Investing in Agriculture to Drive Economic Growth

Irish Farmers' Association Pre-Budget Submission

JULY 2015

EXECUTIVE SUMMARY

1. Throughout the downturn, the primary agriculture and agri-food sector delivered increased employment and export earnings, contributing significantly to our economic recovery and the maintenance of economic activity and employment across all parts of Ireland. However, the cuts to farm schemes in successive budgets have had a damaging effect on farm incomes, particularly in the vulnerable, low income drystock sectors. Actions to improve farm profitability, both within and outside the farm gate, must be prioritised by all stakeholders in the agri-food sector, if we are to deliver on the ambitious targets for export and employment growth outlined in the new 10 year strategy, *Food Wise 2025*.

2. The recovery evident in the public finances and the measurable contribution of agriculture and the agri-food sector to economic recovery provides a strong justification for the reversal of cuts to farm schemes and full implementation of new schemes under the 2014 - 2020 Rural Development Programme.
   IFA is clear that in Budget 2016 the Government must deliver on its funding commitment to the Rural Development Programme. Funding of €580m must be provided for RDP farm schemes in this October's Budget. This funding will deliver programmes of support for low-income farmers, support the provision of environmental services, encourage young farmers, promote on-farm investment and support farming in marginal areas. Expenditure priorities for farming in Budget 2016 are:
   - Funding of €250m must be allocated for agri-environment schemes in Budget 2016, with full payments for all GLAS and AEOS participants;
   - A targeted payment for the ewe flock, requiring a funding allocation of €25m in Budget 2016;
   - Funding of €65m for the suckler cow herd must be provided through the Beef Data and Genomics Scheme in Budget 2016;
   - A funding allocation of €15m is required for the rollout of Knowledge Transfer programmes for farmers across all sectors in 2016;
   - Funding of €40m is required for the TAMS II programme in 2016, to cater for all sectors; and
   - An increased funding allocation for the TB Eradication Programme, to include increased consequential loss payments for farmers.

3. The outcome of the comprehensive review of agri-taxation in 2014, undertaken jointly by the Departments of Finance and Agriculture, represented real progress, with the retention, enhancement and targeting of key measures to improve land mobility, farm restructuring and promote on-farm investment. Budget 2016 provides an opportunity for the Government to further build upon the measures arising from the agri-taxation review. Taxation priorities for farming in Budget 2016 are:
   - Introduction of an income tax incentive for families who farm in partnership for a given time period, at the end of which time the farm is transferred to the next generation;
   - Introduction of an Earned Income Tax Credit for self-employed workers to restore equity in the income tax system. The difference in income tax treatment between the self-employed and employees is particularly severe at lower income levels, and must be removed;
   - Retention of 90% Agricultural Relief for farm transfers and adjustment of CAT thresholds to reflect asset price changes; and
   - Extension of the Stamp Duty Young Trained Farmers exemption and Stock Relief measures past their current expiry dates of 31st December 2015.

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1. Introduction and Overview

Throughout the downturn, the primary agriculture and agri-food sector delivered increased employment and export earnings, contributing significantly to our economic recovery and the maintenance of economic activity and employment across all parts of Ireland. However, the cuts to farm schemes in successive budgets have had a damaging effect on farm incomes, particularly in the vulnerable, low income drystock sectors.

Teagasc Farm Income figures for 2014 provide a clear reminder that profitability at farm level remains a major challenge in many of our main sectors. IFA has made clear that actions to improve farm profitability, both within and outside the farm gate, must be prioritised by all stakeholders in the agri-food sector, if we are to deliver on the ambitious targets for export and employment growth outlined in the new 10 year strategy, *Food Wise 2025*.

The recovery evident in the public finances and the measurable contribution of agriculture and the agri-food sector to economic recovery provides a strong justification for the reversal of cuts to farm schemes and full implementation of new schemes under the Rural Development Programme. This funding is critically important particularly for the low income farming sectors, underpinning farm investment and output and, in turn contributing to further economic growth across the country.

In this context, full drawdown of Ireland's annual €580m funding (national and EU) for the Rural Development Programme must be a priority in this October's budget. Budget 2016 is a critical test of the Government's commitment to implementing the Rural Development Programme, as the budgets for measures such as GLAS, the Beef Data and Genomics Scheme, TAMS and the ANCs must be significantly increased to support the full roll-out of these programmes.

Budget cuts of the last seven years also have impacted negatively on the ability of Government agencies and Department of Agriculture offices to deliver support services to the primary agriculture sector, in the areas of research, advisory, education, promotion, and animal health. In Budget 2016 and future Budgets, resources must be prioritised towards increasing service provision through increased personnel and capacity in the agencies and sections responsible for supporting the development and growth of the primary agriculture sector, including Teagasc, Bord Bia, ICBF, AHI and the veterinary laboratories. Funding for education must be increased to cater for the increased numbers of new entrants to Agricultural Colleges arising from the recent CAP reforms. This will be critical to maintaining and building upon the important contribution of agriculture and the agri-food sector to economic recovery and growth.

Budget 2016 provides an opportunity for the Government to further build upon the measures introduced in the agri-taxation review, which had as its focus supporting the agriculture sector in the areas of restructuring, land mobility, timely entry to and exit from farming and farm investment. The recent CAP reform, with its incentives for young farmers and the development of registered farm partnerships across all sectors in 2015 is also timely. These incentives and measures are contributing to changes in farmer behavior, as evidenced by the strong uptake in long term leasing and the entry of thousands of new farmers into the sector.

To build upon the progress of the agri-taxation review, further measures to encourage family farm transfer and collaborative family farming arrangements must be introduced, while inequities in the income tax system for the self-employed must be removed in Budget 2016. Overall, Government decisions on taxation and expenditure in October's budget must reflect the importance of maintaining a competitive business and employment environment.

2. Farm Schemes and Other Expenditure Measures Affecting Farm Families

2.1 Rural Development Programme 2014 – 2020

The Rural Development Programme (RDP) for Ireland was formally adopted by the European Commission on 26th May 2015. This outlined Ireland's priorities for utilising €4b of funding, available over the seven year period 2014-2020, of which approximately €3.75b is designated for farm schemes. The delay in approval of the new RDP has resulted in a situation whereby new schemes are only commencing in late 2015, and expenditure on RDP farm schemes has been below €450m per annum over the past two years. IFA is clear that in Budget 2016 the Government must deliver on its funding commitment to the Rural Development Programme. Funding of €580m must be provided for RDP farm schemes in this October's budget, the requirements for which are outlined below. This funding will deliver programmes of support for low-income farmers, support the provision of environmental services, encourage young farmers, promote on-farm investment and support farming in marginal areas.

2.1.1 Agri-Environment Schemes - GLAS

Over the past two decades farmers have participated in agri-environment schemes, which have contributed to the enhancement of the environment and increased the amenity value of the countryside.

- The Autumn re-opening of the GLAS scheme, when combined with the ongoing applications, must accommodate up to 50,000 farmer places. Full payments for all farmers in agri-environmental schemes must apply from 1st January 2016.
- In addition, the implementation of the targeted output Agri-Environment scheme, which will complement existing environmental programmes, will be an important element of support to farmers in certain areas. This scheme must open without delay with full-year payments to farmers in 2016.

IFA proposes that funding of €250m is allocated for agri-environment schemes in Budget 2016, with full payments for all GLAS and AEOS participants.

2.1.2 Beef Data and Genomics Programme

Teagasc Farm Income figures for the cattle sector for 2014 highlights, again, the low incomes returned from the market for these farm enterprise types, and the importance of direct payments to underpin expenditure, income and output on these farms. Budget 2015 provided a funding allocation of €61m for the Suckler Cow herd, comprising €52m for Beef Data and Genomics and €9m for the Beef Data programme. IFA believes that increased targeted direct supports must be provided to the suckler cow herd in Budget 2016, in order to to support farming and wider economic activity in all parts of the country.

IFA proposes an increase in funding for the Suckler Cow Herd to €65m in Budget 2016, with direct support reaching a target of €200/animal over the coming budgets.

2.1.3 TAMS II

The implementation of a strong on-farm investment scheme is critical given the ambitious growth targets set out in *Agri-Strategy 2025*, with an ongoing investment requirement across all sectors, to improve efficiency and meet higher environmental and animal welfare standards.

IFA proposes that funding of €40m is allocated to the TAMS II programme in 2016, with the opening up of programmes in all sectors.

2.1.4 Knowledge Transfer

Participation by farmers in discussion groups has been shown to improve on-farm efficiency and management practices. IFA strongly supports the expansion of this measure across all sectors in the new RDP.

IFA proposes that funding of €15m is allocated for the rollout of Knowledge Transfer programmes for farmers across all sectors in 2016.

2.1.5 Areas of Natural Constraints (formerly DAS)

The reversal of cutbacks to the ANC scheme must be a priority in Budget 2016, as these have had a negative impact on the lowest income farmers, operating in marginal areas. Farmers with large areas of land classified as ANC were particularly unfairly hit by the cuts of the past budgets and the number of hectares qualifying for payment should be increased. This will strengthen the scheme in its target of maintaining farming and economic activity.

IFA proposes that funding of €205m is allocated to the ANC scheme in Budget 2016, reversing the area-based cuts of previous budgets.

2.1.6 Biomass and Bioenergy

Funding is required for both the grain and forestry sectors in order to mobilise the biomass resource, deliver renewable energy obligations, and mitigate greenhouse gas emissions. This would include funding for the development of biomass trading centres, and for the establishment of ESCOs (Energy Supply Companies).

IFA proposes that a funding allocation of €5m is provided under the Rural Development programme for farm-based Bioenergy and Biomass projects.

2.2 Other farm expenditure programmes

2.2.1 Targeted direct support for the sheep sector

Sheep farming in Ireland provides both economic benefits and non-market goods, such as land management and environmental services. This farming occurs often in peripheral upland and hill areas, which have limited alternative land use options. To maintain and grow the Irish sheep sector, direct support is required for the ewe flock.

IFA proposes the introduction of a targeted payment for the ewe flock in Budget 2016. This will require a funding allocation of €25m in 2016, with an increased funding allocation in 2017 to reach €20/ewe.

2.2.2 Horticulture

The Scheme of Investment Aid for the Development of the commercial horticulture sector is critical to the expansion of the sector and has been successfully utilised in the past to fund investment and improve efficiency and innovation.

Funding for the Horticulture Grant scheme should be increased to €5m in 2016, as it is a critical support for a sector that is creating employment.

In addition, compensation must be provided for nurseries for income losses and disposal costs arising from the closure of markets due to the Ash-Dieback disease.

2.2.3 Animal Health

Farmers continue to make significant financial investments in improving the health status of the national herd both for statutory and non-statutory diseases. The continued improvement in the health status of the national herd generates benefits for the broader agri-sector and the economy in general. Adequate financial support must be provided to lessen the cost burden for farmers, the viability of whose enterprises have been very negatively affected by disease eradication/control measures. Continued Government support for farmers in the pilot Johnes programme, and the BVD eradication programme are required to ensure these achieve their targets within the specified timeframe.

The following additional support measures for Animal Health are required in Budget 2016:

- ***An increased funding allocation for the TB Eradication Programme, to include increased consequential loss payments for farmers to align the level of support with actual income foregone, payments for all animals removed, and an increase in live valuation ceilings;***
- ***A properly funded Deer Management Programme to alleviate the difficulties caused by the expanding population, including targeted resources where deer are associated with TB breakouts.***

2.2.3.1 Animal Health – Irish Equine Centre

The Irish Equine Centre (IEC) provides an invaluable service in protecting the disease free status of the Irish horse industry. Currently, the IEC is subsidised and supported by Horse Racing Ireland (HRI), the statutory Foal Levy and funding from the Department of Agriculture. IFA believes that all sectors in the equine industry should contribute to the funding of the Centre.

IFA proposes that the existing State contribution to the Irish Equine Centre of €1m over a three year period is maintained for 2016-2018.

2.2.4 Forestry

The forestry sector has a central role to play in achieving Ireland's climate change and renewable energy targets. To support the afforestation programme and the development of the economic potential of the forestry sector, funding must be provided for the following programmes:

- ***Funding for a 7,000 ha planting programme;***
- ***Funding for existing forest owner groups to realise the economic potential of the private forest resource;***
- ***Funding of the existing Forest Road Scheme must be maintained;***
- ***Funding for the establishment of a forestry forum to increase transparency in the supply chain and achieve the timber production forecasts.***

2.2.5 Aquaculture

Investment in farm modernisation and efficiency in the aquaculture sector is critical in order for the sector to achieve its growth potential, delivering employment in peripheral areas and contributing to increased export earnings.

In Budget 2016, all European Maritime and Fisheries Fund (EMFF) grant aid earmarked for the aquaculture sector must be made available and spent within the sector.

Eligibility criteria for EMFF capital aid must not exclude licencees operating under Section 19 A (4) of the Fisheries Act who are waiting for approval of their licence renewal applications.

2.3 Other Expenditure Programmes of Importance to Farm Families

2.3.1 SAC payments

Payments through the National Parks and Wildlife Service (NPWS) must be continued through the Farm Plan Scheme to meet the costs of restriction imposed and to provide adequate compensation to farmers whose incomes and livelihoods have been negatively affected by designation.

IFA proposes that additional funding of €5m must be allocated to the NPWS in Budget 2016 to pay farmers where restrictions to farming result from land designation, and where such restrictions are not covered by the GLAS scheme.

2.3.2 Fair Deal Scheme – Means Assessment of Non-residential Assets

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

IFA proposes that the '3 year cap' that applies to the principal private residence must be extended to income generating assets including non-residential farming assets in the means assessment for the Fair Deal scheme, in all circumstances. The cap must ensure that the viability of the transferred farm is protected.

2.3.3 Farm Assist

As the economy improves, the numbers requiring Farm Assist are beginning to fall, as off-farm employment opportunities, among other options, are beginning to improve. However, for a core number of low income farmers Farm Assist payments are vital, allowing them to continue in production in difficult times.

IFA proposes that in Budget 2016, the income and child disregards for Farm Assist must be restored to their pre-budget 2013 levels.

In addition, the methodology for assessing unemployment benefit for seasonal workers who also have a farm must be revised, as, in some cases, they are being excluded from both Farm Assist and Jobseekers Benefit. The assessment excludes workers with very low income from their farming enterprise from entitlement to Jobseekers Benefit when they are unemployed. This occurs even where the means from the farm are so low that, if the equivalent earnings were from employment, they would be in receipt of a Jobseekers Benefit payment.

2.3.4 Rural Social Scheme (RSS)

The Rural Social Scheme continues to be a vital support to low-income farmers, providing employment in areas where job opportunities are limited and providing services and social supports to rural communities. Any review of the Rural Social Scheme must reflect its valuable and unique contribution to the rural economy.

IFA proposes that the number of places in the RSS is increased from its current number of 2,600 to 4,000. Eligibility to partake in the RSS must be flexible as in some cases there may not be a sufficient number of qualifying farmers through Farm Assist in an area to deliver a specific community project.

2.3.5 Walks Scheme

The Walks Scheme has had a significant impact on the development of recreational activities, boosting rural tourism and supporting farmers who provide access to their land.

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

3 AGRI-TAXATION PROPOSALS

The outcome of the comprehensive review of agri-taxation in 2014, undertaken jointly by the Departments of Finance and Agriculture, represented real progress, with the retention, enhancement and targeting of key measures to improve land mobility, farm restructuring and promote on-farm investment. Further issues that have been reviewed during 2015 include the barriers to female participation in the tax system.

IFA's proposals build upon the measures contained in the agri-taxation review, including those priority measures identified by IFA in its submission to the review, which were not implemented in Budget 2015. IFA believes that the implementation of these proposals in Budget 2016 will increase efficiency, encourage timely farm transfers and overall, grow output at farm level, leading to an increase in earnings for the economy.

3.1 Encouraging Lifetime Transfer and Farm Restructuring

3.1.1 Farm Transfer Partnership

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 is delaying the lifetime transfer of farms is the requirement for both parties to derive an income stream from the farm.

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

- Inadequate income resources to support two families;
- Transferor's concerns around long term issues such as healthcare and income security; and
- Uncertainty regarding the commitment of the potential successor to family farming.

From the perspective of the young farmer, the lack of a coherent succession plan and meaningful role in the decision-making process of the family farm can lead to frustration and a potential movement away from farming as a career option. A structure is therefore required which will assist in addressing the economic and social challenges surrounding family farm transfer.

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

To achieve the twin policy goals of earlier lifetime transfers and greater numbers of farm partnerships, IFA proposes a Farm Transfer Partnership, in which there would be a profit sharing partnership over a defined time period (e.g. up to 10 years), after conclusion of which the farm would be transferred to the next generation. To address the issue of insufficient income from the farm for two families over this time period, tax relief would be provided for the farm holders on a portion of their farm income, up to an agreed ceiling. This relief would be subject to clawback if the farm transfer is not undertaken.

3.1.2 90% Agricultural Relief

The retention of 90% Agricultural Relief for active farmers in Budget 2015 was a critically important move, allowing for the transfer of family farms of a scale sufficient to generate a livelihood for the next generation, without burdening the new farmer with a major tax bill at the outset of their farming career.

The CAT tax exempt thresholds have been reduced by over 60% since 2008. In the past number of years, asset prices have begun to increase. This has not been reflected in any change in the CAT thresholds.

- ***IFA believes that the retention of 90% Agricultural and Business Relief is critical to support the transfer of family farms and other small businesses.***
- ***In addition, IFA believes there must be a significant increase in the CAT thresholds to reflect the increase in asset values over the past number of years.***
- ***In respect of the overall capital taxation rates, IFA believes that the 33% rates for CGT and CAT are too high, providing a disincentive to investment and enterprise, and should be reviewed.***

3.1.3 Stamp Duty Exemption 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 Relief remains an important trigger 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, some farms would only be transferred through inheritance.

IFA proposes that Stamp Duty Relief for Young Trained Farmers is extended past the current proposed expiry date of December 2015, as it is an important instrument to ensure timely succession, land transfer and productive use of agricultural assets.

3.2 Delivering Equity in the Income taxation system

3.2.1 Tax credit for self-employed – Earned Income Tax Credit

A further issue affecting the competitiveness of employment is the continued discrimination within the income tax system 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). At the current national minimum wage rate of €8.65/hour (approximately €17,500 per year), a self-employed worker pays five times the level of taxes and charges of an employee.

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.

As a priority to improve equity in the income taxation system, 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 unearned income sources.

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

3.3 Supporting Farm Investment

3.3.1 Accelerated Capital Allowances for sole traders

For the farming sector, with the abolition of milk quota in April 2015, and the roll out of the TAMS investment programme, it is anticipated that there will be significant on-farm investment over the coming years. The provision of accelerated capital allowances for investment in energy efficient equipment relevant to the agriculture sector and available to sole traders would make an important contribution to achieving this aim. This measure would also be of potential benefit to the intensive sectors, such as pigmeat, poultry and horticulture, which make significant capital investments in heating, insulation and refrigeration systems.

IFA believes that the extension of the SEAI accelerated capital allowances scheme for investment in energy efficient equipment to sole traders, as proposed in the Agri-taxation review, would be a progressive move to encourage on-farm investments and improve the overall efficiency of farming enterprises.

IFA believes that greater flexibility should be introduced into the Capital Allowances system for farm buildings, with an optional system of increased 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.

3.3.2 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* and those that will be contained in the new agri-strategy 2025.

To support the industry in achieving increased output targets over the coming decade, IFA proposes that both the 25% general Stock Relief and 100% Stock Relief for Young Trained Farmers are extended past the current proposed expiry date of 31 December 2015. In addition 50% stock relief must be extended to all registered farm partnerships.

3.3.3 Relief from CGT for CPO disposals

Farmers are involuntary sellers of farmland under the CPO system. However, this disposal is liable to CGT, even where the farmer subsequently replaces the farmland. The Commission on Taxation recommends that: "Capital gains tax rollover relief should apply to the gains on disposal of farmland pursuant to a compulsory purchase order where the proceeds are re-invested in farmland". The absence of CGT relief for land that has been subject to a CPO discriminates particularly against younger farmers aged under 55 years, who cannot avail of CGT Retirement Relief on this disposal.

IFA proposes that CGT relief should be introduced for farmland sold under CPOs where the payments received are reinvested in the farm business.

3.4 Increasing land mobility

3.4.1 Land Leasing Tax exemption between siblings

A major encouragement for increasing land mobility is the Land Leasing Income Tax Exemption scheme. The enhancement of the scheme in Budget 2015 has resulted in a significant increase in the level of take-up of the scheme and the movement away from short-term rental agreements.

Under the scheme, a qualifying lessee must be unconnected to the lessor (e.g. family member). While acknowledging that restrictions are required, e.g. to prevent the delay of farm transfer between parent and child, IFA believes that restrictions for some other family members should be lifted.

In particular, a common situation is the ownership of land by one sibling which they have traditionally leased to another. This often occurs where the land has been transferred to a number of siblings in one family, but only one is the active farmer. The long term leasing of this land between siblings is not preventing the transfer of the land and is often the most efficient use of the land as it is adjacent to or adjoining the farmer's own land.

IFA believes that the land leasing tax exemption scheme should be extended to leases between siblings, but with restrictions in place to ensure that it continues to be used in genuine circumstances only. In particular, IFA proposes that where the lease is between siblings, only one sibling can avail of the income tax exemption – i.e. there can be no situation whereby two farmer siblings lease land to each other and avail of the income tax exemption.

3.5 Tackling volatility

3.5.1 Individualised income volatility measure

The extension of income averaging from three to five years in the last budget was a positive move, providing a longer timeframe over which income volatility can be smoothed. IFA believes that, while income averaging provides a useful mechanism for tackling income volatility through the taxation system, a more targeted and individualised volatility scheme is required. This would operate along the same principles as the French investment and contingency deduction schemes, whereby deductions from taxable income are permitted, but must be used within a period of five or seven years for a number of specific purposes.

IFA proposes that an individualised income tax volatility measure is developed for the Irish system, which would provide greater flexibility on the timing of income deductions and the reintroduction of funding into farm enterprises.

3.5.2 Income averaging – other self-employed activities

The extension of income averaging to farm profits where the farmer and/or spouse has an additional source of self-employed income from activities related to farming in Budget 2015 was a move designed to allow a greater number of farmers to utilise income averaging as a mechanism to tackle income volatility. However, IFA believe the conditions attached remain too restrictive, and continue to prevent farmers, whose spouse is additionally self-employed in a non-related business, from availing of income averaging.

IFA believes that income averaging of farm profits should be allowed where a spouse of a farmer has a fully separable source of income from self-employment.

3.6 Sector-specific and other proposals

3.6.1 Aquaculture – proposals for Marine Sector taxation review

The review of the taxation system for the Marine Sector provides an opportunity for the Government to deliver a more supportive environment for job creation in the aquaculture sector. It can also serve to support the succession of enterprises to the next generation and create the environment to encourage private investment in farm modernisation, through more efficient and sustainable technology and husbandry. IFA's proposals to the marine taxation review team are summarized below:

- ***Introduction of accelerated capital allowances for investment in plant and machinery in the aquaculture sector;***
- ***Increase in the Research & Development credit from 25% to 40% on expenditure on R&D against corporation tax/income tax liability;***
- ***25% general stock relief and 100% stock relief for young trained farmers to be extended to similarly qualifying aquaculture enterprises;***
- ***Introduction of employee share option scheme for aquaculture sector to encourage employment while giving employees an additional interest and potential future income through the success of the company;***
- ***Designated reduced income/corporation tax rates for organic aquaculture enterprises;***
- ***Extension of income averaging to aquaculture enterprises;***
- ***Introduction of Stamp Duty Exemption for young trained aquaculture farmers;***
- ***Extension of 90% Agricultural Relief to individuals to whom an aquaculture enterprise is being transferred.***

3.6.2 Forestry – treatment of clear-felling income

Forestry is a unique investment where the majority of the revenue stream is realised at the end of a long growing cycle (up to 40 years). 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.

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.

IFA believes that the proposal contained in the Agri-taxation review to extend income averaging to forestry clear-felling income, would be a very positive move and a practical measure to address the issue of farm forestry owners becoming unfairly subject to the High Income Earners Restriction.

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

Dairy sector expansion plans under *Food Harvest 2020* and the end of the milk quota regime 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.

IFA proposes that the compulsory purchase of co-operative shares or other forms of compulsory financial contribution fulfilling the same role, be treated by the tax code as a qualifying capital expenditure. IFA proposes this would only apply to new purchases of mandatory share purchases/licenses/financial contributions.

3.6.4 Incentivising farm level renewable energy initiatives

This December, in Paris international leaders will come together and endeavour to agree an international framework to reduce greenhouse gas emissions up to 2030. All sectors, including agriculture, face considerable challenges in meeting these targets. The Government has clearly signalled its commitment to the development of the renewable energy sector, which will deliver both on reducing emissions but also creating employment in the economy. IFA is clear that farm-scale renewables must be an integral part of the delivery of this policy.

Measures to facilitate the development of farm scale renewable infrastructure are required in a number of areas. This includes priority grid access, and planning changes, whereby rooftop solar developments and small-scale renewable infrastructure should be considered permitted developments.

IFA proposes that

- ***A generation feed-in tariff must be introduced for farm-scale renewable energy production, in particular solar, wind and Anaerobic Digestion;***
- ***Investment in farm-scale renewable energy initiatives must qualify under the EIIS scheme; and***
- ***Income received for the alternative use of farmland for renewable energy projects should receive an income tax exemption, if such income is used for the purposes of re-investment in the farm business;***
- ***Ring-fenced funding from the Carbon Tax must be allocated to renewable energy payments for biomass burners for grain and biomass drying and CHP units for poultry houses under a Renewables Heat Incentive Scheme (RHI).***

3.6.5 Changes to excise and licensing regime for small scale cider production

IFA supports the proposals of the Irish Apple Growers Association for changes in the excise and licensing regime for cider, which will support the development of the high-value craft cider production sector, and contribute to increased employment in the rural economy. This sector is strongly linked to the primary agriculture sector, comprising both apple growers who are diversifying their product offering into cider making and artisan producers who purchase Irish grown apples. It is proposed that:

- ***The upper excise band for cider should be removed. The result would be a single rate of duty of €94.46/hectolitre, for all ciders of volume from 2.8%-8.5%; and***
- ***An Artisan Cider Manufacturers License should be established for annual production quantities up to 1,000 hL. Such a license would permit both retail and wholesale sales.***

3.6.6 Taxation of Quad Bikes

The current interpretation of EU Directives on road safety standards has resulted in a situation whereby it is effectively impossible to register and tax farm quads for limited use on public roads. Farmers looking to tax their quad are informed that it must be taxed as a general haulage tractor, with a tax of €333 per annum applying, or as a private vehicle and taxed based on the cc of the engine. This is a completely disproportionate level of tax for a small utility vehicle whose main purpose on any farm is as an off-road vehicle. In addition, many quads cannot be registered and taxed for use on public roads, as they are not deemed to meet road safety standards, which requires vehicle 'type approval' and manufacturer's certificate of conformity.

To remove the difficulties surrounding the taxation of farm quads, IFA proposes that a system similar to that which operates in the UK is introduced. Quads should be registered as a light agricultural vehicle, with a 'nil value' tax disc, whereby the quad can be used on the road, where a very small distance is travelled between sites. Farms in Ireland are very fragmented, and therefore limited road use is required for these vehicles. In addition, farm quads, which are used primarily as off-road vehicles, should be categorised as Category T Vehicles (e.g. wheeled tractors), thereby removing the requirement for an EC Certificate of conformity at registration.

Unity I Strength I Delivery

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