not already been used to supplement low incomes in years 2, 3, 4 or 5. A drawback of these schemes is that profits placed on deposit are lost to the farm business and would not be available to meet the development and capital requirements of Irish Agriculture.

IFA proposes a deposit system that allows a tax deduction for profits withdrawn and deposited into a business personalised Tax Deposit Account (TDA) in the name of the individual sole trader/partners. The balance on this account would be allowable for offset against the farm business borrowings i.e. overdrawn current accounts and loan accounts. The transfer to the TDA would have to be an allowable deduction for USC and PRSI purposes.

Would this be too difficult to administer?

No. Each individual TDA would have a designated bank and Revenue Commissioners account reference number. An individual farmer when filing his tax return would indicate;

a. The account reference number of his individual TDA, and,
b. The balance held in the account.

The banks would make an annual return to the Revenue Commissioners of the names, tax reference numbers, account reference numbers and balances on all the designated TDAs. These could be matched up by the Revenue Commissioners computer programme enabling it to compare the bank figures with those filed by individual tax payers.

Worked Example

John farmer has a single person's tax bands and credits. His earnings, in any year, are between €32,800 and €100,000 and are taxable at 52%.

Year 1: Profit €62,800. He decides to transfer €30,000 to a TDA reducing his taxable income by €30,000. The balance on his TDA is €30,000. When calculating bank interest or borrowings the €30,000 in the TDA would reduce the borrowings for the purpose of calculating bank interest.

Year 2: Profit €62,800. He transfers another €30,000 to the TDA with a reduction in taxable income of €30,000. The balance on the TDA is now €60,000 and is available to reduce borrowings for the bank interest calculation.

Year 3: Profit €10,000. He withdraws €22,800 from the TDA to bring taxable income back to €32,800.

The balance in the TDA at the end of year 3;

- Year 1 € 30,000
- Year 2 €30,000
- Year 3 (€22,800)

Balance 37,200 available for offset for bank interest calculation

If there is a 5 year cut off for using the TDA money, then €22,800 of the €30,000 of year 1 money has been used up by the year 3 transfer. If no other transfers occurred in or out of the TDA the Year1 balance of €7,200 would be added to taxable income in year 6.

Year 4: Profit €42,800. He transfers €10,000 to the TDA reducing taxable income by €10,000. The balance on the TDA now is €47,200 and is allowable for offset for bank interest calculations.

Year 5: Profit €32,800. No transfer. The Balances, etc are as at the end of year 4.

The above proposal is based on the assumption that TDA transfers back into the business account would be taxed at the prevailing tax rates in the year in which the transfer back into the farm business account occurs. The Government would also introduce a binding charter for how these accounts are to be operated, including a provision that would allow for an increase in working capital facilities based on the balance in the TDA.

Government Farm Development Fund

For those farmers not borrowed, with excess working capital and availing of the TDA scheme, their funds would be invested in a "Government Farm Development Fund" administered by the NTMA. This scheme would provide banks with the resources to fund specific types of farming development and categories of farmers.

7.3 Tax Mechanisms to cope with Income Volatility & Risk – International Examples[13]

Income Averaging Systems

UK and Ireland: Individual farmers in Ireland have the option of being taxed on the basis of averaging farming losses or profits over three years, as long as neither farmer or spouse have another trade or employment. A similar option is offered to individual farmers in the United Kingdom, but with a two year averaging period. This is not specific to farmers (writers also benefit) but they are the main users. Special rules apply to "hobby" farmers to limit the use of continuous farm losses to reduce taxation on other income.

US: Tax averaging in the United States is available for sole trader farmers and partnerships over a three year period. This is only applicable to farmers and farm income.

Holland: In the Netherland, Income Averaging over a three year period for taxation purpose is allowed for all business income, including from farming.

Australia: In Australia, the Income Tax Averaging Scheme is a long-standing tax practice, which allows farmers to be taxed at their average rate of income over a rolling five year period In case of natural disasters, income from forced disposal or death of livestock or sales of wool can be deferred or spread and income from insurance recoveries can be spread.

Other Tax Management Tools

Australia: Also in Australia, the Farm Management Deposit Scheme which replaced the Income Equalization Deposit Scheme in 1999, allows farmers to reduce their tax liabilities by setting aside money in high income years and withdrawing it as income in low income years.

New Zealand: The Income Equalization Scheme in New Zealand allows farmers, fishermen and foresters who are eligible tax payers to even out fluctuations in income by spreading their gross income from year to year. They are allowed to deposit income from farming, fishing or forestry with Inland Revenue into a special account. The deposit is held for a max period of five years and earns interest of 3% per annum on amounts left on deposit for more than twelve months. The interest paid becomes part of the deposit for tax purposes. Deposits are tax deductible in the year for which they are made and withdrawals (including interest) are assessable in the year they are made. The adverse event income equalisation scheme operates in conjunction with the standard income equalisation scheme. It allows the deferral of income tax on additional income which is generated by the forced sale of livestock from the year of sale to the year the livestock is replaced. Those deposits earn interest at a rate of 6.5% per annum from the date of receipt until the deposit is refunded.

France: In France, an income tax smoothing system was introduced in 2002 and refined in 2006 (*déduction pour aléas*, DPA, i.e. deduction for risk). Farmers taxed on the basis of real profits (standard or simplified), who have subscribed to an insurance plan for damages to crops and losses from animal death, can deduct a portion of their profits from their annual taxable income and place it in a professional savings account. From

[13] Adapted from *"Managing Risk in Agriculture A Holistic Approach: A Holistic Approach"*, 2009 OECD Publication

2006, up to €26000 can be saved annually for both the DPA and another tax deduction scheme for investments (*deduction pour investissement,* DPI, i.e. deduction for investment). Money placed in the saving account can be used in cases of climatic (hail, frost), economic (break in land rent contract), sanitary (contagious disease) or family (divorce, invalidity) unforeseen problems, within five to seven years depending on the problem. Sums on these accounts become taxable when used or if not used, after seven years.

Sweden: In Sweden, a tax allocation reserve (or profit equalisation system) was introduced in 1994 in place of earlier reserve systems (The Investment Reserve system (1979-90) and the Tax Equalisation System (1991-93). It applies to business profit of any enterprise. Legal entities may deduct up to 25% of annual taxable income (farm profit) in a given year and private entrepreneurs and people who own a share of a partnership may deduct up to 30%. Such deductions are included as taxable income no later than the sixth year after they were made

Canada: In Canada, NISA allowed farmers to set aside money in individual accounts to be withdrawn in low income years. The Government also contributed to NISA accounts. Taxes on Government contributions and interests earned were deferred until funds were withdrawn by participants. In 2003, the NISA programme was replaced by the Canadian Agricultural Income Stabilization (CAIS) programme and all NISA funds must have been withdrawn by 31st March 2009. In various circumstances, farmers can defer taxation of some receipts from one year to the other with the effect of smoothing annual income. This applies to compensation payments for the compulsory destruction of livestock and to receipts from sales of breeding livestock in drought stricken areas.

7.4 Phased Transfer Partnership (PTP) - A Progression model of Farm Transfer

While the agri sector is currently on target to achieve the ambitious targets of €12 billion exports set out in *Food Harvest 2020* significant challenges lie ahead. Rising costs are eroding profitability. Structural issues such as farm size and fragmentation coupled with low land mobility and an ageing demographic profile are impacting on the competitiveness and efficiency of primary production thus stymying growth. Government policy must support and encourage structural improvement to enable commercial family farms to build productive capacity.

According to the 2010 Census of Agriculture the age profile of farm owners has deteriorated, with 51.4% of farmers aged 55 years or older compared to 39.5% in 2000. To address these structural deficiencies, it is critical that the early transfer of land to young trained farmers is encouraged through the continued use of appropriate taxation reliefs.

Within this context certain areas have been identified as factors which mitigate against early succession and transfer including;

a. Inadequate income resources to support 2 families
b. Transferor's insecurity around long term issues of health, illness and marital breakup.
c. Uncertainty regarding the commitment of the potential successor to family farming.

From the perspective of the young farmer, the lack of a coherent plan can lead to frustration and alienation, most especially when they feel they are not being valued in a meaningful manner in the decision making process. From the parents perspective they feel trapped by the issues highlighted above (a – c). A structure is therefore required which will assist in resolving the economic and social difficulties surrounding this area, by involving the potential successor in a practical apprenticeship in farm management and harnessing the joint strengths of youth and age.

IFA believes a progression mechanism should be developed which would encourage the lifetime transfer of family farms while allowing both parties to work together for a defined time period.

IFA proposal Progressive Succession through Phased Transfer Partnership (PTP)

The proposed structure would provide for the phased transfer of the ownership of the assets and liabilities of the partnership including the land and buildings based on the duration of the partnership.

The First 2 Years

From entering the partnership agreement no phased transfer would occur within the first 2 years. This 2 year period is to allow both participants to assess and evaluate their appetite for the following stages. No phased transfer would occur prior to the older partner reaching 55 years of age, or the "stipulated date".

Example: If the older person was aged 51 at the commencement of the partnership no phased transfer would occur for 4 years i.e. older partners 55th birthday which is the "stipulated date". If the older partner is aged 54 on the date of commencement no transfer would occur for 2 years until their 56th birthday which is the "stipulated date" i.e. the minimum lead in period is 2 years prior to any phased transfer (unless a shorter lead in period is agreed by both parties).

The Phased Transfer Period

The period during which the phased transfer will take place is a maximum of 8 years or subject to agreement between the parties, i.e. the period between the "stipulated date" and the older partner/s attaining entitlement to the contributory retirement pension.

Assets + Liabilities transferring

On each anniversary of the "stipulated date", 10% of the interest in the lands owned by the older partner and farmed by the partnership together with the same % of the assets and liabilities of the partnership, would be transferred and subject to the older partner(s) option to retain up to 20% of land and partnership value. The 20% retention option is to satisfy the older partner(s) security concerns at the commencement of the phased transfer and it is hoped it will have dissipated in the final transfer stages.

What happens if the Agreement ceases before full transfer is fully achieved

The PTP agreement must contain safeguards to cover the breakup of the partnership arising from the death of either partner of other reasons.

IFA proposal - Income Tax relief to Incentivise PTP

In many family farm businesses a transfer is postponed due to the lack of income. It is hoped that the introduction of a workable partnership structure would enhance the potential of increasing income. However, the introduction of the younger partner invariably means an increased requirement for both fixed and working capital to lay the foundation for expansion and increased efficiencies.

In most family transfer situations the family settlements payable by the farm successor must be met from after taxed income. This is a substantial burden. To minimise this impact IFA propose that Partnership profits attributable to the older partner(s) should be exempt from income tax up to agreed ceilings per partner in the PTP, e.g. €25,000. The amount of tax relieved income available should be inversely linked to the length of the contract period.

Tax Considerations

- For the purpose of CAT & CGT all phased transfers will be deemed to have occurred on the date of final transfer or the event giving rise to transfer (when the PTP is terminated prior to full transfer) and will be deemed to be agricultural assets of the farming trade. Asset valuation would be on an averaged basis.
- Where the partnership is terminated prior to full transfer, the amended entitlements will be deemed not to give rise to a gift/inheritance passing to the older partner.

- On the basis that the younger partner is giving their commitment, youthful enthusiasm, advanced technical knowledge and while the older partner brings a life time of experience, knowledge and expertise, “free use” will not arise in respect of the use of assets farmed under a PTP.
- The transfer of assets under a PTP will;
  (a) Not be Vatable where the partnership transfer is not registered for VAT,
  (b) Will be exempt from stamp duty where the transferee is a young trained farmer at the commencement of the period

For the purposes of assessment of the 5 year post transfer condition under the Fair Deal nursing home scheme, the transferor should be deemed to have transferred from the date that the PTP is signed subject to the conditions of the PTP agreement being met at the date of assessment.

7.5 Maintenance of Pay and File date for self-assessment

With future budgets scheduled for the earlier date of mid-October, IFA is clear that the retention of the existing 'pay and file' date of October 31st for self-employed Income Tax is critical for the farming sector.

It is IFA's view that none of the 3 proposals as outlined by the Department of Finance in their consultation on the 'Pay and File' date are workable for farmers and that the status quo should remain.

The current 'pay and file' date for tax returns must not be moved forward and there must be no mandating of farmers' Single Farm Payment. Extremes in income and weather volatility in the recent past have highlighting the importance of the SFP for cashflow, paying bills and ultimately meeting tax obligations. Farmers have a proven track record as tax compliant citizens and credit worthy customers which should not be threatened by changes in the 'pay and file' date.

Cashflow Burden for Farms and the Agriculture Industry

Farmers receive the majority of their Direct Payments and a significant portion of their income stream during the month of October. In terms of income distribution on Irish farms throughout the calendar year, October is a peak for livestock sales and grain cheque receipts. Combined with this is the fact that farmers now receive 50% of their Single Farm Payment in the month of October. The importance of these direct payments for low income family farms cannot be overstated.

In 2012 Direct Payments on average contributed 82% of total Family Farm Income across all farms (NFS, 2013)[14]. 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 farmers' capacity to comply with their tax obligations. Cashflow is the lifeblood of any business and any additional burden will clearly put at risk the viability and sustainability of many small and medium businesses (SMEs) and in particular low income family farms.

The average Irish farm has a low Family Farm Income (FFI) but in general has an excellent record of tax compliance. However, as these businesses have limited ability to absorb further cashflow burdens, changes to the current 'pay and file' system risk the high compliance levels that have been achieved to date. Indeed the Revenue has acknowledged Ireland's excellent tax compliance rates which have improved since 2008 in the face of the economic downturn. Every effort should be made to protect and further strengthen tax compliance rates.

This is backed up by the results of a survey undertaken by the Irish Taxation Institute in which over 90% of its members who responded to their survey felt that taxpayers would be significantly impacted from a cash flow perspective if the tax payment was moved to June, while 68% of respondents said taxpayers would be impacted if the payment date was moved to September.

[14] Teagasc National Farm Survey Results 2012

Administrative burden

The Irish Tax Institute, in a survey of its members, has demonstrated a clear opposition to any change in the 'pay and file' dates, with 70% of its clients surveyed saying they would not be in a position to provide information of appropriate quality in time to prepare a June income tax filing while two thirds of respondents said they would not be able to file the same number of income tax returns in September, bearing in mind the September corporation tax filing requirement.

No greater certainty with earlier 'pay and file' date

Bringing forward the 'pay and file' date would not bring about greater certainty to exchequer receipts. The yield from income tax paid by the self-employed is low and has not varied significantly in recent years. From the perspective of accurately estimating exchequer receipts therefore, errors associated with estimation of tax returns for the self-employed would represent a minimal percentage of the total exchequer yield.

Moving 'pay and file's dates forward will not improve tax the accuracy of tax forecasts

Self-assessed taxpayers currently pay 90% of tax due for a particular year in preliminary tax before that year is complete. The argument for advancing the 'pay and file' date forward to September or June is that this will assist the accuracy of Government forecasting. However if taxpayers are forced to estimate and pay their tax earlier, their estimate of the tax would be less accurate and so to the national forecast for tax returns.

Unity I Strength I Delivery

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