Supporting Farm Incomes - Providing Certainty

Irish Farmers' Association 2017 Budget Submission

JULY 2016

EXECUTIVE SUMMARY

1. Farm income difficulties are being experienced in many sectors in Ireland in 2016, through a combination of low product prices and a bad spring. Farm families are under huge pressure as cashflow tightens and the viability of their family farm is put at risk. In addition, the recent vote by the UK to leave the EU has created major economic uncertainty. For Irish agriculture and the agri-food sector, with 40% of our agri-food exports going to the UK, and a shared land border, the implications of the decisions to leave will impact greatly. At a time of major political uncertainty, IFA's focus is on highlighting the key issues of concern and identifying the best means by which these can be tackled. Budget 2017 has an important role in supporting farm incomes.

2. The Rural Development Programme (RDP) outlines 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. Having experienced a reduction in funding to the agriculture budget of almost 40% during the downturn, there must be an increase in funding in this year's budget for important farm schemes. These schemes are vital in supporting farm incomes and economic output on lower income farms in particular, and support important capital investment across all farming sectors. 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 farm schemes in Budget 2017 are:

   - Funding of €250m for agri-environment schemes in Budget 2017, with full payments for all GLAS, AEOS and organic scheme participants.
   - Introduction of a targeted sheep scheme of €25m, with minimal costs and bureaucracy on farmers, to maximise its benefits.
   - Additional funding for the ANCs to reach €225m, commencing the process of restoring ANC payments to 2008 levels.
   - Immediate reopening of the Beef Data and Genomic Programme to allow new participants, with additional funding of €25m to increase support for the suckler cow.
   - A funding allocation of €50m to the TAMS II programme to meet the demand across all farming sectors for on-farm investment.

3. Decisions on agri-taxation taken over the period of the last Government were positive, and have contributed to farm development and restructuring. In particular, the outcome of the comprehensive review of agri-taxation in 2014 represented real progress, with the retention, enhancement and targeting of key measures to improve land mobility, farm restructuring and promote on-farm investment. The key priorities identified for farm taxation in Budget 2017 are:

   - Income averaging to be extended to farmers whose spouses have self-employed income.
   - Income averaging to be amended to provide extra flexibility in a year when income falls significantly.
   - Extension of CGT Farm Restructuring Relief beyond end 2016.
   - Earned Income Tax Credit to be increased to the same level as the PAYE credit.
   - Taxation incentives for investment in energy efficient equipment and diversification into renewable energy.

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1. Introduction and Overview

A farm income crisis is being experienced in many sectors in Ireland in 2016, through a combination of low product prices and a bad spring. Farm families are under huge pressure as cashflow tightens and the viability of their family farm is put at risk. IFA is demanding immediate action by Government, banks, suppliers and processors to support farmers through this crisis and alleviate the farm income pressures.

In addition, the recent vote by the UK to leave the EU has created major economic uncertainty. For Irish agriculture and the agri-food sector, with 40% of our agri-food exports going to the UK, and a shared land border, the implications of the decisions to leave will impact greatly. The sudden drop in sterling will impact negatively on the competitiveness of euro exports to the UK, with a potential fall in value. At a time of major political uncertainty, IFA's focus is on highlighting the key issues of concern and identifying the best means by which these can be alleviated.

Budget 2017 provides an opportunity for the Government to take funding and taxation decisions that will directly address the farm income difficulties being experienced and underpin the longer-term development of the sector.

Exchequer returns for the first half of 2016 are positive, with spending in line with projections, and taxation revenue greater than projected. While recognising the fiscal constraints under which Ireland now operates, IFA is clear that, having experienced a reduction in funding to the agriculture budget of almost 40% during the downturn, there must be an increase in funding in this year's budget for important farm schemes. These schemes are vital in supporting farm incomes and economic output on lower income farms in particular, and support important capital investment across all farming sectors. At an overall economic level, a viable agriculture sector is critical to the strength of the rural economy. It contributes to employment across the country, and underpins our agri-food exports, which have grown by almost 60% since 2009, and will exceed €11b in 2016.

Budget 2017 also provides the opportunity to address ongoing challenges in farming through the taxation system. This includes the introduction of an individualised measure to tackle income volatility, removal of discrimination between the self-employed and employees in the income tax system, support for on-farm energy efficient investment, and continued support for intergenerational transfer and farm restructuring.

2. Farm Schemes and Expenditure Programmes 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. IFA is clear that in Budget 2017 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 revised GLAS scheme, when combined with the ongoing applications, must accommodate over 50,000 farmer places.
- 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 in 2016, with full-year payments to farmers in 2017 and full utilisation of RDP funding available.

IFA proposes that funding of €250m is allocated for agri-environment schemes in Budget 2017, with full payments for all GLAS, AEOS and organic scheme participants.

2.1.2 Areas of Natural Constraints (formerly DAS)

IFA acknowledges the commitment in the programme for government to increase funding for Areas of Natural Constraints. This follows a series of cuts to the scheme since October 2008. IFA believes, however, that the reversal of cuts must be commenced in this October's budget, as these have had a negative impact on the lowest income farmers, operating in marginal areas.

IFA proposes that funding for ANCs is increased by €25m in Budget 2017, to €225m. This should commence the process to restore ANC payments to pre-2008 levels.

2.1.3 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 recognises the commitment in the Programme for Government for a targeted sheep scheme of €25m, to be introduced in Budget 2017. This scheme must be simple and effective, with minimal costs and bureaucracy on farmers, so as to maximise its benefits.

2.1.4 Beef Data and Genomics Programme

Teagasc Farm Income figures for the cattle sector for 2015 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. IFA believes that increased targeted direct supports must be provided to the suckler cow herd in Budget 2017, in order to support farming and wider economic activity in all parts of the country.

IFA proposes the reopening of the Beef Data and Genomic Scheme in 2016. In addition, IFA is targeting increased direct support for the suckler cow sector of €200/cow. In Budget 2017, additional funding of €25m should be provided for this purpose.

2.1.5 TAMS II

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

For the intensive pigmeat sector, there is a need to increase the current grant aid ceiling of €80k, to ensure that necessary on-farm investment is undertaken. This can be catered for from within the existing funding allocation for TAMS in the pigmeat sector.

IFA proposes that, in order the meet the expected demand for on-farm investment, funding of €50m must be allocated to the TAMS II programme in 2017.

2.1.6 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 RDP.

IFA proposes that funding of €30m is allocated for Knowledge Transfer programmes for farmers across all sectors in 2017.

2.1.7 Producer organisations

With the introduction of new legislation allowing for Producer Organisations in the beef sector, there is a need for a national initiative to organise and assist farmers in the establishment of Producer Organisations at local level.

IFA proposes that the Department of Agriculture provide funding to assist farmers with the costs associated with the establishment, start up activities, and ongoing running costs of producer organisations.

2.2 Other farm expenditure programmes

2.2.1 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 undertake investment and improve efficiency and innovation.

Annual funding of €8m for the Scheme of Investment Aid for the Development of the Commercial Horticulture Sector is required, due to increased investment commitments to meet sustainability standards.

This scheme must also be expanded to include potatoes, specifically a targeted scheme of investment to support the development of salad, seed potatoes and potatoes for the fresh chip market.

In addition, compensation must be provided for the disposal of ash plants in the amenity horticulture sector, which has been negatively affected by the closure of markets due to the Ash-Dieback disease.

2.2.2 Animal Health

Farmers continue to invest heavily in improving the health status of the national herd both for statutory and non-statutory diseases, improvements in which benefits the broader agri-sector, rural areas and the economy. Infrastructure and funding must be provided by government to support farmers in all disease eradication/control programmes.

The following support measures for Animal Health are required in Budget 2017:

- ***A properly funded Deer Management Programme, including targeted resources where deer are associated with TB breakdowns.***
- ***Increased funding allocation for the TB Eradication Programme to reduce costs for farmers maintaining calves on-farm and offsetting costs due to the prohibition on purchasing in animals.***
- ***Funding for a Department of Agriculture administered National IBR programme to safeguard access to our vital export markets.***
- ***Increased funding for the BVD programme, recognising the extra costs incurred by farmers in repeat testing.***
- ***Strengthening of financial supports for the Johnes pilot programme, to encourage participation.***
- ***Increased funding and resources to upgrade the service provided to farmers in the Regional Veterinary Laboratories.***

2.2.3 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 state contribution for research funding for the Irish Equine Centre of €1m over a three year period is maintained.

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 private forest resource.***
- ***Funding of the Forest Road Scheme should be increased to cover the cost of the road construction and support mobilisation of private forest resource.***
- ***Funding for small scale harvesting and processing equipment to facilitate the mobilisation of non-commercial scale forests.***
- ***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. This will deliver an environmentally sustainable, export-driven, farmed seafood sector that benefits peripheral rural areas. The Government must ensure that publicly funded investment in all areas of the aquaculture and seafood industry is coordinated. The goal of EMFF funding, administered by BIM, must be to support the development of economically sustainable aquaculture businesses.

In addition, it is critical that there is continued momentum to clear the aquaculture licensing logjam, with the review of licensing committed to in *Foodwise 2025* essential

IFA is clear that the grant aid provided by the European Maritime and Fisheries Fund (EMFF), administered by BIM, must be targeted on measures that deliver more seafood for a growing market.

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. This must meet the costs of restriction imposed and 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 2017 to pay farmers where restrictions to farming result from land designation.

2.3.2 Fair Deal Scheme – Means Assessment of farm 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. It has the greatest impact on vulnerable farm families where the income from the farm is limited and where any further dilution of the asset value could render the farm business asset non-viable for future generations.

IFA recognises the commitment in the Programme for Government to introduce changes to remove discrimination against small business and family farms under the Fair Deal Nursing Home Scheme

IFA believes that the contribution to the cost of care under the Fair Deal Nursing Home Scheme must be immediately reviewed and must be proportionate to the ability to pay of the family farm. This would allow farm families to make the most appropriate decisions in meeting the cost of care.

2.3.3 Farm Assist

Farm Assist is a vitally important scheme for low income farm families, particularly in a year like 2016, where low product prices are causing a collapse in incomes, and short-term cashflow support is vital on many farms. IFA recognises the commitment to a review of Farm Assist in the programme for Government

IFA proposes that, in the forthcoming review of Farm Assist, the income and child disregards that were fully abolished in Budgets 2012 and 2013 must be reinstated.

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 to cater for farmers whose incomes, while low, are above the threshold for Farm Assist.

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 has campaigned for several years for the number of walks to be increased from its current number of 40 to 80. A commitment to do this was contained in the Programme for Government.

IFA proposes that, as per the commitment in the Programme for Government, the number of walks covered by the scheme must be increased to 80 with funding increased from €2m to €4m in Budget 2017.

3. Agri-Taxation

Decisions on agri-taxation taken over the period of the last Government were positive, and have contributed to farm development and restructuring. In particular, the outcome of the comprehensive review of agri-taxation in 2014 represented real progress, with the retention, enhancement and targeting of key measures to improve land mobility, farm restructuring and promote on-farm investment.

3.1 Tackling Income Volatility

Income volatility is an inherent feature of agricultural production. 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.

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

The extension of income averaging from three to five years in the Budget 2015 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, the barriers preventing more farmers from using income averaging must be removed as a priority. In addition, a more targeted and individualised volatility scheme is required. This mechanism should provide an effective response, and ease financial pressures on farmers, in a year where there is a major drop in incomes.

3.1.1 Extension of income averaging where farmer's spouse is self-employed

Under current income taxation rules, farmers whose spouses have a separate source of self-employed income are excluded from participating in income averaging. IFA believes that the extension of income averaging in the Agri-Taxation review, to farm profits where there is an additional source of income from activities related to farming, was too narrow. It continues to discriminate against farm families where the spouse has a separate source of self-employed income. Where the spouse has PAYE income, the farmer is eligible to participate in income averaging. IFA wishes to maximise the number of farmers that can avail of income averaging. It is proposed, therefore, that the current restrictions on eligibility where the farmer's spouse is in self-employment must be removed.

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.

3.1.2 Individualising income averaging through temporary opt-out[1]

A major difficulty for farmers who are on income averaging is that, in the year that they have a very low income, the tax that they are required to pay can be quite high, due to higher income earned in the previous four years. This can have a very negative impact on the farmer's cashflow, as they are required to pay this higher tax at a time when they are often least able.

[1] See Appendix I for further analysis and worked example of proposal

IFA proposes that a farmer on income averaging is permitted, in a year when farm income falls significantly, to pay the tax due for a single year only on the actual income earned in that year, rather than the average tax due arising from five years' income. The underpayment of tax in that year would be carried forward and paid over a three year period. IFA proposes that, over a five year period, the farmer would have the option of using his actual income as the basis for his tax payment on two occasions.

While the scheduling/timing of the tax payment would differ, the total amount paid to the Revenue Commissioners would remain the same. The farmer would pay higher tax in the years following the opt-out, than if he had not opted out, but this should be at a time of higher income, and therefore greater ability to meet this tax payment.

3.2 Removing discrimination in the income tax system

3.2.1 Earned Income Tax Credit

Last October's budget finally saw the first steps in removing the discrimination of the self-employed in the income tax system with the introduction of the Earned Income Tax Credit.

IFA recognises the commitment in the Programme for Government to increase the Earned Income Tax Credit from €550 to €1,650 for the self-employed, to match the PAYE credit, by 2018.IFA believes that, given the positive exchequer returns in 2016, there is scope to equalise the credits fully by 2017.

3.3 Farm Transfer and Restructuring

3.3.1 Agricultural Relief and CAT Values

90% Agricultural Relief from Capital Acquisitions Tax is a hugely important support for the intergenerational transfer of family farms. It allows 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. Its retention for active farmers in Budget 2015 was a very positive move, ensuring that transferred land is put into productive use.

Following a reduction of over 60% in the CAT exempt thresholds between 2008 and 2011, the Government took the first step in reversing these cuts in Budget 2016. IFA supports a further increase in the tax free exemption threshold between parents and children, reflecting the high asset value of farms, which have a modest income generating potential.

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, to ensure that farms of a viable size can continue be transferred, IFA supports the commitment in the Programme for Government to increase the Category A threshold (parent and child) in future budgets.

3.3.2 CGT Restructuring Relief

CGT restructuring relief, introduced in Budget 2013, is a key measure which provides farmers with the opportunity to consolidate their farm holding through land swap, disposal and re-purchase, resulting in a more efficient and profitable enterprise.

IFA believes that the CGT Restructuring Relief measure should be extended past the current expiry date of end 2016. While recognising that it is a measure that applies to a small number of farmers, IFA argue that its retention is important. Where the opportunity arises to restructure a farm through land disposal and re-purchase, it is of huge benefit to that individual, and can significantly improve both the financial and environmental efficiency of that holding.

3.3.3 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 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.

3.3.4 CGT Relief on Farm Partnership dissolution

The removal of barriers to entering partnership is very important to ensure that the benefits of farming in partnership, including increased efficiency and output, can be further realised. Prior to 2008, individuals were potentially liable for Capital Gains Tax arising from the dissolution of a partnership. This barrier to entry was removed in Finance Act 2008, whereby relief from CGT was given to individuals where there is a break up of a partnership.

IFA believes that, in order to continue to encourage farmers to enter into farm partnerships, the 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.

3.3.5 Aquaculture – implementing the proposals of the marine taxation review

In order to encourage orderly succession in the marine sector and the sustainable use of marine resources, a recommendation of the Marine Taxation Review was that enterprises in the marine sector should be eligible to qualify for Agricultural Relief.

Under these provisions, qualifying assets such as buildings required for fishing or aquaculture would be entitled to obtain reliefs analogous to agriculture relief, providing the beneficiary satisfies an 80% marine property test on the valuation date and the beneficiary either meets an actively engaged test or leases the property to a lessee who meets this test. As a general principle, IFA believes that aquaculture enterprises should be eligible for the same tax reliefs and incentives as apply to traditional farming.

IFA proposes that the extension of Agricultural Relief to the marine sector, including aquaculture, must be implemented in Budget 2017.

3.4 Farm Investment

3.4.1 Accelerated Capital Allowance for investment in energy efficient equipment

For the farming sector, the abolition of the milk quota in 2015 and rollout of the TAMS programme across all sectors has resulted in significant on-farm investment. While the downturn in farm incomes in 2016 has caused some slowdown in this activity, farming is a capital intensive sector, which requires ongoing annual investment to remain efficient.

A key target for the agri-food sector is to improve the emission efficiency of production. The provision of accelerated capital allowances for investment by sole traders in energy efficient equipment would make an important contribution to achieving this aim. This measure would be of particular benefit to the intensive sectors, such as pigmeat, poultry and horticulture, which make significant capital investment in heating, insulation and refrigeration systems.

In addition, the Marine Taxation Review 2016 noted that the aquaculture sector, which consists mainly of sole trader and partnership enterprises, would also benefit from the extension of the scheme beyond limited companies.

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

3.4.2 Incentivising farm level renewable energy initiatives

With almost 50% of Ireland's renewable energy targets for 2020 yet to be reached, a stronger, more inclusive energy policy is urgently required. The Programme for Government clearly reflects the IFA position that greater community participation must be at the centre of future renewable energy 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.

In addition, the use of farmland is continuously evolving to reflect changing market demands and emerging opportunities. In the area of renewable energy, farmland is increasingly being considered for use in solar power production. IFA notes the commitment in the Programme for Government to facilitate the development of solar energy projects and the Department of Agriculture's commitment to maintain the basic payment schemes, subject to EU Commission approval.

IFA believes that the mixed use of farmland for both solar power generation and more traditional types of farming (e.g. animal husbandry) must be considered to be fully used in the overall trade of farming. It should therefore qualify for the taxation measures and reliefs available to the active use of farmland. IFA believes that the current interpretation by the Revenue Commissioners (May 2016) must be amended to reflect this.

For farmland used for solar power generation, IFA proposes that:

- ***Land leased on a long-term basis to a solar panel enterprise, where the land is also used in the trade of farming, must qualify for the income tax exemption for long term leasing of farmland.***
- ***Where the lease concludes and reverts to the original farmer, CGT Retirement Relief and Agricultural Relief must apply on transfer of the land, subject to the other qualifying conditions being satisfied.***
- ***Where the farmer installs the solar panels on his land and continues to farm the land around the panels (does not lease the land out), this land will qualify for CGT Retirement Relief and Agricultural Relief upon transfer.***

To further encourage farm-based renewable energy initiatives IFA proposes:

- ***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.***
- ***Income received for the 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, and***
- ***Revenue from the Carbon Tax should be ring-fenced for investment in and support of renewable energy initiatives.***

3.5 Supporting employment in rural Ireland

3.5.1 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. These changes will remove barriers to sales and distribution of craft cider, 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.

The evidence of the micro-brewed beer industry of the last 10 years, which has increased market penetration tenfold, to about 10%, provides a clear indication of the responsiveness of indigenous producers to a more favourable cost environment, arising from a 50% reduction in the duty rates.

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.***

3.5.2 Apprenticeship tax credit

A skills shortage is emerging due to a lack of availability of trade-based vocational training programmes. This has the potential to undermine economic growth, especially the development of small businesses in rural Ireland. A co-ordinated effort is required between stakeholders in the further and higher education sectors, led by strong Government policy and adequate funding, to ensure that Ireland's new workforce have the skills and training required to match the demands of the labour market. IFA recognises the commitment in the Programme for Government to double the number of apprenticeships by 2020, with a significant increase in the number of traineeship places and development of a mechanism to recognise a person's practical work experience and expertise to enable them to take on an apprentice.

IFA proposes that incentives through the tax system are provided for small business employers who take on apprentices in an approved programme. This would be in the form of an income tax credit similar to the Apprenticeship Job Creation Tax Credit[2] scheme currently operating in Canada.

3.5.3 Rejuvenating rural towns and villages

Many villages and town centres were badly high during the recession, with rural communities impacted by emigration and high levels of youth unemployment. Support for SMEs will be an essential part of delivering economic recovery in rural areas and rejuvenating rural towns and villages. However, small businesses staring up in rural Ireland are faced with significant administrative and regulatory costs, which act as a disincentive to start-up and to increasing employment. The high cost of local authority rates, for example, can often absorb cash flow which could alternately be used to increase employment and to grow and develop the business.

IFA supports the proposal in the Programme for Government to introduce a new and improved Town and Villages Renewal Scheme in this year's budget. In addition, IFA proposes:

- ***New business start-ups should receive an exemption from rates for an initial time period and with a continuation of the three year tax exemption for start -up companies.***
- ***Where businesses establish in rural villages and town centres, they should be eligible to claim double income tax relief on their rental expenditure for their premises.***

[2] http://www.cra-arc.gc.ca/tx/ndvdls/tpcs/ncm-tx/rtrn/cmpltng/ddctns/lns409-485/412/jctc-eng.html

Appendix I

Individualising income averaging through temporary opt-out

A major difficulty for farmers who are on income averaging is that, in the year that they have very low income, the tax that they are required to pay can be quite high, due to higher income earned in previous years. This can have a very negative impact on the farmer's cashflow, as they are required to pay this higher tax at a time when they are often least able. IFA proposes that a farmer on income averaging is permitted, in a year when farm income falls significantly, to pay the tax due for a single year only on the actual income earned in that year, rather than the average tax due arising from five years' income.

The main parameters of the IFA proposal are as follows:

1. The farmer is on five year income averaging.
2. In a year of low income, the farmer will choose to determine his preliminary tax liability based upon 90% of his current tax year (estimated) final liability.
3. The farmer can opt out of income averaging twice in a five year period, acknowledging that a fall in commodity prices can often last more than one production cycle (the current dairy price collapse being an example of this).
4. The farmer recommences payment of the tax deferred two years after his initial opt-out. This is paid back equally over a three year period.

Arguments in support of the proposal

- IFA believes that there should be no State Aid concerns arising from this proposal, as the farmer will pay the same amount of tax as he would with simple five year averaging. A new taxation measure is not required, rather an amendment of an existing scheme.
- For the farmer, the opportunity to opt out of paying the average (higher) tax in the year where their income is lowest would reduce cashflow pressures in that year, and support the continued viability of their farm operation.
- There should not be a significant increase in the administrative burden for the operation of this scheme. Under income averaging, the farmer's annual tax due is calculated already, along with the averaged figure. The only change would be to calculate the carried forward tax due, over the remaining years of the five year cycle.
- The farmer's profit on which the farmer's tax is calculated is the same over a six year period, whether utilising simple income averaging, or the proposed system of a two year opt-out (5 years in the case of a single opt-out).

A worked set of examples clearly demonstrates the impact the proposal could have on cashflow, and the full repayment of deferred tax due over a pre-determined period of time.

Example 1 – 1 year opt out

In this example, 2016 is a low income year for the farmer. He elects to pay preliminary tax on his estimated actual profit (as against average profit) that year. The difference in the tax due between these two profit amounts is deferred and payment for this deferred tax due will recommence in 2018.

Example 1 shows the taxable profits for:

- A farmer whose tax is calculated on annual profits.
- A farmer who is on income averaging and remains on income averaging.
- The same farmer who is on income averaging, opts out of averaging for 1 year, and repays the deferred tax due over the three years following the opt out.

Income Averaging 1 year opt out

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total profit 2016-2020
ANNUAL TAX CALCULATION											
Annual tax - taxable profit (€)	52,000	60,000	90,000	72,000	60,000	**30,000**	**50,000**	**75,000**	**65,000**	**80,000**	300,000
INCOME AVERAGING											
Income averaging - taxable profit (€)	42,000	52,333	67,333	74,000	66,800	**62,400**	**60,400**	**57,400**	**56,000**	**60,000**	296,200
PROPOSED SYSTEM (income averaging opt-out)											
Taxable profit with opt-out (€)	42,000	52,333	67,333	74,000	66,800	30,000	60,400	57,400	56,000	60,000	
+ Deferred taxable profit (€)								10,800	10,800	10,800	
Total taxable profit (€)	42,000	52,333	67,333	74,000	66,800	**30,000**	**60,400**	**68,200**	**66,800**	**70,800**	296,200
2016 profit on which tax is deferred (€)	32,400										

Example 2 – 2 year opt out

In this example, 2016 and 2017 are low income years for the farmer. He elects to pay preliminary tax on his estimated actual profit (as against average profit) in those two years. The difference in the tax due between these two profit amounts is deferred and payment for this deferred tax due will recommence in 2018 (for the 2016 deferment).

Example 2 shows the taxable profits for:

- A farmer whose tax is calculated on annual profits.
- A farmer who is on income averaging and remains on income averaging.
- The same farmer who is on income averaging, opts out of averaging for 2 years, and repays the deferred tax over the three years following the opt outs.

Income Averaging 2 year opt out

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total profit 2016-2021
ANNUAL TAX CALCULATION												
Annual tax - taxable profit (€)	52,000	60,000	90,000	72,000	60,000	**30,000**	**25,000**	**75,000**	**65,000**	**80,000**	**65,000**	340,000
INCOME AVERAGING												
Income averaging - taxable profit (€)	42,000	52,333	67,333	74,000	66,800	**62,400**	**55,400**	**52,400**	**51,000**	**55,000**	**62,000**	338,200
PROPOSED SYSTEM (income averaging opt-out)												
Taxable profit with opt-out (€)	42,000	52,333	67,333	74,000	66,800	30,000	25,000	52,400	51,000	55,000	62,000	
+ Deferred taxable profit (€)								10,800	20,933	20,933	10,133	
Total taxable profit (€)	42,000	52,333	67,333	74,000	66,800	**30,000**	**25,000**	**63,200**	**71,933**	**75,933**	**72,133**	338,200
2016 profit on which tax is deferred (€)	32,400											
2017 profit on which tax is deferred (€)	30,400											

Unity I Strength I Delivery

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