Macra na Feirme

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Summary of

Pre-Budget Submission 2014

August 2013

Overview

Agriculture and Food is one of the most important drivers of growth, jobs and the creation of wealth in Ireland over the next few years. The fiscal and structural measures put in place by Government need to help rather than hinder the long-term development of agriculture and to specifically support young farmers who are the future of the industry.

Agriculture's full potential can only be achieved by supporting and facilitating young farmers and young agri entrepreneurs in becoming established in agriculture and food. Supporting young farmer's helps deliver jobs and employment in rural areas, helps grow the agri-food sector, drive efficiency, innovation and productivity at farm level. Supporting agriculture delivers a huge multiplier effect that benefits and sustains rural areas and the economy as a whole.

Most importantly agriculture needs young, energetic, well-trained people to become involved in farming where they can make an impact. The current age profile of agriculture is not sustainable, Ireland hasn't enough young farmers for the future with only 6% of young farmers under 35. The lack of new blood in farming is borne out in figures produced by the Central Statistics Office, which show that, in the ten years to 2010, the number of farmers aged under 35 reduced by 53%.

Access to land is one of the greatest structural barriers in Irish agriculture, we need to facilitate the start-up of young farmers and the retirement of older farmers with dignity so that the industry as a whole can be more productive and generate more income.

Not enough young farmers are facilitated to enter farming, and based upon current numbers of approx 1,000 new entrants per annum, there is simply not enough young farmers entering farming to sustain the agri food industry.

Therefore, Macra's pre budget submission focuses on four issues:

- *land transfer incentives and reliefs*
- *land mobility incentives*
- *agricultural education*
- *income volatility*

- Taxation is one of the barriers that impacts on land transfer to young trained farmers. Any changes to the rate of **Agricultural Relief** will have a major impact on the transfer of farms and make some farms unsustainable to transfer;

- Access to land is one of the greatest barriers in Irish agriculture. The system of long term leasing of land is under-utilised, therefore, Macra is proposing a **double rent relief for the first year of rental expenditure on long term leases;**

- Agriculture is now seen as an attractive option by many of our school leavers however we need to ensure that vocational **agriculture education** is resourced to maintain standards and quality of delivery. Access to education is critical and the notion of including productive assets such as land and equipment will unfairly disadvantage young people from farming backgrounds to access education grants;

- Macra believes there is justification to introduce a new initiative to alleviate **income volatility** in farming. Macra is proposing a scheme in the form of a bond to help farmers manage income volatility; and

- Finally, the **CAP Rural Development Program** 2014-2020, co-funded by the Irish Government, requires a strong policy and measures in favour of young farmers. The program needs to be ambitious, well-funded and facilitating today's young farmers to develop sustainable farm businesses for the long term.

Land Transfer Incentives

Agricultural Relief

Currently, relief is given by reducing the market value on which Capital Acquisition Tax is calculated by 90%, provided that 80% of the gross assets post transfer are ‘agricultural assets.’ With CAT at 33% and a reduction in the general tax free gift threshold, this relief is extremely important for the agricultural sector and the early transfer of farms to young farmers. For example, reducing the rate from 90% to 75% would equate to a 60% reduction in the tax free allowance and would have serious implications for the transfer of some farms. Reducing the percentage for Agriculture Relief has the potential to have a negative effect on revenue for the economy as certain farms will not be transferred until death and the loss in economic activity of the farms will have an effect on economic growth in the Agri sector and revenue for the economy.

Macra propose: the retention of Agricultural Relief in its current format at the rate of 90%

Capital Taxes Thresholds and Rates

Over a five year period, Capital Acquisition Tax and Capital Gains Tax rates have increased from 20% to 33% and the allowance thresholds have reduced by approximately 50% to €225,000 for a young farmers receiving gift or inheritance from a parent.

Macra propose: no increase in rates and no reduction in the threshold

Extension of Capital Gains Tax Retirement Relief

Currently, retirement relief allows farmers transferring their agricultural property to a family member to be exempt from Capital Gains Tax on certain transfers. The provision also allows for the land to be leased out prior to being transferred to an immediate family member for example a son or daughter. This relief should be extended to cover land transfer to favoured niece or nephew if land is leased out long term and subsequently transferred. This would encourage earlier land transfer to favoured nieces or nephews as retiring farmers, who have no immediate successors, could transfer farms and avail of retirement relief.

Macra propose: the extension of retirement relief to cover favourite nice/nephew

Farm Partnership Capital Gains Tax Relief

Macra is a strong advocate of the benefits of collaborative farming including partnerships farming. In the 2008 Finance Act provision was made for Capital Gains Tax relief on the dissolution of a registered partnership. This relief is due to expire on the 31st December 2013.

Macra propose: the extension of the Capital Gains Tax relief for the dissolution of farm partnership up to 2020.

Land Mobility Incentives

New Land Leasing Relief

A key factor in allowing future young farmers the opportunity to scale upwards will be land availability. The current measures to encourage long term leasing of land, which favor the farmer leasing out the land, are not seen by farmers as an attractive option and must be altered.

Macra is proposing that a double rent relief for the first year of rental expenditure be available to the active farmer leasing in the land. The recent Law Society Regulation 2012 (SI 375/2012) requires both the lessor and lessee to have separate legal representation. This is seen as a barrier to entering into long term leases as two sets of legal fees arise, however this incentive would offset these costs.

This would be an incentive for active farmers to seek long term land rental agreements and also offset the cost associated with both parties having to engage legal representation to draw up long term leases. This would be an incentive for the active farmer to pursue long term leasing options rather than con-acre.

Macra propose the introduction of a double rent expenditure relief for the first year of long term land rental agreements.

Agricultural Education

Means Testing

The demand for agricultural education is at an all time high. The idea or concept that the farm's working asset value should be used in determining whether a son or daughter may or may not avail of potential student grants is unfair. Farm assets are productive assets and are essential to the ongoing survival of the business from generation to generation and should not be factored into means testing for higher education grants.

Macra propose that agricultural assets be exempted from means testing proposals.

Investment in Agricultural Education

The embargo on Teagasc, preventing them employing the required staff to replace existing staff in agricultural colleges, will seriously impact on the delivery of agricultural education. The embargo by the Department of Finance on the employment of staff in Teagasc colleges to replace those who have, for example, retired or are on maternity leave in colleges will affect the quality and delivery of agricultural education. The student teacher ratio is rising to levels that will impact on the delivery and quality of vocational agricultural education.

Macra propose that the Departments of Agriculture and Finance take into account the surge in numbers attending agricultural college and give Teagasc approval for the recruitment of replacement staff similar to all other Third Level colleges.

Incentives to Alleviate Income Volatility

Income Volatility Bond

Macra are proposing a new initiative to help address volatility in farm incomes to provide more financial stability to farmers so that agriculture as an industry can continue to grow and prosper and contribute to the overall economy. The proposal is that farmers would be allowed to take some excess income arising from a good year in farming and invest it in a government bond. The scheme would have minimal set up or running charges as it could be based on and operated similar to the current government bond scheme operated by An Post.

Farmers would be free to reinvest the money annually if their financial position was satisfactory or cash in the bond when agricultural prices are low or other external factors e.g. weather, negatively impacts on farm income or if the money was required for investment etc. On encashment the value of the bond would then be liable for income tax in that tax year.

This option is in addition to income averaging, however it is a more flexible and sustainable tool for farmers to cope with volatility in incomes as well as providing the government with a reasonably priced source of credit.

Income averaging is a good idea when incomes are rising but can very quickly cause major financial difficulties when incomes are declining. This proposed scheme would also act as a self administered insurance policy for farmers and an excellent tool for dealing with price volatility in the future, reducing the need for government to intervene in times of crisis. From the governments point of view it would provide access to an indigenous source of funds on an annual basis at a reasonable interest rate.

Macra propose the introduction of a scheme in the form of a bond to alleviate income volatility.

Reclassification of Co-op Shares as an Asset

Many young farmers are planning to expand their farm enterprises in-line with targets in the Food Harvest report especially in dairying. Farmers, who are required to share up or pay a levy for investing in their co-operative to supply produce, should receive appropriate taxation relief. Capital allowances are available for milk quota purchase, the same should apply to farmers who have to share up in their co-operative to allow them supply milk.

Macra recommends that co-op shares be reclassified as assets as they are non-trading shares and the relevant capital allowances should be applied.

CAP - Rural Development Program Supporting Young Farmers

The funding priorities under the Rural Development Program 2014-2020, which is co-funded by the Irish Government, will have a significant impact for the future establishment of tomorrow's young farmers along with facilitating today's young farmers to develop sustainable farm business for the long term.

Macra therefore urges the Department of Agriculture to support a strong and ambitious well funded Rural Development policy which targets young farmers and attracts a new generation into agriculture. At a very minimum 5% of the Rural Development Program funding should be ring fenced to support and encourage young farmers through a range of targeted measures.

Macra stresses the need for a stronger policy in favour of young farmers and regrets that funds and measures available for young farmers under the current RDP 2007-2013 are not being implemented for example Young Farmer Installation Aid. Macra seeks a mandatory implementation of measures in the Rural Development Program when it comes to young farmers measures. The vital importance of putting in place a strong young farmer package in the new CAP Rural Development program 2014-2020 is best demonstrated by the fact that there are only 6% of farmers under35 years of age (CSO, 2010) or 5% with a single farm payment (Dept of Ag 2010) a fact broadly replicated across the EU.

Macra believe the following items in the CAP regulations should be included and sufficiently funded in Ireland's Rural Development Program to assist young farmers:

- Farm and business development to include young farmer start up aid
- Investment in physical assets
- Co-operation
- Setting up of producer groups
- Knowledge transfer and information actions
- Advisory services, farm management and farm relief services

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