Feirmeoirí Aontaithe na hÉireann
The Irish Farmers' Association
IFA
CELEBRATING 60 YEARS 1955-2015

BUILDING ON THE PROGRESS OF THE AGRI-TAXATION REVIEW

IFA Taxation Proposals for Government

April 2015

IFA

CELEBRATING 60 YEARS 1955-2015

TABLE OF CONTENTS

INTRODUCTION AND OVERVIEW 3

1. ENCOURAGING LIFETIME TRANSFER AND FARM RESTRUCTURING 4

1.1 PHASED TRANSFER PARTNERSHIP (PTP) – A PROGRESSION MODEL OF FARM TRANSFER 4
1.2 90% AGRICULTURAL RELIEF 5
1.3 STAMP DUTY EXEMPTION YOUNG TRAINED FARMERS 5

2. DELIVERING EQUITY IN THE INCOME TAXATION SYSTEM 6

2.1 TAX CREDIT FOR SELF-EMPLOYED – EARNED INCOME TAX CREDIT 6

3. TACKLING VOLATILITY 7

3.1 INDIVIDUALISED INCOME VOLATILITY MEASURE 7
3.2 INCOME AVERAGING – OTHER SELF-EMPLOYED ACTIVITIES 7

4. INCREASING LAND MOBILITY 8

4.1 LAND LEASING TAX EXEMPTION BETWEEN SIBLINGS 8

5. SUPPORTING FARM INVESTMENT 9

5.1 ACCELERATED CAPITAL ALLOWANCES FOR SOLE TRADERS – INVESTMENT IN ENERGY EFFICIENT EQUIPMENT 9
5.2 STOCK RELIEF 9
5.3 ROLLOVER RELIEF FOR CPO DISPOSALS 9
5.4 INTERACTION OF CGT RETIREMENT RELIEF AND RESTRUCTURING RELIEF 10

6. SECTOR-SPECIFIC AND OTHER PROPOSALS 11

6.1 FORESTRY – TREATMENT OF CLEAR-FELLING INCOME 11
6.2 COMPULSORY PURCHASE OF SUPPLY LICENSES (CO-OP SHARES) 11
6.3 TAXATION OF QUAD BIKES 11

APPENDIX I – PROPOSALS FOR PHASED TRANSFER PARTNERSHIP (PTP) 12

Fheirmeoirí Aontaithe na hÉireann
The Irish Farmers' Association
IFA
CELEBRATING 60 YEARS 1955-2015

Introduction and Overview

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.

Farming and the agri-food sector, through *Food Harvest 2020*, have delivered significant jobs and export growth. IFA is clear that the new agri-strategy currently being developed for 2025 must put increased profitability at farm level as a key target, in order to continue the sustainable growth of the Irish agri-food sector, and to contribute to a balanced regional economic recovery. The taxation system can underpin the achievement of further growth targets for agriculture, both through effective utilisation of existing measures by farmers, and, where new challenges are identified, there is scope to develop new or expand existing measures.

To address the structural deficiencies in agriculture and to support the achievement of the growth potential of the agriculture sector, it is critical that the early transfer of land to young trained farmers is encouraged through the continued use of appropriate taxation reliefs. This is particularly timely, given the measures that are contained in the new Basic Payment Scheme and Rural Development programme to support young farmers and new entrants to farming.

The recovery in the public finances provides an opportunity for the Government to address the discrimination that exists in the income tax treatment of self-employed and employees. Over many years, IFA has sought the introduction of an Earned Income Tax Credit for the self-employed, which would operate on a similar basis to the PAYE tax credit. It is simply not acceptable that at low income levels, at which many farm enterprises operate, self-employed workers pay a multiple of the income tax of employees at the same income level.

Income volatility is an inherent feature of agricultural production. With the reduction of market support measures as part of the CAP reform process and the decoupling of support from production, Irish farms have become increasingly exposed to product price and input cost fluctuations on world commodity markets. Between 2007 and 2009 average farm incomes fell by over 40%, from €20,000 to €12,000, with a recovery over the past number of years to an average income of €25,000. However, the impact of adverse weather events (2013 fodder crisis), input cost increases and reductions in direct payment supports during the downturn have impacted adversely on farm incomes in different sectors. Given the family farm sole trader structure of farming and low income levels generally, increased income volatility puts at risk the viability of many farm enterprises. IFA believes that there should be further investigation of income tax measures that could tackle income volatility at farm level, thereby underpinning the sustainability of the primary agriculture sector and its contribution to economic growth.

With the abolition of milk quota in 2015 and the on-farm investment programme TAMS to be rolled out across all sectors in the coming years, there is significant on-farm investment anticipated. In addition, with the agriculture sector taking steps to improve the emission efficiency of its output, there is a strong argument for taxation measures for investment that will improve the energy efficiency of farm operations.

IFA's proposals outlined below 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 will increase efficiency, encourage timely farm transfers and overall, increase output at farm level, leading to an increase in earnings for the economy.

CELEBRATING 60 YEARS 1955-2015

1. Encouraging Lifetime Transfer and Farm Restructuring

1.1 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 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. The later transfer of family farms can undermine the overall efficiency of the farm enterprise and

A structure is therefore required which will assist in addressing the economic and social challenges surrounding family farm transfer.

The recent development by the Department of Agriculture of a Register of Farm Partnerships, which applies across all farming sectors, is a very positive move. It is a clear signal from the Government of its continued commitment, as outlined in the Programme for Government to promoting *"greater land mobility and involvement of young farmers by investigating new farm models and farm partnerships between farmers, while retaining our family farm structure*[1]*'* In addition the new CAP reform, which has specific incentives for young farmers and new entrants to farming, is encouraging of the development of family partnership units.

In this policy environment, 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 partnership models, IFA proposes a Phased Transfer Partnership (PTP), 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 would work together in a profit-sharing partnership over the period of the phased and progressive transfer of assets. 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*[2]*.

---

[1] Programme for Government 2011

[2] IFA proposals for a progression model to promote timely succession are further developed in Appendix 1

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, with residential property prices increasing by over 20% since 2012, while agricultural land prices have increased by almost 15% from their lowest point in 2010/2011[3]. 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 in future budgets to support the transfer of family farms and other small businesses. In addition, with the increase in asset values over the past number of years, there is a requirement for the tax exempt threshold for CAT purposes to be increased to reflect this. IFA believes that an initial increase of 15% in the CAT threshold should be introduced in the 2016 Budget, with further adjustments made in future budgets, based upon an index of asset price movements.

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 applies to farm transfers within a lifetime and not on inheritance. 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 propose 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. 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.

---

[3] Source: *Irish Farmers Journal Land Price Reports 2007-2014* – Average Land Price per hectare of €9,890 in 2014, vs €8,725/ha 2010/2011 (average).

2. Delivering Equity in the Income taxation system

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.

- An employee earning €17,500 pays taxes and charges of €572, or 3% of gross income, comprising €200 in income tax, €0 in PRSI and €372 in USC.
- By contrast, a self-employed individual earning €17,500 pays taxes and charges of €2,922, or almost 17% of gross wages, comprising €1,850 in income tax, €700 in PRSI and €372 in USC

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 taxpayers dependent on unearned income.

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. Tackling volatility

3.1 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. However, 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 contain the following features:

- ***Flexibility on timing of income deductions and reintroduction of funding into farm enterprise, subject to a maximum limit of 5 years.***
- ***Reintroduction of funding permitted for expenditure on inputs (e.g. feed/fertiliser/fuel), where this expenditure is significantly greater than the previous 3 year average.***
- ***Reintroduction of funding permitted where income losses are significantly below the previous 3 year average.***
- ***Unforeseen expenditure arising from climatic events/natural disasters/animal health incidences treated as a permissible expenditure for reintroduction of deducted funding***
- ***Expenditure on cooperative share purchases treated as a permissible expenditure for reintroduction of deducted funding.***

3.2 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 the extension of income averaging to farm profits where there is an additional source of income from activities related to farming is too narrow, and continues to discriminate against farm families where the spouse has a separate source of self-employed income. IFA proposes that, where a spouse of a farmer has a fully separable source of income from self-employment, income averaging should be allowed on the farm profits.

4. Increasing land mobility

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 farmers. 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.

The exclusion of a long term lease agreement between siblings from the tax exemption scheme, is resulting in a situation whereby the landowner has to decide between leasing the land to an unconnected third party, to avail of the tax exemption, or demand a higher rent to compensate for the lack of tax exemption.

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.

5. Supporting Farm Investment

5.1 Accelerated Capital Allowances for sole traders – investment in energy efficient equipment

For the farming sector, with the abolition of milk quota in April 2015, and the roll out of the TAMS investment programme for all farming sectors, it is anticipated that there will be significant on-farm investment over the coming years.

A key target for the agri-food sector is to improve the emission efficiency of production. 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.

5.2 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*.* 100% Stock Relief for Young Trained Farmers is an important support to young, educated farmers who are at the start of their career, and who, in many cases, will be building the value of their stock. In addition,

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 December 2015.

5.3 Rollover relief for CPO disposals

Farmland sold by farmers as involuntary sellers under the CPO system 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 rollover 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. This cohort has been shown to be most likely to invest in their businesses, providing real benefits to the wider rural community and economy.

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

5.4 Interaction of CGT Retirement Relief and Restructuring Relief

IFA welcomes the extension of the Capital Gains Tax Restructuring Relief to end 2016 and the extension of the relief to include whole-farm replacements. An anomaly has been identified however, between the interaction of CGT Retirement Relief and Farm Restructuring Relief.

Under current legislation, where the transferor has availed of Capital Gains Tax Retirement Relief for a disposal within family, the transferee must hold on to that asset for a minimum of six years (Section 599, 4(a), Taxes Consolidation Act). If the asset is disposed of within six years, there is a clawback of the CGT retirement relief – i.e. the individual becomes liable for the CGT that would have applied on the original disposal. There will be a small number of incidences where an opportunity will arise for the transferred farm to be consolidated within the six year time period. Under the current legislation, this restructuring will give rise to a CGT clawback.

***IFA proposes that, where a farm has been transferred for less than six years, and a disposal and replacement of land occurs for the purpose of farm consolidation which would fulfil the criteria of the Farm Restructuring Relief, there should be no clawback of CGT Retirement relief*.**

6. Sector-specific and other proposals

6.1 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. This will have major implications for the sawmilling and emerging wood energy sectors and runs the risk of disincentivising afforestation.

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.

6.2 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.

6.3 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.

Appendix I – Proposals for Phased Transfer Partnership (PTP)

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. Government policy must support and encourage structural improvement to enable family farms to build productive capacity.

In many family farm businesses a transfer is postponed due to the lack of income. IFA believes an income tax mechanism should be developed, which would encourage the lifetime transfer of family farms, while allowing both parties to work together in partnership for a defined time period. It is believed that the model proposed would be coherent with the objectives of the business start-up aid for young farmers outlined in *Article 19, Farm and Business Development,* Regulation EU No 1305/2013 on support for Rural Development by the EAFRD.

IFA proposal - Income Tax relief to incentivise the Phased Transfer of the family farm through Partnership

It is proposed that the parties involved would enter into a Registered Farm Partnership. The proposed structure would provide for a credible profit sharing arrangement from the outset, and the transfer of the ownership of the farm assets and liabilities of (proposed minimum 80% of asset value) either in a phased manner over the course of the partnership, or at the conclusion of the partnership. The partnership agreement would be for a maximum of 10 years.

To address the real challenge of deriving two incomes from one family farm, IFA proposes that partnership profits attributable to the older partner(s) should be exempt from income tax up to agreed ceilings.

While aiming the tax relief at the older partner, the ultimate beneficiary of this tax incentive will be the young farmer, as they will enter into a profit sharing partnership, and take ownership of the farm assets and liabilities at an earlier age than would otherwise have occurred. The rationale for providing the income-tax relief to the older parties in the partnership is outlined below.

- While the younger person may be willing to commence farming and enter into a partnership with a view to the farm being transferred at the end of the time period, the decision to enter into this arrangement ultimately rests with the parents (farm-holder). By providing the incentive to the parents, there is likely to be a greater uptake of the measure, and an increased occurrence of lifetime transfers
- It is proposed that, in the event that the farm is not transferred at the end of the partnership, the tax relieved income will be clawed back. The potential for this claw back of income to fall on the farm holders thus provides a further incentive to ensure that the farm is transferred.
- In the initial years of a farm partnership, the taxable income of the younger party is likely to be quite low, and therefore, the benefits of an income tax relief to the partnership would potentially be very limited.

Additional tax considerations and proposals

- 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.
- "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.