

AGRI-TAXATION REVIEW

Report of the Agri-taxation Working Group to the
Minister for Finance and the Minister for Agriculture,
Food and the Marine

OCTOBER 2014



Department of
**Agriculture,
Food and the Marine**
An Roinn
**Talmhaíochta,
Bia agus Mara**



An Roinn Airgeadais
Department of Finance

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Foreword by the Minister for Finance

The agricultural sector has always been the back bone of the Irish economy. It is Ireland's largest indigenous industry with a turnover of some €26 billion annually.

The agricultural sector is not only critically important because of the large number of people it employs (equivalent to the numbers employed by US multi-nationals in Ireland) but also because of where it employs those people – in rural Ireland.

A suite of tax relief measures to help support the sector has grown up, largely on an ad hoc basis, over the years and while the various measures were examined individually as part of the much wider independent Commission on Taxation some years ago, they have never before been examined on a sectoral basis, nor by reference to the overarching strategy for Irish agriculture – Food Harvest 2020.

Clearly there are many challenges facing the agricultural sector including, the lack of land mobility, the fragmentation of Irish farms, the ageing of the farmer population not to mention issues connected with income volatility which is a problem common to commodity related sectors worldwide.

But equally there are very many real opportunities on the horizon which Irish farming can exploit including, the ending of milk quotas, the increasing consumer demand for environmentally sustainable products and the positive 'green' image of Ireland abroad.

The overall objective of the Review, which has been a real collaborative effort between my Department of Finance and Minister Coveney's Department of Agriculture, Food and the Marine, is to maximise the benefits for the farming sector and the wider economy of the existing level of State support through the tax system.

I would like to take this opportunity to thank Indecon for the work they have done as part of this review. Their analysis and recommendations will be a useful resource for policymakers in future years.

Finally, I would like to thank all those involved in farming in Ireland who contributed to the public consultation process that was a key element of this Review. If the level of engagement in the public consultation process is anything to go by, it is clear that the agricultural sector in Ireland has a very bright future ahead of it, in no small measure due to the enthusiastic, creative and dedicated people involved in farming throughout this island.

Michael Noonan, TD
Minister for Finance

Foreword by the Minister for Agriculture, Food and the Marine

I welcome the publication of the Agri-taxation Review and am pleased that the Minister for Finance and I could facilitate this joint initiative. This Review was timely and has given us a unique opportunity to examine a critical element of Government support to the agriculture sector in the context of the Food Harvest 2020 strategy and the major opportunity presented by the abolition of dairy quotas next year. We now have a strong evidence base for continued assistance to the sector through taxation measures and we have a clear strategy with specific policy objectives for the future.

This Government has prioritised agriculture and food as a major economic driver for the Irish economy and its commitment to the sector is clear. The Programme for Government set out our strategy for growing the agri-food sector and much has been achieved. Our Presidency of the EU played a key role securing a Common Agriculture Policy (CAP) agreement last year, with the allocation of more than €12.5 billion in funding for the period to 2020. I recently launched Milestones for Success 2014, which highlighted the progress achieved under the Food Harvest 2020 strategy and shows how the agri-food sector is fuelling economic activity right across the country and generating increased employment. However, there are challenges ahead and this Report forms part of the policy response to those challenges.

The Report sets out three main policy objectives, the first two of which are primarily supported through taxation measures.

1. **Increase the mobility and the productive use of land:** Access to land and the low level of land mobility is one of the main challenges facing farmers who want to increase their productivity. There is a growing consensus that access to land, and its productive use, is becoming more of an issue than ownership. While there is an active rental market, the majority of these cases are for short-term conacre lettings. Long-term leasing has a number of advantages over the conacre system and the Report recommends measures to assist in rebalancing the market in its favour.
2. **Assist succession:** The age profile of Irish farmers is increasing and it is recognised that there are many social and economic reasons why succession management is a challenge for farmers. Assisting succession and the transfer of farms has been a central part of agri-taxation policy and the Report includes a number of recommendations to maintain and strengthen that support.
3. **Complement wider agriculture policies and schemes,** such as supporting investment to enhance competitiveness, including assisting new entrants and young trained farmers, environmental sustainability and the improvement of farm efficiency, alternative farming models such as farm partnerships and responses to increasing income volatility. These are objectives which are primarily supported through other policies such as the CAP. However taxation measures have a specific role to play in these areas and a number of recommendations are outlined in the Report.

The Report also recommends the continuation of the Agri-taxation Working Group to ensure the successful implementation of the Report, to examine some outstanding and ongoing issues further and to ensure better data collection on costs and benefits, so that resources can remain targeted for the benefit of the sector and economy generally.

I want to thank Minister Noonan and his Department for their continuing engagement on taxation issues relating to the agri-food sector, as evidenced over the past year by the significant commitment given to this Review. The Review process included a comprehensive public consultation process and the contribution of the agriculture stakeholders has been vital. The work of Indecon has been an integral part of the Review in establishing a robust evidence base for future decision making. I would like to acknowledge all who have contributed to the Review and thank them for giving generously of their time and expertise.

Simon Coveney, TD

Minister for Agriculture, Food and the Marine

Part A: Working Group Report >

Executive Summary

Report of the Agri-taxation Working Group

This Report is presented by the Agri-taxation Working Group to the Minister for Finance and the Minister for Agriculture, Food and the Marine, to fulfil its mandate to examine agri-taxation measures and to make recommendations to ensure resources are directed towards activities of maximum benefit to this sector of the economy.

Background

A review of tax measures in the farming sector was announced in Budget 2014, as a joint initiative between the Department of Finance and the Department Agriculture, Food and the Marine. This is in line with Department of Finance policy to regularly review major tax expenditures relating to specific sectors. The purpose of the review is to analyse the benefits of the various tax measures to the agriculture sector and the wider economy versus the costs and to ensure tax policy aligns with the objectives set out in Food Harvest 2020. The Minister for Finance stated in his budget speech that “the objective of the review is to identify what works and what doesn’t, and redirect the existing level of tax expenditure towards activities of maximum benefit to this sector of the economy”.

The Review was overseen by a working group made up of the Department of Finance, the Department Agriculture, Food and the Marine and the Revenue Commissioners. The Review included an independent cost benefit analysis, an international benchmarking exercise and a public consultation process. Following a competitive tendering process, Indecon International Economic Consultants were appointed to carry out the independent cost benefit analysis and the international benchmarking exercise.

There are a number of taxation measures which are exclusively aimed at the farming community, while farmers can also avail of a number of other measures that are not exclusive to the sector. The main categories examined were:

- Capital Allowances
- Stock Reliefs
- Income Tax exemptions for land leasing
- Income Tax exemptions for profits from woodlands
- Capital Gains Tax measures
- Capital Acquisitions Tax measures
- Stamp Duty measures.

The Agri-Food Sector

The agri-food sector continues to play an integral part in Ireland’s economic recovery and is its largest indigenous industry with food and beverage manufacturing enterprises having a

turnover of some €26 billion. Agri-food exports have increased to a record value of some €10 billion in 2013. The sector accounts for around 170,000 jobs or 9% of total employment, and makes a particularly significant contribution to employment in rural areas.

In order to focus the Review, it was decided to examine taxation relating to the primary production sector only. The primary agriculture sector provides the raw materials that underpin the Irish food and drink industry. It is a key driver of the rural economy with the CSO estimating the output of the primary agriculture sector in 2013 at €7.25 billion. It estimates intermediate consumption of almost €5.7 billion, the vast majority of this expenditure being spent on local wages and raw materials and services sourced in Ireland. It has been estimated that 74% of total expenditure in the food and drink industry is on wages and raw materials and services sourced in Ireland, compared to 40% for the manufacturing sector as a whole.

1 The Food Harvest 2020 strategy set ambitious targets for 2020, to increase the value of primary output by 33%, and the value of exports by 42% and value-added by 40%. Progress to date has been very positive, as reported recently in Milestones 2014. However, there are both challenges and opportunities ahead. There are structural issues at farm level such the low level of land mobility, the age profile of farm holders, holding size and fragmentation and increasing income volatility. However, 2015 will see the abolition of milk quotas and there is an increase in demand for agri-food products underpinned by a growing global population.

“Ireland has a large agricultural sector compared to most other advanced economies. It also punches well above its weight in agricultural trade, with a highly diversified industry ranging from major global agri-companies to small farms” - HSBC Global Connections Trade Forecast report for Ireland, September 2014.

Public Consultation

Launched by both Ministers in February, the public consultation process was undertaken by the Working Group and consisted of written submissions and consultative meetings with key stakeholders. There was a good response to the written submission phase of the public consultation process; 46 submissions were received with over 300 detailed suggestions across a range of tax-heads. The Working Group and Indecon held consultative meetings with 21 key stakeholders during May. The submissions and meetings included proposals to amend current measures and some new proposals, all of which were considered in the course of the Review.

The Indecon Report

Econometric Analysis

The Indecon Report found a positive relationship between investment in capital and stock and increased output. It also found that a trained farmer has 12% higher levels of output compared with an untrained farmer and that farmers over 65 typically have output that is between 4% and 7.1% lower than farmers who are under 65.

Cost Benefit Analysis

Indecon estimated that the direct annual exchequer costs of agri-taxation measures amounted to nearly €340 million (this includes some expenditure on measures not exclusively available to the agriculture sector). When administration and other imputed costs were included, the total economic cost of the agri-taxation measures was estimated at €681 million per annum. Balancing these costs against the estimated benefits of agri-taxation measures, which Indecon estimated at €790 million, it provided a benefit-cost ratio of agri-taxation measures of 1.16, suggesting that in aggregate the agri-taxation measures, as they are currently constituted, have a positive net economic benefit to the Irish economy.

Indecon also report that the farming sector pays around €475 million per annum in income tax and PRSI, and that the capital gains tax yield from the agricultural sector averaged at around €50 million per annum over the past 3 years.

Review of Agri-tax Measures in Other Countries

Indecon reviewed some of the agri-taxation measures in the UK, the Netherlands and France; in particular capital allowances, stock relief, capital gains tax measures, capital acquisition tax measures, stamp duty and income averaging. They also considered any other specific agri-taxation measures in these countries, as well as specific agri-tax measures in New Zealand and Australia. The review of agri-tax measures in other countries provides context to the review of Irish measures and has demonstrated that a number of other EU Member States have particular reliefs available to the farming sector and to young farmers. It found that in general, there are more sector specific agri-taxation reliefs in Ireland than apply in some of the other countries reviewed but that in a number of other countries tax reliefs available to all businesses or to SMEs may have similar benefits for farmers.

Indecon Conclusion

The Indecon Report concluded, *'Indecon's analysis suggests that the existing agri-tax reliefs have a marginal net economic benefit and support a critical sector of the Irish economy. However the ownership structure and age profile of the Irish agricultural sector is preventing it from realising its potential. Indecon's analysis suggests that with better targeting, the contribution of the incentives to agricultural policy objectives could be enhanced. In particular, there is a need for a new focus on facilitating land access and enhancing the relative incentives for leasing. There is also a need to redirect tax measures to support active farmers and*

to target the measures to achieve other objectives.....With appropriate reforms, Indecon believes the expansion of Irish agricultural output and employment can be accelerated. The proposed reforms would underpin Ireland's inherent comparative advantages in this sector. However, failure to introduce radical effective measures to increase long term leasing and to facilitate younger age farmers would represent a lost opportunity for the Irish economy.' The Indecon Report sets out thirty recommendations, many of which mirror the Working Group recommendations.

Conclusion and Recommendations

The Agri-taxation Working Group has carefully considered written submissions to the Review, the consultative meetings held with key stakeholders and the independent Indecon Report. The Working Group considered options to better achieve existing policy goals, with particular reference to Food Harvest 2020, the new Common Agricultural Policy and the Programme for Government; particularly the Government commitments to assist further expansion of the agri-food sector and to promote greater land mobility and involvement of young farmers. Coherence with wider tax policy and any cross-sectoral consequences was also considered, as well as the current economic environment.

Taking all of the above into consideration, the Working Group concluded that it is justified to continue support for the primary sector in agriculture through taxation measures, with some additions and amendments. The Working Group believes that the new defined agri-taxation policy objectives and the resulting range of recommendations fulfils its brief and will contribute to maximising the potential of the primary agriculture sector.

Taxation policy for the primary agriculture sector and the resultant taxation measures has grown incrementally over many years. The Working Group sets out a strategy for agri-taxation policy for the future and has concluded that the key policy objectives are:

1. Increase the mobility and the productive use of land.

Access to land and the low level of land mobility is one of the main challenges facing farmers who want to increase their productivity. There is a growing consensus that the actual use of land is becoming more of an issue than ownership. While there is an active rental market, the majority of these cases are for short-term conacre lettings. Long-term leasing has a number of advantages over the conacre system and the Report recommends measures to assist in rebalancing the market in its favour.

2. Assist succession.

The age profile of Irish farmers is increasing and it is recognised that there are many social and economic reasons why succession management is a challenge for farmers. Assisting succession and the transfer of farms has been a central part of agri-taxation policy and the Report includes a number of recommendations to maintain and strengthen that support.

3. Complement wider agriculture policies and schemes, such as supporting:

- a) Investment to enhance competitiveness, including assisting new entrant, young trained farmers.
- b) Environmental sustainability, including the improvement of farm efficiency.
- c) Alternative farming models such as farm partnerships.
- d) Responses to increasing income volatility.

Consistent with agriculture policy generally, an overarching principle of policy in this area is to ensure existing resources, especially land, are focussed on active productive farmers. Increasing the mobility and the productive use of land and assisting succession are policy objectives which are primarily supported through the taxation system. The objectives listed at 3 are primarily supported through other policies such as the CAP. However taxation measures have a specific role to play in these areas and there a number of recommendations in this regard.

The Report also recommends the continuation of the Agri-taxation Working Group to ensure the successful implementation of the Report, to examine some outstanding issues further and to ensure better data collection on costs and benefits, so that resources can remain targeted for the benefit of the sector and economy generally.

Recommendations

The Working Group has set out 25 recommendations below, grouped as per the key policy objectives. Due to resource and time constraints, not all of the recommendations of the Agri-taxation Review may be implementable immediately. In Budget 2015 the Minister for Finance will outline those that will be implemented in the near future; some of the recommendations will be considered for future budgets, while others will be the subject of further examination by the Working Group. Administrative difficulty and EU State Aid issues will also be factors to be considered with regard to future implementation.

Agri-taxation policy objective 1: Increase the mobility and the productive use of land

A range of measures are recommended, focused on rebalancing the market in favour of long-term leasing:

Recommendation 1: Retain Relief for certain income from leasing of farm land.

Recommendation 2: Increase the income thresholds for relief from leasing income by 50%.

Recommendation 3: Introduce a fourth threshold for lease periods of 15 or more years with an exemption for the first €40,000 per annum.

Recommendation 4: Remove the lower age threshold of 40 years of age for eligibility for the long-term leasing tax relief.

Recommendation 5: Allow non-connected limited companies as an eligible lessee for the long-term leasing tax relief.

Recommendation 6: Relieve stamp duty on long-term leases (5 years or more) for agricultural land.

Recommendation 7: Raise awareness among land owners of the current reliefs for long-term leasing.

Agri-taxation policy objective 2: Assist succession

A range of measures are recommended to maintain and strengthen the supports for the transfer of farms:

Recommendation 8: Retain Agricultural Relief from Capital Acquisitions Tax.

Recommendation 9: Target Agricultural Relief from Capital Acquisitions Tax to qualified or full-time farmers or to those who lease land out on a long-term basis.

Recommendation 10: Retain Retirement Relief from Capital Gains Tax at current levels.

Recommendation 11: For transfers under Retirement Relief, extend the eligible letting period of a qualifying asset to 25 years.

Recommendation 12: For transfers other than to a child under Retirement Relief, as a once-off measure until the end of 2016, allow conacre lettings as eligible.

Recommendation 13: Extend Stamp Duty Consanguinity Relief on Non-Residential Transfers to the end of 2017.

Recommendation 14: Retain current stamp duty exemptions on transfers of land.

Agri-taxation policy objective 3: Complement wider agriculture policies and schemes

A. Investment to enhance competitiveness, including assisting new entrant, young trained farmers.

Recommendation 15: Retain the current Capital Allowances available to the sector.

Recommendation 16: Retain current Stock Reliefs.

B. Environmental sustainability, including the improvement of farm efficiency.

Recommendation 17: Retain CGT relief on farm restructuring, allow whole-farm replacement and extend the measure to the end of 2016.

Recommendation 18: Retain as tax exempt, profits or gains from the commercial occupation of woodlands.

Recommendation 19: Examine the broadening of the scope of Sustainable Energy Authority of Ireland's (SEAI) ACA scheme to incentivise investment in energy efficient equipment by making it available to non-incorporated businesses.

C. Alternative farming models such as farm partnerships.

Recommendation 20: Retain the current measures and review in the context of new partnership register and supports under the RDP.

D. Responses to income volatility.

Recommendation 21: Retain and enhance Income Averaging by increasing the period from 3 to 5 years.

Recommendation 22: Allow averaging to be availed of where a farmer and/or their spouse receive income from an on-farm diversification trade or profession.

Recommendation 23: Examine the scope for extending income averaging to forestry clear-felling profits.

General Recommendations

Recommendation 24: The Agri-taxation Working Group should remain in place to monitor the agri-taxation measures and examine other issues arising; and specifically to:

- Examine the feasibility of introducing a risk deposit scheme: there is a risk deposit scheme currently operating in France and this will be examined further.
- Examine the feasibility of introducing a 'Phased Transfer Partnership'.
- Examine the tax system to determine unintended barriers to female participation.
- Examine other issues as necessary.

Recommendation 25: The Agri-taxation Working Group should also work to ensure better data collection on costs and benefits.

List of Recommendations & indicative timescale for implementation

Agri-taxation policy objective 1: Increase the mobility and the productive use of land		
1	Retain Relief for certain income from leasing of farm land.	Ongoing
2	Increase the income thresholds for relief from leasing income by 50%.	Budget 2015
3	Introduce a fourth threshold for lease periods of 15 or more years with an exemption for the first €40,000 per annum.	Budget 2015
4	Remove the lower age threshold of 40 years of age for eligibility for the long-term leasing tax relief.	Budget 2015
5	Allow non-connected limited companies as an eligible lessee for the long-term leasing tax relief.	Budget 2015
6	Relieve stamp duty on long-term leases (5 years or more) for agricultural land.	Budget 2015
7	Raise awareness among land owners of the current reliefs for long-term leasing.	Ongoing
Agri-taxation policy objective 2: Assist succession		
8	Retain Agricultural Relief from Capital Acquisitions Tax.	Ongoing
9	Target Agricultural Relief from Capital Acquisitions Tax to qualified or full-time farmers or to land owners who lease land out on a long-term basis.	Budget 2015
10	Retain Retirement Relief from Capital Gains Tax at current levels.	Ongoing
11	For transfers under Retirement Relief, extend the eligible letting period of a qualifying asset to 25 years.	Budget 2015
12	For transfers other than to a child under Retirement Relief, as a once-off measure until the end of 2016, allow conacre lettings as eligible.	Budget 2015
13	Extend Stamp Duty Consanguinity Relief on Non-Residential Transfers to the end of 2017.	Budget 2015
14	Retain current stamp duty exemptions on transfers of land.	Ongoing
Agri-taxation policy objective 3: Complement wider agriculture policies and schemes		
A. Investment to enhance competitiveness, including assisting new entrant, young trained farmers		
15	Retain the current Capital Allowances available to the sector.	Ongoing
16	Retain current Stock Reliefs.	Ongoing
B. Environmental sustainability, including the improvement of farm efficiency.		
17	Retain CGT relief on farm restructuring, allow whole-farm replacement and extend the measure to the end of 2016.	Budget 2015
18	Retain as tax exempt profits or gains from the commercial occupation of woodlands	Ongoing
19	Examine the broadening of the scope of Sustainable Energy Authority of Ireland's (SEAI) ACA scheme to incentivise investment in energy efficient equipment by making it available to non-incorporated businesses.	Budget 2016
C. Alternative farming models such as farm partnerships.		
20	Retain the current measures and review in the context of new partnership register and supports under the RDP.	Ongoing
D. Responses to income volatility.		
21	Retain and enhance Income Averaging by increasing the period from 3 to 5 years.	Budget 2015
22	Allow averaging to be availed of where a farmer and/or their spouse receive income from an on-farm diversification trade or profession.	Budget 2015
23	Examine the scope for extending income averaging to forestry clear-felling profits.	Budget 2016
General Recommendations		
24	The Agri-taxation Working Group should remain in place to monitor the Agri-taxation measures and examine other issues arising.	Ongoing
25	The Agri-taxation Working Group should also work to ensure better data collection on costs and benefits.	Ongoing

Chapter 1: Introduction and Approach

1.1 Introduction

The Minister for Finance, Mr Michael Noonan TD, with his colleague the Minister for Agriculture, Food and the Marine, Mr Simon Coveney TD, announced in Budget 2014 a review of tax measures in the farming sector. It is Department of Finance policy to regularly review major tax expenditures relating to specific sectors.

The agri-food sector continues to play an integral part in Ireland's economic recovery and is its largest indigenous industry with food and beverage manufacturing enterprises having a turnover of some €26 billion. Agri-food exports have increased to a record value of some €10 billion in 2013. The sector accounts for around 170,000 jobs or 9% of total employment, and makes a particularly significant contribution to employment in rural areas. However, there are both challenges and opportunities ahead. There are structural issues at farm level and increasing income and weather volatility. 2015 will see the abolition of milk quotas and a growing global population is underpinning an increase in demand for agri-food products. The Food Harvest 2020 strategy set ambitious targets for 2020, to increase the value of primary output by 33%, and the value of exports by 42% and value-added by 40%. Progress to date has been very positive and Chapter 2, Economic and Policy Context, includes a detailed overview of the agri-food sector.

In order to focus the Review, it was decided to examine taxation relating to the primary production sector only. The primary production sector (i.e. farmers) underpins this fundamental part of the economy, providing the raw materials that drive the food and beverage industry. The purpose of this 'Agri-taxation Review' is to assess the costs and benefits of the various agriculture tax expenditures with a view to ensuring that the maximum benefit to the sector and the wider economy is obtained.

The overall objective of the review is not to change the level of exchequer support to the sector through the tax system but rather to maximise the benefits to the economy for the existing level of State support. As Food Harvest 2020 forms the basis for the Government's agriculture policy, the primary objective of agri-taxation reliefs is to incentivise farmers to deliver on its objectives of 'smart, green, growth'.

1.2 Terms of Reference & Scope

A working group made up of the Department of Finance, the Department of Agriculture, Food and the Marine and the Revenue Commissioners was convened to oversee the Review and it set out the following terms of reference:

‘The objective of the review is to identify what works and what doesn’t, and redirect the existing level of tax expenditure towards activities of maximum benefit to this sector of the economy.’¹ The review will focus on the following general themes:

- *Public consultation*
- *Review the tax supports available to the primary agricultural sector in Ireland.*
- *Analyse the benefits available to the sector and the wider economy versus the Exchequer costs, i.e. value for money to the economy.*
- *Recommend, where necessary, changes that could be made to enhance or maximise the value for money to the tax payer, taking EU State Aid considerations into account.*
- *Suggest any improvements that can be made to better achieve existing stated policy goals, with particular reference to Food Harvest 2020 and the Programme for Government, the key policy areas being:*
 - *Encouraging and attracting young farmers and new entrants to farming.*
 - *Land mobility – transfers via the market, whether by sale or long-term leasing*
 - *Succession – earlier lifetime transfers within families (and non-family transfers also where no apparent successor available)*
 - *Alternative farming models - collaborative farming such as farm partnerships, share farming, contract rearing or cow leasing; also farm business structure, i.e. sole trader or incorporation*
 - *Environmental sustainability*
 - *Smart Farming - encouraging innovation, improving skill levels and maximising the adoption of best practice.*
- *Survey of accountants and tax professionals dealing with the primary agriculture sector.*
- *Benchmark Irish agri-taxation policy measures against 3 other EU countries, such as, but not exclusively, the UK, France and the Netherlands.*

There are a number of taxation expenditure measures which are exclusively aimed at the farming community. Farmers can also avail of a number of other measures that are not exclusive to the sector. A list of those measures deemed to be ‘agri-taxation’, i.e. the main measures relevant to farmers, is below at 1.4. These measures are the focus of the review. Issues relating to Value Added Tax (VAT) are primarily dealt with under EU regulation and were not considered within the scope of this Review.

1.3 Methodological Approach

It was decided that the Review would have three main elements:

1. A public consultation
2. A cost benefit analysis

¹ Statement of the Minister For Finance, Budget 2014

3. An international benchmarking exercise.

Launched by both Ministers in February, the public consultation process was undertaken by the Working Group and consisted of written submissions and consultative meetings with key stakeholders, including the farming organisations (please see the 'Public Consultation Paper' at appendix 1). The public consultation process is described in chapter 3.

Following a competitive tendering process (please see 'Agri-taxation Review Invitation to Tender' at appendix 2), Indecon Economic Consultants were appointed to carry out the independent cost benefit analysis and the international benchmarking exercise. Chapters 4 and 5 summarise their findings.

The Agri-taxation Working Group has carefully considered written submissions to the Review, the consultative meetings held with key stakeholders and the independent Indecon Report. Its conclusion and recommendations are outlined in chapter 6. The Working Group would like to acknowledge the exceptional level of engagement by those who contributed to both the written submissions and consultative meetings.

1.4 List of Agri-Taxation measures

The following Agri-taxation measures were examined for the purposes of the review, but not every measure is subject to change:

Income Tax Measures

- Exemption of Certain Income from Leasing of Farm Land
- Income Averaging
- Capital Allowances
 - Capital Allowance for Farm Buildings and Other Works
 - Capital Allowance for Milk Quota Purchase
- Relief for Increase in Carbon Tax on Farm Diesel
- Stock Relief
 - 25% General Stock Relief on Income Tax
 - 100% Stock Relief on Income Tax for Certain Young Trained Farmers
 - 50% Stock Relief on Income Tax for Registered Farm Partnerships
 - Relief for Stock Transfer due to discontinued Farming Trade
- Profits from Occupation of Woodlands
- Special Treatment of Profits from Compulsory Disposal of Livestock
 - Income Averaging for Compulsory Disposal of Livestock
 - Stock Relief for Compulsory Disposal of Livestock

Capital Gains Tax Measures

- Retirement Relief from Capital Gains Tax
 - Retirement Relief from CGT – Parent to child transfers
 - Retirement Relief from CGT – Transfers other than to a child
- Capital Gains Tax Relief on Farm Restructuring
- Capital Gains Tax Relief for Transfer of a Site from Parent to Child
- Capital Gains Tax Relief for Woodlands

Stamp Duty Measures

- Stamp Duty Consanguinity Relief on Non-Residential Transfers
- Stamp Duty Exemption on Transfers of Land to Young Trained Farmers
- Stamp Duty Exemption for Certain Family Transfers
- Stamp Duty Relief for Commercial Woodlands
- Stamp Duty Exemption on Single Farm Payment Entitlements

Capital Acquisition Tax Measures

- Agriculture Relief from Capital Acquisition Tax
- Capital Gains Tax /Capital Acquisition Tax “same event” relief
- Lower interest rate on instalment payments for Capital Acquisition Tax due on gifts/inheritances of agricultural property

A brief description of these measures can be viewed on the website of the Department of Agriculture, Food and the Marine; these descriptions do not purport to give a definitive legal interpretation of the various measures and individuals may wish to seek professional advice before availing of any measure.

Agri-Taxation Review Working Group Members

The members of the Agri-Taxation Review Working Group are:

Gary Tobin, Department of Finance

Des O’Leary, Department of Finance

John Moore, Department of Finance

Aisling Greene, Department of Finance

Cillian Byrnes, Department of Finance

Keith Walsh, Office of the Revenue Commissioners

Linda Byrne, Office of the Revenue Commissioners

Ann Derwin, Department of Agriculture, Food and the Marine

Seán Bell, Department of Agriculture, Food and the Marine

Noel Collins, Department of Agriculture, Food and the Marine

Chapter 2: Economic and Policy Context

2.1 Agriculture in the Context of the Overall Economy

The agri-food sector is Ireland's largest indigenous industry with food and beverage manufacturing enterprises having a turnover of €26 billion²; there are some 1,300³ enterprises of all sizes in the sector.

Value Context

It is estimated that the primary agriculture, fisheries and forestry sector's Gross Value Added (GVA) accounted for 2.5% of the total economic output GVA at factor cost in 2012.⁴ However, this understates the relative importance of the overall broader agri-food sector, which is taken to include primary production along with food, beverages and tobacco and wood processing sectors. The agri-food sector remains very important to the wider rural economy and in turn to the Irish economy overall. It is estimated that the agri-food sector accounted for almost 7.2% of GVA at factor cost in 2012, the most recent year for which data is available.⁵

Regional Impact of Agriculture Sector

More than any other industry, many of the economic benefits in the agriculture sector, both direct and indirect, are dispersed throughout the country making it particularly important to rural areas.

The disproportional economic importance of agriculture to the regions is underpinned by most recent comparable CSO data from 2011. 25.8% of all agricultural value added is produced in the Border Midland and Western (BMW) region, while only 20.2% of all national economic value added is produced in this region. 79.8% of all agricultural value added is produced in the South and East (S&E) region, compared to 41.1% of all national economic value added is produced in this region (excluding Dublin).⁶

Employment

109,800 or 5.8% of people are employed in the primary sector (agriculture, forestry and fishing), when the Wood processing, Food and Drink manufacturing sectors are included this increases to 168,300 or 8.9% of total employment.⁷ The composition of this employment in

² Central Statistics Office, Census of Industrial Production 2012

³ Central Statistics Office, Business Demography 2012

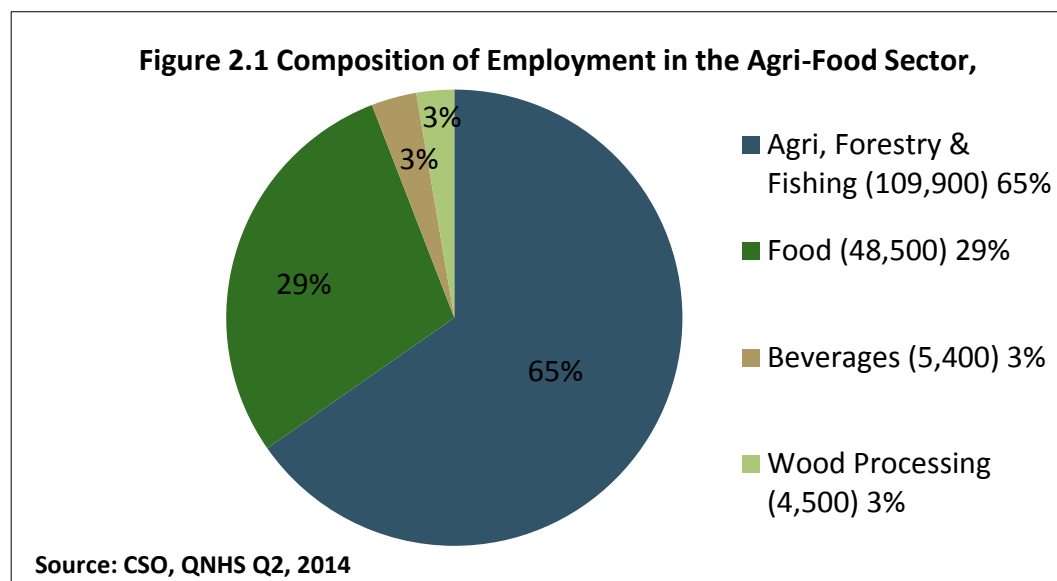
⁴ D/AFM Factsheet on Irish Agriculture, July 2014 (primary sector taken to comprise agriculture fisheries and forestry)

⁵ Ibid

⁶ From Table 9, Regional Accounts for Agriculture 2009-2011, October 2012 and Table 15, CSO's County Incomes and Regional GDP Statistical Release 2011, April 2014 (Figure quoted are based on gross value added values at basic prices)

⁷ Central Statistics Office, QHNS, Q2 2014

the sector is outlined in Figure 2.1, with the primary sector making up about two-thirds of the total and the food manufacturing sector just over a quarter of all those employed. The majority of employment in the Food and Beverage sector is in Irish owned units, which account for eight out of every ten of all employed.⁸



Tax Contribution of the Farm Sector

Indecon's analysis for this agri-tax review found that the farming sector pays around €475 million per annum in income tax and PRSI⁹, and that the capital gains tax yield from the agri-cultural sector averaged at around €50 million per annum over the past 3 years.

Net Contribution of the Agri-Food Sector to the Inflow of Funds to Ireland

The agri-food sector makes a very significant contribution to the net inflow of funds to the Irish economy. The relatively low import content for agricultural production is only one element in the significantly positive contribution that agri-food sector makes to the balance of payments. A D/AFM study¹⁰ found that the disproportionate importance of agri-sector exports to the Irish economy, with its net inflow of funds being much higher than in other sectors, was due to low profit repatriation, less dependence on imported inputs and subsidy inflows. This report found that in 2008 the bio-sector (broadly defined as: agriculture, for-

⁸ Central Statistics Office, Census of Industrial Production 2012

⁹ Includes Tax (non-PAYE) which represents the Income Tax paid by self-employed taxpayers identified by Revenue as a having an agricultural related trade based on the "NACE" code system of classification used in tax records. This also includes payments from any non-agricultural trade engaged in by these cases and PAYE (employment) which represents the amount of Income Tax paid on behalf of employees of employers operating in the agricultural sector (based on the NACE code of the employer).

¹⁰ The contribution of the 'biosector' to Ireland's net foreign earnings: a provisional estimate for 2008, D/AFM 2012

estry, fisheries, and food & drink industries) accounted for 40% or over €8 billion of net foreign earnings¹¹ from merchandise exports. This is more than double the bio-sector's 19% share (almost €16 billion) of merchandise exports in that year. The main reasons for the sector's large contribution to net foreign earnings are lower import requirements per euro of exports, and higher receipts of EU payments. Another way of expressing these results is in terms of balance of payment flows per €100 of merchandise exports. Put this way, every €100 of exports from the bio-sector contributes around €52 to net foreign earnings while the 'non bio-sector' contributes only around €19 to net foreign earnings.

The Relative Impact of Economic Expenditure by the Food and Drinks Sector

The Annual Business Survey of Economic Impact (ABSEI) for 2012 conducted by Forfás provides aggregated estimates for all Irish owned and foreign owned firms across a range of variables. As part of this survey, data is collected on Irish Economic Expenditure (IEE) which is taken to consist of wages, Irish raw materials and Irish services. IEE accounts for 75% of total expenditure in the Food and Drinks Sector, which compares favourably to the manufacturing sector when taken as a whole where the equivalent rate of IEE is 42%. Also striking is the fact that the Food and Drink Sector accounts for 70% of total manufacturing consumption of Irish raw materials.¹²

2.2 Economics at Farm Level

The data collected by Teagasc's National Farm Survey (NFS) has been used as the primary source to describe economics at farm level in Ireland in this section.

About the National Farm Survey

The NFS publishes detailed annual data on farm level economics. It is a national survey of over 900 farmers, representing a population of circa 79,000 farms, though it is important to note the NFS only includes farms with a standard output of €8,000 or more (equivalent of 14 suckler cows or 6 ha of wheat). Farms are classified into one of six systems, on the basis of their main outputs. Farms falling into the Pigs and Poultry System are not included in the survey, due to the inability to obtain a representative sample of these systems. The information outlined in section 2.2 is obtained from the NFS unless otherwise stated.

¹¹ Net foreign earnings are measured in terms of the net value of merchandise exports: that is the inflows associated with exports from the sector, plus international subsidy transfers, minus the associated outflows, principally on importing materials and repatriation of profits by foreign owned firms

¹² Figures from ABSEI covers the client base of Enterprise Ireland, IDA Ireland, Shannon Development and Údarás na Gaeltachta, and the population comprises all manufacturing and internationally traded services firms in Ireland with 10 or more employees – approximately 3,600 client companies

NFS: Family Farm Incomes

Table 2.1 outlines the output, support and income on Irish farms in 2013. It should be noted that these figures include both full-time and part-time farmers. Further information on these segments of the population is outlined later in this section. The average family farm income on Irish farms in 2013 was €25,437, which was a marginal decrease on 2012. Within this, the relative profitability of the various sectors ranged from a high of almost €63,000 average for the dairy sector to an average of about €9,500 for the cattle rearing farms. It is noteworthy that when direct payments are stripped out from farm income the three drystock enterprises record negative market income. The degree of dependence on direct payments is highlighted further when considered relative to Family Farm Income, averaging from a high of 165% for cattle rearing to 34% for dairying.

Table 2.1 – Average Output, Support and Income on Irish Farms in 2013

	All Farms	Dairy	Mixed Live-stock	Cattle Rearing	Cattle Other	Sheep	Tillage
Gross Output €	86,588	193,568	166,302	39,670	56,256	46,525	108,407
Direct Payments/Subsidies€	19,474	21,191	26,904	15,710	18,695	18,569	26,904
Family Farm Income (FFI) €	25,437	62,994	50,793	9,541	15,667	11,731	28,797
Market Income €	5,963	41,803	23,889	-6,169	-3,028	-6,838	1,893
Contrib. of Direct Payments to FFI	77%	34%	53%	165%	119%	158%	93%

Source: Teagasc NFS

NFS: Regional Overview of Incomes

As illustrated by Table 2.2, the average family farm income varies considerably by region. The West region has the lowest average family farm income at €14,437 per farm. The Border region is the most reliant on direct payments, where they contribute 116% of family farm income compared to 107% of family farm income in the West (the region with the smallest farm size on average). The Southeast has the most profitable farms with an average family farm income of nearly €38,000 – about two and half times the income per hectare of both the Border and West region. The East, Southwest and South Regions all had broadly similar family farm income levels in 2013, within the range of circa €28,500-€32,500.

Table 2.2 – Average Support and Income by Region in 2013

	Border	East	Mid-lands	South-west	Southeast	South	West
Direct Payments/Subsidies€	18,181	22,220	22,634	19,257	24,578	18,000	15,405
Family Farm	15,625	28,482	23,512	30,969	37,928	32,430	14,357

Income (FFI) €							
Market Income €	-2,556	6,262	878	11,712	13,350	14,430	-1,048
Contrib. of Direct Payments to FFI	116%	78%	96%	62%	65%	56%	107%

Source: Teagasc NFS

NFS: Investment and Borrowings

Gross new investment in farming totalled €726 million in 2013, an increase of almost 12% on the 2012 level. As illustrated in Table 2.3, average gross new investment per farm was a little over €9,000. Within the sectors the average gross new investment ranged from over €20,500 per dairy farm to €3,790 per sheep farm in 2013.

The average borrowings per farm in 2013 was €24,398 a 2% increase from the previous year. A large majority of farms have no farm business related debt, although this varies considerably across farm systems. The average borrowings on Dairy farms were €65,737 compared to a little over €8,000 on Cattle Rearing.

Table 2.3 – Average New Investment and Borrowings in 2013

	All Farms	Dairy	Mixed Livestock	Cattle Rearing	Cattle Other	Sheep	Tillage
Gross New Investment €	9,175	20,531	15,658	4,745	5,579	3,790	14,471
Loans Closing Balance €	24,398	65,737	38,617	8,213	13,193	10,304	30,268

Source: Teagasc NFS

NFS: Full-Time and Part-Time Farm Incomes

The National Farm Survey 2013 estimated that 29% of farm holders had an off-farm occupation a slight increase from 28% in 2012.

Most of the farmers with off-farm jobs were classified as part-time (in terms of labour input on farm) and had combined farm and non-farm earnings of €33,559. Those with full-time farms and off-farm employment had an estimated average income of €53,392. Overall average off-farm earnings, for those who had off-farm jobs was estimated to be €23,326, while average family farm income for these farms was €13,813 giving an estimated combined income of €37,140. Table 2.4 provides further details on this.

Table 2.4 – Average Off-Farm Income and FFI for Full-Time and Part-Time Farms 2013

	Average Off-Farm Income (1)	Average FFI (2)	Total Income (1) + (2)
Farmer has an off farm job			
All Farms (n=203)	23,326	13,813	37,140
Full-Time Farms (n=58)	20,067	33,324	53,392
Part-Time Farms (n=145)	24,044	9,515	33,559
Farmer has no off farm job			
All Farms (n=708)	0	30,203	30,203
Full-Time Farms (n=483)	0	49,765	49,765
Part-Time Farms (n=225)	0	10,244	10,244

Source: Teagasc NFS

n: Number of farms in sample

71% of farm holders stated that they had no off-farm income, with full-time farms earning an average family farm income of €47,646 and part time farms earning an average family farm income of €9,953.

It should be noted that off-farm income data outlined in this section and in Table 2.4 only relates to the farm holder; off-farm incomes of the spouse or other people in the family are not captured in this analysis.

Overall, NFS estimated that on 75% of farms, either the farmer and/or spouse had another source of off-farm income, be it from employment, pensions or social assistance in 2013.

NFS: Viability Analysis

Teagasc viability analysis on the 2013 NFS¹³ estimated that just over one-third of the largest 79,000 farms in the country are 'viable', one third are 'sustainable' and one third are 'vulnerable'.

- 35% (c. 28,000) farms are viable: A farm is defined as economically viable if it can remunerate family labour at the average agricultural wage, and provide a 5% return on non-land assets.
- 32% (c. 26,000) are 'sustainable': These farms are not economically 'viable' on the basis of their income from farming, but they are classified as sustainable due to off-farm employment of the farm holder and/or spouse.
- 33% (c. 26,000) are 'vulnerable': The income from farming is not sufficient to make these farms economically viable, and they have no off-farm employment.

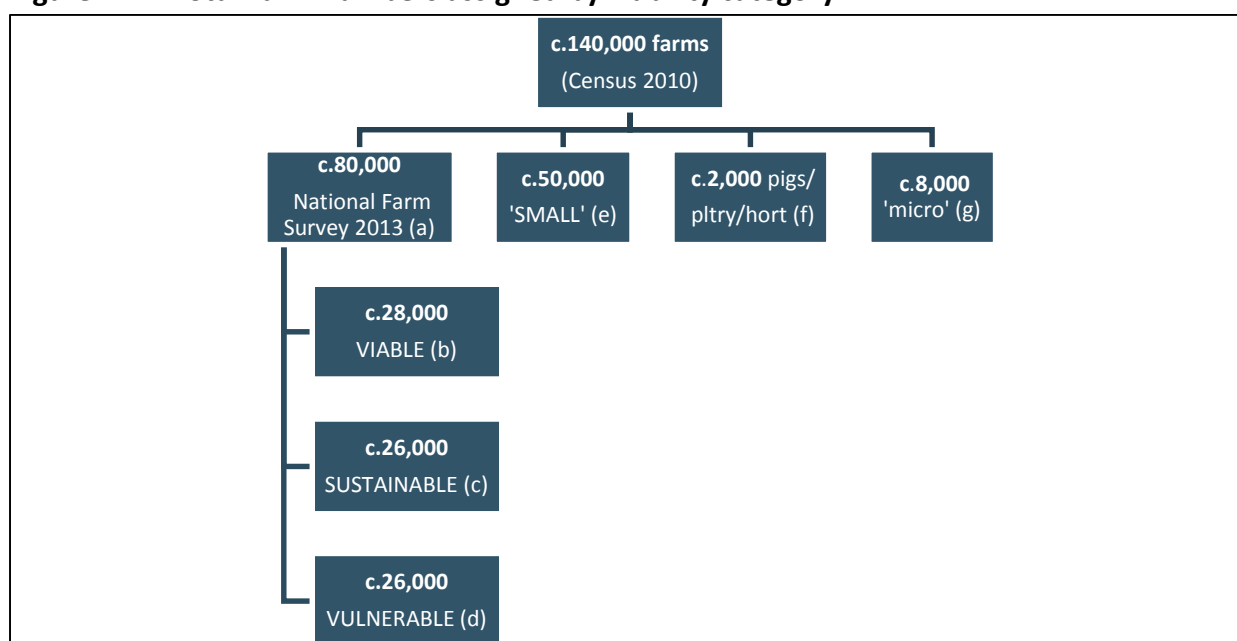
¹³ Viability Analysis Presentation, Teagasc Rural Development Conference 2014

Non-NFS Farm Data

Less information is available about farms outside the National Farm Survey definitions, but some viability analysis has been carried out based on D/AFM databases, which is summarised below. Figure 2.2 provides a graphic overview summarising the information outlined in section 2.2 on the national picture of economics at farm level.

- There are around 2,000 commercial pig, poultry and horticulture farms, which are not covered by the National Farm Survey. These farms have a very commercial focus and can be assumed to be viable.
- Around 50,000 farms are 'small' in economic terms: their standard output is less than €8,000 a year. Some data is available on these farms as they are in receipt of DAFM direct payments, but no information is available on their input costs or farm income. Their average farm size is 19 hectares, and over 80% of these farms are drystock farms, mainly cattle. Although small in scale individually, and contributing very little to total agricultural output, such farms account for almost 850,000 hectares of agricultural land, and 436,000 livestock units.
- Little information is available on a further 8,000 'micro' farms, not in receipt of direct payments. It is assumed that most of these are very small-scale or 'hobby' farms.

Figure 2.2 – Total Farm numbers assigned by viability category



Source: CSO, NFS and D/AFM estimates

- National Farm Survey: represents farms with a standard output of >€8,000 a year, excluding pig and poultry farms. Standard output is the average monetary value of the agricultural output at farm-gate price. The SO excludes direct payments, VAT and taxes on products.
- Viable: family farm income can remunerate family labour at the average agricultural wage, and provide a 5% return on non-land assets
- Sustainable: not economically 'viable' on the basis of their farm income from farming, but sustainable due to off-farm employment

- d) Vulnerable: not economically viable and with no off-farm income
- e) Small: standard output is less than €8,000 a year; not covered by NFS but some data available from DAFM databases.
- f) Pigs/poultry/horticulture: commercial farms, but not covered by NFS.
- g) Micro: little data available

2.3 Exports, Output and Inputs in the Agriculture Sector

Agri-Food Exports: Overview of their Importance in Ireland

Ireland's agriculture and agri-food industry is heavily dependent on its position as a small open economy and its ability to export. Ireland is a globally recognised trading nation, and has consistently provided high quality dairy and beef products to countries worldwide. Ireland is the largest net exporter of beef in the northern hemisphere, and was the fifth largest net exporter in the world in 2013. It is also a key player in the infant formula market with three of the world's top four largest formula manufacturers having an established presence in Ireland since the 1970s. Ireland's export dependency is exceptional within the European food sector with more than 80% of its dairy and beef products exported.

Exports in the food and drink sector continued to grow in 2013 in spite of a 5.2% drop in total merchandise exports. Placing the value of agriculture exports in the context of the wider economy CSO estimates show that the primary agriculture sector and the wider agri-food sector made up 8.1% and 12.3%¹⁴ respectively of all merchandise exported by the Irish economy in 2013.

Food and Drink Export Value

Bord Bia estimated that Irish Food and Drink Exports reached an all-time high of almost €10 billion in 2013. As can be seen in Table 2.5, over half the total value was made up of dairy and beef exports. Prepared foods accounted for €1.65 billion (15%), while beverages contributed €1.25 billion (14%).

¹⁴ D/AFM Factsheet on Irish Agriculture, July 2014 (primary sector taken to comprise agriculture fisheries and forestry)

Table 2.5 – Irish Food and Drink Exports 2013 Estimate

Commodity	Value (€ million)	%
Dairy Products and Ingredients	3,045	29.5
Beef	2,090	21.1
Prepared Foods	1,645	15.3
Beverages	1,250	13.9
Pigmeat	525	5.1
Seafood	520	5.5
Edible Horticulture and Cereals	225	2.7
Poultry	230	2.3
Sheepmeat	220	2.3
Live Animals	240	2.4
Total Food and Drinks	9,990	100

Source: Bord Bia

Irish owned Food and Beverage exports accounted for almost two-thirds (61%) of gross value exported by all Irish manufacturing units in 2012.¹⁵

Export Destinations

Ireland successfully exports agri-food products to 170 countries worldwide. The UK, as it has been historically, remains the main destination for Irish agri-food and drink exports accounting for 42% of all exports in 2013. 32% of exports went to Continental European markets, while the remaining 26% went to international markets in 2013. Irish agri-food exports to emerging markets have grown substantially in recent years. Notable within the export trade to international markets was the tripling of trade with China since 2010 with overall food and beverages exported estimated at €390 million¹⁶ in 2013 making it now the third largest destination for such exports after the EU countries and the USA.

“Ireland has a large agricultural sector compared to most other advanced economies. It also punches well above its weight in agricultural trade, with a highly diversified industry ranging from major global agri-companies to small farms” - HSBC Global Connections Trade Forecast report for Ireland, September 2014.

Output and Input data for the Agriculture Sector¹⁷

The primary agriculture sector is a key driver of the rural economy providing the main raw materials that make up agri-food exports and thus underpinning the Irish food industry. The output of the agriculture sector for 2013 has been estimated by the CSO at €7.25 billion at

¹⁵ CSO, Census of Industrial Production 2012

¹⁶ Bord Bia Export Performance and Prospects 2013/2014, January 2014

¹⁷ Unless otherwise stated figures in this section from Central Statistics Office 2013 Final Estimate of Output, Input & Income in Agriculture

producer prices. Driven mainly by stronger international commodity prices, the overall output for the sector has increased by over a third from its 2010 level of €5.4 billion. It should be noted that this rise in primary output value since 2010 has also been accompanied by a significant rise in agricultural input costs which have increased on average by 20.2% up to the end of 2013 with sharp rises in selected variables such as fertiliser and energy costs (26.1% & 24.4% increase respectively).¹⁸ Thus the quantum of the output gains has not translated into widespread income gains for primary producers. Income details at farm level are explored in further detail in section 2.2.

Table 2.6 – Goods Output at Producer Prices 2013

Description	Estimated Value (€'000 at current prices)
Livestock (incl. stock changes)	3,158.7
Cattle	2,156.5
Pigs	475.7
Sheep	203.8
Horses	191.5
Poultry	131.3
Livestock products	2,133.8
Milk	2,073.4
Other products	60.3
Crops (incl. forage plants and stock changes)	1,963.1
Goods output at producer prices	7,255.6

Source: CSO

Table 2.6 details the components of primary output from the agricultural sector, the two largest elements of which were cattle and milk output which both exceeded €2 billion in value terms in 2013 and when combined accounted for about 59% of the total €7.25 billion value of agriculture output.

The CSO estimated intermediate consumption by the agricultural sector in 2013 at almost €5.7 billion, this included expenditure on goods such as feed, fertiliser, energy and other such factors of productions. While some of the inputs are by necessity imported, the majority of this expenditure contributes to the maintenance of resources and the provision of incomes for people within Ireland in the wide range of industries producing and distributing these inputs.

¹⁸ Input cost figures from Central Statistics Office, Statbank Table AHA03, June 2014

2.4 The Structure of the Agriculture Sector

The key structural characteristics of the agriculture sector in Ireland are outlined in terms of holdings, farm type and intensity, and demographics. Unless otherwise stated, data in this Section has been sourced from the CSO's 2010 Census of Agriculture.

Holdings Size and Fragmentation

In 2010 there were 139,860 farms in Ireland with an average farm size of 32.7 ha. Farm sizes are smaller in the BMW (Border, Midland, and West) region where the average farm size was 27.3 ha compared to 38.6 ha in the S&E (South and East) region. Indeed within these regions there was further variability from 22.4 ha in Mayo to 37.1 ha in Westmeath in the BMW region and from 32.6 ha in Clare to 47.8 ha in Dublin in the S&E region.

Nationally over 42% of all farms holdings are less than 20 ha while a little over 3% of farms holdings are over 100 ha. Farms in Ireland are quite fragmented with the average holding made up of 3.8 separate parcels – this figure has doubled from an average of 1.9 separate parcels per farm recorded in the 1991 Census of Agriculture. The degree of fragmentation is more pronounced in the BMW region with an average of 4.3 parcels per holding compared with 3.5 in the S&E recorded in 2010.

Other regional differences are found between farms, beyond the basic farm sizes. Dairy farms were more likely to be based in the S&E region. For example more than 80% of national milk output and national cereal output was provided in the S&E region. Dairy and tillage farms tend to have a higher proportion of viable farms, greater income levels, greater returns per hectare and a lower reliance on the EU Single Farm Payment compared to sheep and cattle farms. The less profitable sectors, such as cattle rearing and sheep are more likely to be based in the BMW region.

Farm Type and Intensity

Specialist beef production is the dominant type of farming in Ireland with over 55% of farms. In excess of 11% were classified by the CSO as specialist dairying, 10% specialist sheep and 11% mixed grazing and livestock.

Cattle

There were 6.6 million cattle in Ireland in 2010 distributed across 111,000 farms, with an average herd size of 60 cattle per farm. In the BMW region, 58,600 farms had a total of nearly 2.6 million cattle (an average of 44 cattle per farm), while in the SE region a total of 52,400 farms had almost 4.1 million cattle (77 per farm). One half of the total number of cattle in Ireland were located on the largest 16% of farms (>50 ha) with an average herd size of 147 cattle.

Sheep

There was a total of 4.75 million sheep in Ireland in 2010 held on 32,100 farms with an average flock size of 148 sheep per farm. Almost two thirds of sheep farms were located in the BMW region. More than a quarter of the national flock was located in the Western region (Galway/Mayo/Roscommon).

Pigs

In 2010, there were more than 1.5 million pigs held on 1,209 farms, with an average of 1,254 pigs per farm. Nearly two fifths of all pigs were held in farms in Cavan and Cork. Pig farming is an intensive activity carried out by a small number of specialised producers – In 2010, just 486 farms held more than 99% of the total number of pigs.

Poultry

There were almost 11 million poultry held on Irish farms in 2010, of which 7.8 million were table birds. More than half of all poultry was produced in Monaghan, where there were in excess of 5.8 million birds. Like pig farming, poultry farming is an intensive activity carried out by a small number of specialised producers. In 2010, less than 700 farms held 98% of all poultry in Ireland.

Cereals

A total of 273,900 hectares of cereals was grown on 11,374 farms in 2010. Almost 40% of the farms growing cereals were classified as specialist tillage farms. These farms grew 64% of all cereals in 2010. Of the total land area devoted to cereals, only 20% was located in the BMW region with the remaining 80% grown in the SE region.

Commercial Horticulture

While the scope of information recorded by CSO is limited on commercial horticulture, a total of 307 nurseries and horticultural farms were recorded in 2010 with Cork accounting for about one sixth of this total. These farms by their nature tend not to occupy much land, but are resource and employment intensive.

*Forestry*¹⁹

The total forestry cover in Ireland is approx. 732,000 ha. of which 47% is held privately. Since 1980 nearly 20,000 landowners have availed of supports to plant forestry, with the average sized forest holding established since then 12.7 ha. The breakdown of private lands afforested between 1980 and 2012 shows that 85% of the forest owners are classified as farmers, which equates to 82% of the area afforested in this time period.

¹⁹ Forestry statistics from Ireland's Forests - Annual Statistics, D/AFM 2014

Demographic Data

Characteristics of the Farm Holder

Of the 139,860 farms in Ireland in 2010, 99.8% were classified by the CSO as family farms. Just over 300 farms were identified as commercial holdings²⁰. Almost 88% of family farm holders were male. The number of family farms owned by females in 2010 remained relatively low at 12.4%. In Ireland, joint ownership of farms between spouses is uncommon and women generally only inherit farms upon the death of their spouse. Women tend to inherit smaller, less productive farms as evidenced by the fact that in 2012 women received less than 8% SPS payments.²¹

In recent years anecdotal evidence has indicated that there has been an increasing trend by farmers to incorporate their business, especially in the dairy sector, although getting reliable statistics on quantifying the scale of this has proven challenging. Recent D/AFM preliminary analysis of SPS 2014 application forms, which required for the first time applicants to indicate whether their holding was managed by, or on behalf of a company, found that 1,036 were farming in a company structure. However it is felt that this is an underestimate as recent Revenue analysis of their business taxpayer register filtered for an agricultural NACE code²² assigned as the description of their activity, found that 2,300 are registered for corporation tax.

Age Profile of Farm Holder

The age profile of Irish farmers is increasing as the number of farmers aged under 35 fell by more than 50% between 2000 and 2010 to just 6.2% of all holders. More than half (51.4%) of all farm holders in 2010 were aged 55 years or older, while more than a quarter (26.3%) of all farm holders were aged over 65 years.

Ireland's aging farm holder structure is not dissimilar to other EU Member States. Eurostat data from 2010²³ summarised in Figure 2.3, on the age profile of farm holders in the EU28 countries show that 29.7% of farm holders are over 65 years of age. However there are some notable differences between countries. Less than 10% of all farmers in Germany, Finland, Austria and Poland are over 65 and this is due to some hard line policies which force a farmer to choose between the State Pension and the Single Farm Payment once they reach

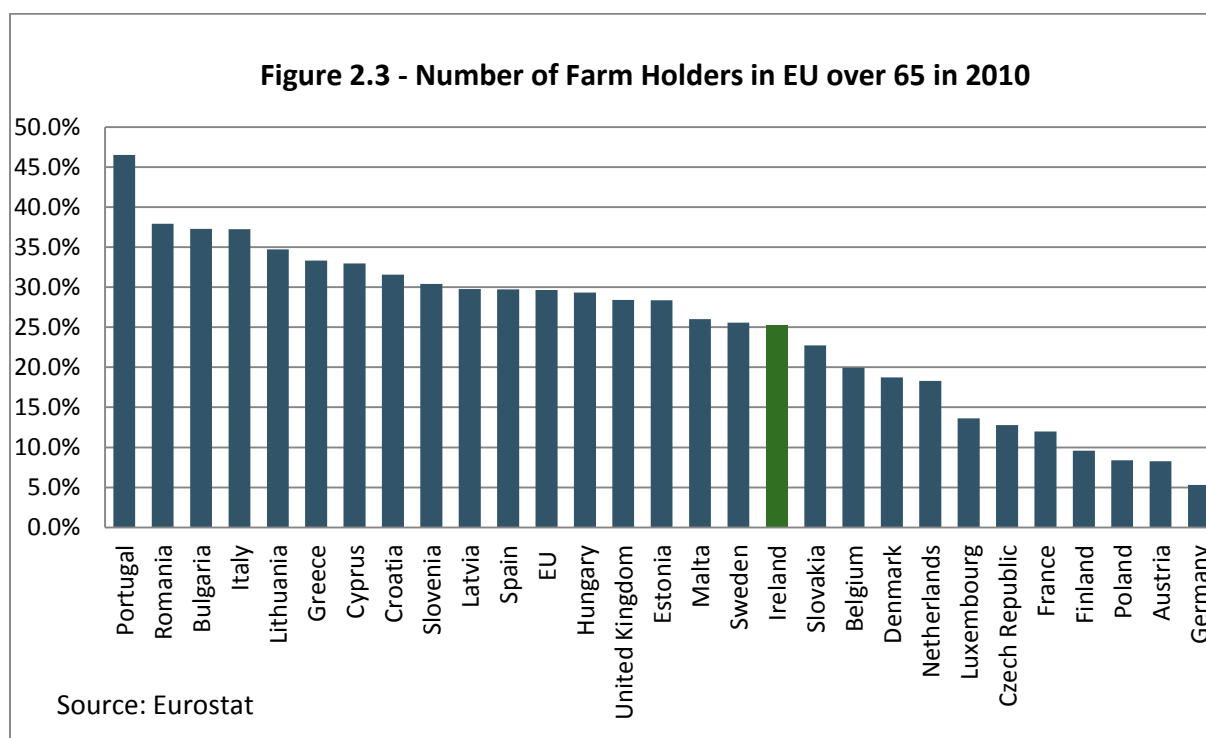
²⁰ CSO Definition of Commercial Farms: These are farms registered as companies which paid all their workers as employees (including management) or farms connected with institutions (e.g. schools, colleges, religious communities, prisons etc.). All persons working on commercial farms are classified as regular non-family workers

²¹ D/AFM analysis of SPS 2012 administrative data

²² NACE Code is a pan-European classification system which groups organisations according to their business activities. It should be noted also that NACE codes are not a fully reliable indicator; they are based on a description of the trade at a particular time and this description may be limited, nor do they automatically update if the business changes.

²³ Extracted from Eurostat Agricultural Statistics Database, July 2014

65.²⁴ On the younger end of the age spectrum Eurostat data revealed 7.5% of all EU farm holders were less than 35 years of age in 2010.



Land Mobility

The low level of land mobility in Ireland is one of the main structural challenges facing the agriculture sector. There is a dearth of official data on sales, leasing and rental activity in the Irish land market to ascertain the current extent of land mobility. Notwithstanding these data gaps, recent trends in this area are examined here using various official, administrative and other sources.

Sales Data

The 2013 agricultural land price report in the Farmers Journal²⁵ produces a comprehensive analysis on land sales in Ireland. It reported that 1,484 land parcels amounting to 30,297 ha. were offered for sale in 2013 but less than half of these parcels (670 or 12,387 ha.) were actually sold. The amount of land offered for sale reached pre-recession levels and was an increase of 17.4% on 2012 figures. Despite this increase in the volume of land that arrived on the market in 2013, it still only constitutes less than 1% of the total land area in the country with less than 0.5% of the total land area actually achieving a successful sale.

²⁴ Annual Review and Outlook, D/AFM 2013/2014

²⁵ Agricultural Land Price Report 2013, Irish Farmers Journal

The average price paid for land in 2013 was €9,400/acre (23,200/ha.) and for the fourth year in a row average price remained under a perceived key threshold value of €10,000/acre (24,700/ha.). Generally speaking land prices across Ireland remained steady in 2013 with year on year values decreasing in 15 counties and increasing in nine but the majority of these fluctuations were less than 10%.

Leasing and Rental Data

D/AFM analysis of the Single Payment Scheme database in 2012 found that the average area leased was 18.8 ha per farm based on 53,726 farms renting 1,008,572 ha in 2012. The comparable figure from the 2010 Census of Agriculture was 41,440 farms renting 784,379 ha or an average of 18.9 ha per farm. Neither of these sources allows for a reliable disaggregation of the prevalence of short term rentals versus longer term leases, however it is thought that the majority of rental/leases are made up of short term or conacre arrangements given that the numbers availing of the Income tax exemption for leasing of farm lands (available for leases for >5 years) was circa 3,600 for both the years 2011 and 2012.

Teagasc/SCSI's Land Market Review and Outlook 2014 noted that, in general, the trend in land rental prices has been upwards since 2010. Significant increases in rental prices have been recorded for grazing-only land in the past four years reflecting the strong demand amongst dairy farmers to expand and increase productivity. Market rents for tillage land are typically higher than land for grazing/silage.

3 Collaborative Farming

Collaborative farming refers to newer models of farming and can play a role in resolving both the land mobility challenge and lowering the overall average age of those involved in Irish agriculture. There are a number of different types of arrangements that fall within the heading of collaborative farming, such as contract rearing and share farming.

Currently the most prevalent collaborative farming model practiced in Ireland are the Milk Production Partnerships, which are the only form of formal farm partnership provided for within the suite of agriculture legislation. These were introduced in 2002 and there are currently 700 registered partnerships.²⁶ D/AFM is finalising detailed rules to provide for a formal registration mechanism for all types of farm partnerships. It is planned that the formal register will help ensure non-milk producers in farm partnerships are not disadvantaged from D/AFM scheme participation and can avail of other State benefits, such as the 50% stock relief from income tax measure, which is currently restricted to MPPs and thus help widen the uptake of this farming model.

²⁶ Figure from July 2014

Increasing resources are being deployed in developing and promoting a number of types of collaborative farming models, through mechanisms such as D/AFM's grant aid schemes, Teagasc Advisory Services and a pilot Land Mobility Programme Initiative – a recently established land brokerage service with industry wide support.

2.5 Policy Context: Food Harvest 2020 and Agri-Taxation

Food Harvest 2020

Food Harvest 2020, the strategic vision for the agriculture, food and fishing sector, was developed during 2009 and 2010 at a time of a deep recession which the OECD described as the deepest and most synchronised recession since the post war period. In the context of this challenging environment, in February 2010, a 30 member committee was appointed to develop a strategy for the sector and to identify the necessary key actions to maximise the contribution of the sector to national economic recovery and to the smart economy.

Drawing on prior detailed analytical papers produced by the D/AFM and state agencies, and submissions from a public consultation process, the Food Harvest 2020 report was published in July 2010. It provided a cohesive, industry led roadmap, to build capacity, adapt to challenges and grow in the context of emerging opportunities in the decade to 2020, with specific development actions and targets as well as an integrated message around the three themes of Smart, Green, Growth.

The report's framework of production and output targets for the future included 215 recommendations and the following three headline targets:

- Increase the value of primary output in the agriculture and fisheries sector by €1.5 billion by 2020 (33% increase compared to the 2007 – 2009 average)
- Increase the value-added output by 40% compared to 2008
- Achieve an export target of €12 billion by 2020 (42% increase compared to the 2007 – 2009 average)
- Various sectoral targets such as growth of 20% in the output value of the beef sector and a 50% increase in the production of milk by 2020. (Both of these are based on an average of 2007–2009 as a baseline.)

The central message of supporting smart, green growth aims to build upon the sustainability, quality and brand recognition of Irish food. Part of the success of Food Harvest 2020 to date has been the continuous monitoring, tracking and assessment of progress by the High Level Implementation Committee chaired by the Minister for Agriculture, Food and the Marine and also comprises senior executives from Enterprise Ireland, Bord Bia, Teagasc, the Environmental Protection Agency, Bord Iascaigh Mhara and Forfás.

Recent Progress on Food Harvest Targets

The Milestones for Success 2014 Report, which was published in September 2014 highlights the headline growth and achievements of the Food Harvest 2020 report in the period since it was published four years ago.

The Milestones 2014 report highlights that the 33% primary output target set out in Food Harvest has been virtually met based on 2013 data, and recorded excellent progress in meeting the other two high level targets; growth rates in value terms for the agri-food sector of 23% (value added) and 24% (exports). Notwithstanding the progress recorded in meeting the primary growth target in 2013, the Milestones report also noted that clear challenges remain not least in the beef sector following recent price reductions.

Milestone 2014 recorded substantial progress or full implementation has been achieved on 74% of the 215 Food Harvest recommendations, up from 55% in 2013.

Areas noted in Milestones 2014 which have shown improvement on the previous year's performance included:

- CAP and CFP outcomes with measures improving competitiveness and sustainability at producer level
- Improving credit facilities
- Enhanced support for SMEs
- Sustainable agricultural and fishing practices
- Reduced animal disease levels
- Broader market access
- Strengthened collaboration between industry, Higher Education Institutes and state agencies on research and innovation

Linkage to Agri-Tax Review

Given the central importance attached to the Food Harvest 2020 strategy by Government it was decided that the Agri-Tax Review would adopt Food Harvest's central theme of "smart, green, growth" and incorporate Food Harvest's accompanying keys objectives into the Review's Terms of Reference.

2.6 Overview of Recent Policy Developments

Many of Ireland's agricultural policy functions and much of the related funding are directed centrally by the EU through the Common Agricultural Policy (CAP), where input by all EU Member States is facilitated. A brief overview of recent CAP developments is set out here.

Progress on finalising the new CAP structure was made possible following political agreement by Heads of State in February 2014 of a Multiannual Financial Framework for the period 2014-2020. The agreement was a good outcome from an agriculture perspective, with the CAP accounting for almost 39% of the overall EU budget in the face of significant pressure from a number of sources for a much higher cut to CAP expenditure.

CAP Pillar 1 Changes – A Basic Payment Scheme from 2015

The reform framework of the CAP for the funding period 2014 – 2020 was agreed under the Irish EU Presidency in June 2013 and represented a well-balanced package of measures that set the framework for the development of the EU agri-food sector up to 2020. Key aspects included:

- A greater emphasis on sustainability through the “greening” of direct payments and support for agri-environment measures in rural development programmes,
- New and enhanced support for young farmers in both “pillars” of the CAP,
- A continuing move towards greater market orientation, with support measures available only as a safety net.

The projected total EU funding to Ireland for direct payments under “Pillar 1” of the CAP over the period 2014-2020 is €8.5 billion or approx. €1.2 billion per annum. Ireland will distribute its Pillar 1 budget through a Basic Payment Scheme + Greening (replacing the Single Payment Scheme) from 2015 onwards. As part of the CAP reforms of the Pillar 1 payments there will be significant transfers of the payments within Ireland as all direct payment entitlements must be valued at 60% of the national average entitlement value by 2019 and this will be achieved through a phased change in payments through partial convergence commencing from 2015 onwards.

CAP Pillar 2 – A New Rural Development Programme (RDP)

The new RDP, 2014-2020 will be co-funded from the National Exchequer and the EU’s European Agricultural Fund for Rural Development (EAFRD). The agreement reached on the Multiannual Financial Framework provides for a total allocation of EU funding of €2.19 billion (€313m per annum over 7 years) to Ireland for a new RDP. A total of €2.037 billion of the EU funding is allocated to measures to be delivered via the Department of Agriculture, Food and the Marine, with the remainder allocated to LEADER funding which is administered by the Department of the Environment, Community and Local Government. The matching funding from the National Exchequer brings the total value of the new RDP to some €4bn.

The objectives of the RDP period are to foster the increased competitiveness of the agri-food sector, ensure the sustainable management of natural resources and climate action, and ensure a more balanced and development of rural areas.

A draft Rural Development programme was submitted to the EU Commission for approval in early July 2014 with formal agreement and adoption subject to a further period of discussions on programme content with the EU Commission. The programme includes a strong emphasis on sustainability and is strategically aligned with the Food Harvest 2020 objectives. The main areas to be targeted include a suite of agri-environment and climate change measures, substantial support for on farm capital investment, continued strong support for disadvantaged areas, and investment in developing innovative practice and the knowledge base in the sector.

Outlook

The recent CAP reform developments have provided farmers and the agri-food sector with policy certainty for a number of years to come and with strategic financial support to increase sustainability and enhance competitiveness. While the medium term outlook for the agricultural sector is positive there will be significant challenges to overcome to maximise its full potential, such as increasing commodity price volatility, unforeseen weather events, and plant and animal disease risks, as well as the need to address underlying structural issues on many farms referred to in Section 2.4.

Chapter 3 – Public Consultation

A public consultation paper was launched by the Minister for Finance and the Minister for Agriculture, Food and the Marine on 11 February 2014. The consultation period ran to Tuesday 25 March, a period of 6 weeks. 46 written submissions were received, with over 300 detailed suggestions across a range of tax heads. The Agri-taxation working group would like to thank all of those who made a submission. Redacted copies of all submissions made have been published on the Department of Finance's website. The questions that were asked as part of the public consultation were:

The Consultation Questions

In responding to this consultation you are invited to:

- *Give your views on the specific questions set out below. You don't have to answer every question – you can choose to answer any or all of the questions.*
- *Provide details of any alternative approaches or options you feel might be beneficial in dealing with the issues being addressed.*
- *Provide details of relevant issues not covered in this paper.*
- *If possible, provide some analysis of the Exchequer cost/yield of your preferred option.*
- *Comment generally on the direction you would like to see tax policy in this area develop.*

Your views are important as they may help influence the taxation treatment and policy to be applied in future to this sector.

Question 1 *What current agri-taxation measures are working effectively and why?*

Question 2 *What current agri-taxation measures are not working effectively and why?*

Question 3 *How could the tax system better influence activity in any of the key policy areas of:*

- *Encouraging and attracting young farmers and new entrants to farming*
- *Land mobility – transfers via the market, whether by sale or long-term leasing*
- *Succession – earlier lifetime transfers within families (and non-family transfers also where no apparent successor is available)*
- *Alternative farming models - collaborative farming such as farm partnerships, share farming, contract rearing or cow leasing; also farm business structure, i.e. sole trader or incorporation*
- *Environmental sustainability*

- *Smart Farming - encouraging innovation, improving skill levels and maximising the adoption of best practice.*

Question 4 *Are there any other priority areas or future challenges that the tax system should seek to address?*

Question 5 *Is there a high awareness of agri-taxation measures among a) farmers and b) professionals dealing with farmers; how can awareness of agri-taxation reliefs be raised?*

When responding, please indicate whether you are farming as a sole trader, incorporated, in a collaborative farming arrangement, a professional adviser, representative body or member of the public.

Meetings with the Agri-taxation steering group

A representative sample of 21 individuals and groups who made submissions were invited to meet with the working group and the external consultants Indecon over three days in May. At these meetings, the issues raised in the submissions were discussed in more detail and groups had a chance to make a presentation to the working group. A full list of all respondents to the public consultation and the representatives who met with the steering group are detailed below at tables 3.1 and 3.2.

Issues highlighted

The following is a summary of the main issues and concerns that were raised in the submissions and during the meetings.

Land Mobility and access to land

The long-term land leasing measure is seen as vital but it needs to be improved; long term leasing is generally more attractive for younger farmers than land purchase due to the prohibitively high costs of purchase. More needs to be done to raise awareness of the measure and many suggested allowing companies as eligible lessees and to remove the age limit for lessors. Some suggested disincentivising conacre; it was felt that vested interests may favour conacre arrangements over long-term leasing. However some felt that there will always be a role for conacre in Irish agriculture.

Succession planning and age profile of the sector

The current measures, Agriculture Relief from CAT and Retirement Relief from CGT, are seen as vital to encourage earlier lifetime transfers and to ensure ongoing viability of family farms. A number of adjustments in terms of eligibility were suggested, some where it is believed to be too generous and others where allowances for certain circumstances need to be made.

Stamp duty measures are not as significant since the general rate cut but are still seen as important to assist in early lifetime transfers.

Investment supports, especially for young farmers

There were a number of suggestions regarding widening and accelerating capital allowances. There were also suggestions regarding increases in rates and time periods for claiming stock relief. Most agreed that both are crucial to support investment, especially for young farmers.

Environmental measures

Fragmentation of holdings is an issue, which if addressed will lead to greater farm efficiencies. The current farm restructuring measure is not being taken up because of the restriction on whole farm replacement.

Income averaging

A number of respondents suggested that income averaging should be allowed where there is an income from a trade or profession. Other measures such as looking at the time period for averaging should be examined.

Forestry issues

Profits from Occupation of Woodlands are tax exempt (and are seen as vital if targets in this area are to be met) but Income from forestry is subject to the 'High Earners Restriction'. This issue came up in a number of submissions as it is influencing harvesting behaviour. Also those who engage in forestry cannot avail of income averaging.

Suggested new incentives

The Minister of Finance stated in his Budget speech that "the objective of the review is to identify what works and what doesn't, and redirect the existing level of tax expenditure towards activities of maximum benefit to this sector of the economy."²⁷ As part of the public consultation, respondents were asked to highlight any existing tax measures that may not be working effectively to achieve their stated policy aim. However, very few respondents addressed this issue, most instead stating that all existing measures were working well, and suggesting new measures in addition to those that are currently in place.

It is important to re-iterate that the aim of the review is to establish which tax measures are working most effectively and to make changes where possible. It has never been envisaged that existing measures will remain unchanged while new measures are introduced. It is Department of Finance policy that all new tax reliefs, or significant amendments to existing reliefs should be subject to a cost benefit analysis. Furthermore, in line with EU rules any new

²⁷ Statement of the Minister For Finance, Budget 2014

tax expenditures must be matched by increasing taxes elsewhere and any proposals for new tax reliefs should take account of this. None of the suggested new tax measures were accompanied by suggestions for corresponding reductions in other agri-tax measures.

There were variations on a proposal for a new tax incentive involving a phased transfer of assets in a partnership arrangement over an agreed timeframe, with the older farmer in the partnership getting an income tax exemption.

A new proposal for a tax deposit scheme was raised by many respondents. What is proposed is essentially a tax deferral scheme, where farmers lodge money tax free, and pay tax on withdrawal, after a minimum period of years. The idea is based on similar schemes in Australia and New Zealand, which are not subject to EU State Aid rules and do not have a system of direct payments.

Table 3.1 is a list of respondents to the written submission phase of the public consultation. Table 3.2 details the stakeholders that met with Working Group on 15, 21 and 29 May 2014.

Table 3.1 List of submissions to the public consultation

Respondent	Group / Sector (if known)
Barleyfield	
Aubrey Kee	
Eoin Phelan	Laois Farm Forestry Group
Timothy A Coakley	
Shane Price	CORR property consultants and agronomists
The Friendly Farmer	
Ciaran Fallon	Coillte
Nodstown	
Lawrence Bartley	Farmers possibly impacted by mining project
Michael Keane	UCC
Tom Kearns	Farming as a sole trader
Audrey Crean	Taxation Partner
Brian Keegan	CCAB-I
Martin Dineen	Lisavaired Co-operative Creamery Ltd
Paul Farrelly	RDS
Teresa Nolan	
Claudia & Richard Greene	Incorporated farmer
Donal Whelan	Irish Timber Growers Assoc
Tom Dawson	Agricultural Consultants Assoc
Ger Buckley	Dairy Farmer
Aisling Meehan	Solicitor & Tax consultant
Sean Farrell	Agricultural Science Assoc
Peter Farrelly	Farm Contractors in Ireland
Kevin Kilcline	Irish Farmers' Assoc
Gary Ryan	Farm Tractor & Machinery Trade Assoc
Conor O'Donovan	Society of Chartered Surveyors Ireland
Mary Buckley	ICMSA
Cora O'Brien	Irish Tax Institute
John Phelan	Woodland Managers Ltd
Derry Dillon	Macra na Feirme
Kevin Twomey	Dairy Industry Progression Group
Shane O'Dwyer	Irish Thoroughbred Breeders Assoc
Edel Carter	Grant Thornton
Seamus O'Donohoe	Irish Co-operative Organisation Society Ltd
Kieran Coughlan	Tax Consultant
Eddie Punch	Irish Cattle & Sheep Farmers Assoc
Patty & Barry Murphy	Farmers
David Murphy	Dairy Ireland Discussion Groups
David Ashmore	Agricultural Consultant
Sean Molloy	Glanbia Ingredients Ireland Ltd
Declan McEvoy	IFAC
Brendan Garry	
Cotter Bros Firewood	Firewood company
Prof Gerry Boyle	Teagasc
Michael Healy	
IPAV	

Table 3.2 – List of stakeholder meetings

Organisation	Representative Names
Irish Farmers Accounts Co-op Society (IFAC) Accountants	Declan McEvoy and Joan O’Sullivan
Aisling Meehan	Aisling Meehan
Irish Creamery Milk Suppliers Association (ICMSA)	Lorcan McCabe, Pat McCormack, John Enright and Mary Buckley
Macra na Feirme	Edmund Connolly, Derrie Dillon, Kieran O’Dowd and Sean Coughlan
Irish Cattle and Sheep Farmers Association (ICSA)	Eddie Punch and Patrick Kent
The Society of Chartered Surveyors Ireland (SCSI)	Tom McDonald, Trevor McCarthy and Declan McEvoy
Irish Timber Growers Association (ITGA)	Dermot Byrne
Kieran Coughlan, Coughlan Accounting	Kieran Coughlan
Irish Farmers' Association (IFA)	Eddie Downey, Tom Doyle, Pat Smith, Rowena Dwyer and Joe Hickey
Irish Tax Institute (ITI)	Cora O’Brien, Billy Irwin and Bernard Doherty
Agricultural Consultants Association (ACA)	Tom Dawson and Martin O’Sullivan
Institute of Professional Auctioneers and Valuers (IPAV)	Patrick Davitt and Val Mogerley
The Irish Co-operative Organisation Society (ICOS)	Seamus O’Donoghue and Sinead Farrell
Agricultural Science Association (ASA)	Sean Farrell, Fiona Thorne and Aoife Byrne
Royal Dublin Society (RDS)	Tom Cannon, Tom Kirley and Paul Farrelly
Dairy Ireland Discussion Groups / Dairy Industry Progression Group (DIDG/DIPG)	Kevin Twomey, David Murphy, Austin Finn and Paidí Kelly
Lisavaird Co-operative	Donal Toibin and Martin Dineen
Teagasc	Fintan Phelan, Kevin Connolly and Tom Curran
Consultative Committee of Accountancy Bodies Ireland (CCAB-I)	Norah Collender and Mark Doyle
Glanbia Ingredients Ireland Limited (GIIL)	Sean Molloy, Gordon Murphy and Brian Hanifin
Irish Thoroughbred Breeders' Association (ITBA)	Shane O’Dwyer, Joe Foley and Declan McEvoy

Chapter 4: Cost Benefit Analysis of Agri-taxation Measures

Following a competitive tendering process, Indecon International Economic Consultants were appointed to carry out a cost benefit analysis. The results of this are presented at chapter 11 of their Report, 'Evaluation of Cost and Benefits of Agricultural Taxation Incentives'. Also in this regard they have produced, at chapter 10, 'Econometric & Other Measures of Benefits of Agri-tax Measures'. The following is their summary of their findings taken from the Report:

'Measures of Benefits of Agri-tax Measures

An established methodology for measuring the impact of tax on policy goals, such as productivity, output, investment, and employment is the total factor productivity approach as developed by Dale W. Jorgenson and numerous co-authors and contributors, including Solow, Griliches, Hall, Christensen and Lau. The framework and methodology provide a unified approach of modelling producer behaviour and the impacts of taxation. The approach has been applied to the US agricultural sector and other countries to calculate aggregate total factor productivity rates. As part of this study we have developed new quantification econometric measures of the potential impacts of various factors on agricultural output and productivity which shed light on the potential benefits of agri-tax measures. However, because of the large numbers of agri-tax measures available, some of a minor nature, and because of data constraints, the econometric evidence is not amenable to providing specific estimates of benefits for individual tax reliefs. It is, however, important in validating the likely direction of impacts. In order to supplement the econometric work we therefore undertook extensive new survey research which provides indicative judgements on potential benefits of individual agri-tax reliefs. We, however, believe more comprehensive research should be commissioned on the measurement of key benefits.

Impact of Capital Investment on Output

Capital allowances are the most costly to the Exchequer of any of the agri-tax measures. One of the objectives of capital allowances provided to agriculture is to assist the sector to fund necessary investment which has the potential to increase the levels of output and productivity in Irish agriculture. As part of our research, Indecon undertook detailed survey work with agricultural consultants and tax advisers to obtain their views on the impact of the allowances on output. These suggested an indicative impact on gross output of €1.9m for every €1m of capital allowances claimed. It is also important as a validation measure to consider econometric evidence on whether there is an impact on the levels of output in agriculture arising from capital investment.

The regression results of the translog model shown in the next figure indicate a statistically significant result between capital investment and agricultural output. We use this production function model to estimate the impact of capital investment on agricultural output. In

other words, we examine how much agricultural output changes relative to changes in capital investment, i.e., capital elasticity of output. We also examine the impact of capital investment on productivity. These outcomes are important in establishing the broad rationale for the agri-tax reliefs which aim to increase capital investment.

Econometric results - Impact of Capital input on output (Translog model)						
Random-effects GLS regression			Number of obs =		5726	
Group variable: farm_idx			Number of groups =		1479	
R-sq: within = 0.2169			Obs per group: min =		1	
between = 0.9337			avg =		3.9	
overall = 0.9171			max =		5	
corr(u_i, X) = 0 (assumed)			Wald chi2(23) =		21219.07	
			Prob > chi2 =		0.0000	
lnq_farm	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
lnlab	-.3661927	.1139571	-3.21	0.001	-.5895444	-.142841
lnlab_2	.0140551	.0140924	1.00	0.319	-.0135655	.0416757
lnsize	.9363953	.1155266	8.11	0.000	.7099674	1.162823
lnsize_2	-.0997451	.0223335	-4.47	0.000	-.143518	-.0559722
lnc_farm	-.4288638	.0665476	-6.44	0.000	-.5592947	-.2984329
lnc_farm_2	.0950058	.0085124	11.16	0.000	.0783219	.1116898
t	.1055691	.0204497	5.16	0.000	.0654885	.1456497
t_2	-.0215255	.0027993	-7.69	0.000	-.027012	-.0160389
d_o70	-.0570463	.0163725	-3.48	0.000	-.0891358	-.0249569
lnc_size	-.0748544	.0146749	-5.10	0.000	-.1036167	-.0460921
lnc_labhrs	.0172823	.0012969	13.33	0.000	.0147404	.0198241
lnkap	-.1719336	.0686638	-2.50	0.012	-.3065121	-.0373551
lnkap_2	.0209044	.0071456	2.93	0.003	.0068993	.0349094
lnlab_kap	.0595327	.0123292	4.83	0.000	.0353678	.0836976
lnkap_t	-.0076736	.0016708	-4.59	0.000	-.0109483	-.0043989
lnkap_size	.0408435	.0138143	2.96	0.003	.013768	.0679191
lnlab_size	-.0675306	.0224973	-3.00	0.003	-.1116244	-.0234368

Note: We also include variables for the different farm types.
Source: Indecon analysis

A summary of the various output elasticities is shown in the next table and indicate that increasing the level of capital input increases the agricultural output of the farm. This is relevant as any agri-tax measures such as capital allowances which result in increased investment are likely to have national benefits in terms of increased agricultural output and employment. These benefits need then to be compared against the Exchequer and wider economic costs of the allowances.

The results vary depending on the choice of econometric specification but all results are statistically significant and indicate a positive relationship between investment and increased output. The results indicate that for a 10% increase in capital inputs, annual agricultural output is likely to increase by between 1.6% and 4.2%. Our preferred specification is the translog model which captures second order and combined impacts of the input variables and indicates that for a 10% increase in capital inputs, agricultural output is likely to increase by around 2%, but we accept that the impacts may be higher.

Summary of Capital Elasticity of Output	
Econometric Model	Capital Elasticity of Output
Cobb-Douglas Production Function	0.423
Translog Production Function	0.205
Olley-Pakes Production Function	0.162
Note: These output elasticities refer to the % change in output as a result of a % in capital investment Source: Indecon analysis	

Stock and Output

A number of the agri-tax measures are designed to incentivise increased investment in stock levels and of economic importance is the likely impact of this on agricultural output. As part of our analysis we considered the views of agriculture consultants and the tax advisers on the likely impact of stock relief. All of the agricultural advisers surveyed suggested that stock relief has a significant positive impact on increasing output in the farming sector. It is, however, an empirical question of whether there is a relationship between stock levels and output and productivity. As part of our econometric research we treat stock relief in a very similar fashion as capital allowances. Thus, the benefits of increasing the level of stock will be observed through increased output and improved productivity. The econometric results indicate that increasing the size of the stock has a positive and statistically significant impact on productivity. We test the robustness of this model by including a number of other variables such as type of farm and whether the land is rented.

Training and Output

An objective of one of the stamp duty measures is to encourage the transfer of land to young trained farmers. As part of our research we examine the impact of training on farmer productivity. We find significant positive results of training. The regression indicates that a trained farmer has on average 12% higher levels of output compared with an untrained farmer. These regressions control for other variables that may lead to differences in the outcomes of the different groups.

Farm Size and Output

Another possible benefit of some of the agri-tax measures such as land consolidation reliefs may be in terms of the impact on average farm size. The impact of farm size on output and productivity can be modelled using a production function approach where farm size is one of the inputs in the model. The result of some of the agri-tax reliefs is likely to be in terms of increased availability of land. Our analysis indicates that the impact will depend on the size of farms involved, and that some forms of farm consolidation could have a positive net effect on the level of overall agriculture production.

Farmer Age and Output

Retirement relief combined with capital acquisition tax measures are designed to incentivise some farmers to retire earlier than would otherwise have been the case. The objective is to reduce the average age of farmers and increase land mobility. Of particular interest concerning the additional benefits of retirement relief from capital gains tax and capital acquisition relief is the potential impact of such changes on increasing productivity, output and investment. This is, in turn, related to whether the transfer of farms to a younger generation impacts on output levels. Many older farmers have expertise and experience which is of real value. However, in most walks of life, particularly where significant manual work may be required, there can be an impact on productivity after a certain age. The impact of retirement and land transfers on productivity and output will of course vary significantly by individuals. However, it is interesting that most of those surveyed felt the retirement reliefs would have a significant positive impact on productivity, output and investment. Research undertaken by Indecon for this study suggested an estimate of €1.76m in additional agricultural output for every €1m in retirement relief from capital gains tax. For capital acquisitions relief, survey evidence suggested a €1.88m impact on output for each €1m in tax relief. In order to consider some validation of the estimates of such impacts we econometrically tested the impact of age on output and productivity.

The results from our different econometric models are all statistically significant and indicate that older farmers (over 65) have lower levels of output relative to all farmers under 65. The new econometric estimates presented below for Irish agriculture suggest that reducing the number of farmers who are over 65 would increase overall agriculture output by between 4.0% and 7.1%. Farmers over 65 typically have output that is between 4-7.1% lower than farmers who are under 65. Overall, our results are consistent across a number of different econometric specifications and indicate that farmers who are over 65 have lower levels of productivity than younger farmers. This has obvious policy implications. In designing tax policy to support this objective, Indecon is, however, concerned that some of the capital acquisitions relief is being claimed by individuals who are not active farmers and the beneficial impacts of the relief would therefore not apply.

Percentage Estimates of relationship between Output and being over 65	
Econometric Model	% estimate
Cobb-Douglas Production Function	-4.6%
Translog Production Function	-4.0%
Olley-Pakes Production Function	-7.1%
Source: Indecon analysis	

Cost-Benefit Analysis of Agri-tax Measures

The annual exchequer costs of tax reliefs are very significant and amounted to nearly €340 million as outlined in the next table. Indecon would however point out that care is needed

in interpreting the estimated annual tax costs as these are determined significantly by the level of uptake and by the tax rates applicable. In previous years when investment levels (and in some cases tax rates) were higher, the annual tax costs were even higher than the levels identified. In future periods, Indecon believes the tax costs are likely to rise as the sector expands. Detailed tax cost estimates for previous years are presented in the main report. The other noteworthy feature of the reliefs is that some of the high profile reliefs designed to facilitate land mobility and support younger farmers account for a much lower percentage of exchequer costs than reliefs such as capital allowances and capital acquisitions tax reliefs.

Estimated Annual Exchequer Costs	
	€ million
Capital Allowances*	192.00
General Stock Relief	4.80
Stock Relief for Young Trained Farmers	0.90
Retirement Relief	15.24
Capital Acquisition Tax Relief	77.00
Stamp Duty Relief on Agricultural Land	11.70
Stamp Duty Relief on Woodlands	8.90
Income Averaging **	5.63
Leasing Reliefs	5.20
Carbon Tax Reliefs	3.40
Capital Gains Tax Relief from Farm Restructuring	0.15
Profits from Woodlands	14.60
Other Reliefs	0.12
Total Tax Reliefs	€339.7
*Some of these allowances are not agriculture specific and are available to all businesses and some of the actives may not be farm-related ** There is greater uncertainty regarding these costs Source: Indecon analysis	

The exchequer costs are driven by the level of uptake for each of the measures. In terms of economic cost, it is important to consider costs in addition to the tax costs. These include administration costs, the shadow price of public funds and environment costs associated with increasing agricultural production. When account is taken of these wider costs the total economic cost of the agri-tax measures increase to over €681 million per annum.

Estimate of Total Economic Costs - All Agri-tax Measures	
	€ million
Tax Cost	339.70
Total Economic Costs	681.32
Source: Indecon analysis	

These economic and exchequer costs, however, have to be weighed against the potential benefits of the agri-tax reliefs. Our analysis suggests that benefits may be of the order of €790 million per annum. This suggests that in aggregate the agri-tax reliefs have a small positive net economic benefit to the Irish economy. A key challenge for the sector and policy-makers is whether a better targeting of the reliefs could enhance the benefit to cost ratio. The analysis undertaken by Indecon suggests it is likely that the net economic benefit could be significantly enhanced by changes in policy. ‘

Summary of CBA results - All Agri-tax Measures based on survey research	
	€ million
Total Benefits	€789.55 M
Total Costs	€681.32 M
Total Net Benefits	€108.23 M
Benefit-Cost Ratio	1.16
Source: Indecon analysis	

Chapter 5: Review of Agri-tax measures in other Countries

Following a competitive tendering process, Indecon International Economic Consultants were appointed to carry out an international benchmarking of agri-taxation measures. The results of are presented at chapter 2 of their Report, 'Review of Agri-tax Measures in Other Countries'. The following is their summary of their findings taken from the Report:

'Review of Agri-Tax Measures in Other Countries'

As part of our analysis we examined some of the taxation measures in the UK, the Netherlands and France. In particular we reviewed the position concerning capital allowances, stock relief, capital gains taxes, capital acquisition tax measures, stamp duty and income averaging in each of these countries. We also considered specific agri-tax measures in New Zealand and Australia. This is not meant to represent a comprehensive up-to-date position of agri-tax measures in different countries which is outside the scope of this review. It is however designed to provide context to the review of Irish measures.

Agri-tax Measures in the United Kingdom

The UK does not currently offer a capital allowance measure which is targeted at the agriculture sector. However, farmers can qualify for the Annual Investment Allowance (AIA) which permits a 100% first-year allowance on certain business plant and machinery expenditure. While this was traditionally capped at £25,000 per year, a new temporary measure has been introduced which permits an increase to £500,000 per annum up to the end of 2015.

The UK does not have any specific reliefs for agriculture with respect to stock but farmers can opt for 'herd basis' accounting. In the UK, stock for agriculture is treated as trading stock, which can be expensed under normal UK tax rules for businesses.

Sale or disposal of assets which have accrued value in the UK is subject to Capital Gains Tax (CGT). While capital gains are taxable, there are personal standard exemptions. Farmers do not receive special treatment but there are certain reliefs which may be available to farmers. Entrepreneur's Relief is one such relief, which applies to capital gains received upon disposal of a business. Capital gains tax is charged at a lower rate of 10% under Entrepreneur's Relief on capital gains up to £10 million.

In the UK a farm is classed as an asset and taxed in the standard way for inheritance tax purposes. However, for qualifying farms, agricultural inheritance tax relief is available for working farms. To qualify, the farm must be a working farm and one must have owned it for two years prior to death, and if a leased farm, seven years.

There are no specific stamp duty exemptions or reliefs offered to farmers in the UK. In the UK, Stamp Duty Land Tax rates are capped at lower values for non-residential property than for residential property. Non-residential property includes agricultural land and forests. Income averaging for farmers (and creators of literary or artistic works) is provided for under the UK taxation system. The basis of the relief is that income can be averaged over two years and tax is paid on half of the average profit in each of two years. In the UK, profits must differ by more than 30% in the two years considered. The income averaging is applied retrospectively in the second year. There is also provision for a marginal adjustment if the profits in the two years differ by between 25% and 30%.

Agri-tax Measures in the Netherlands

Capital allowances in the Netherlands are structured in terms of depreciation methods. In addition, the Dutch government has introduced a specific system of depreciation for investment in environmentally friendly equipment (VAMIL). Under VAMIL, the timing of the depreciation schedule can be selected; this not only allows accelerated depreciation, but also means that depreciation can be deferred. Qualifying equipment includes investment in equipment specifically related to agriculture and farming. A special system of depreciation also exists for start-up businesses.

Capital gains realized on the disposal of business assets and on the disposal of other assets that qualify as income are taxed in the Netherlands at the normal rates of income. Capital gains from the sale of farm property are, however, in certain cases exempt from tax, although there are exceptions. Importantly, any profit made on the transfer of agricultural land is only exempt from tax as long as it continues to be used as agricultural land under its new owners. This is known as the *Landbouwwijziging*.

In the Netherlands there are no specific inheritance tax exemptions for agriculture. However, individuals can benefit from certain exemptions based on the degree of their relationship to the deceased which could apply in the case of inheriting a family farm.

The Netherlands has an income averaging system, but this is a general relief and is not restricted to farmers or agricultural producers. Under the income averaging system (or *Middeling*), income is averaged over a three-year period, and then the tax rates are applied to each average year. If the positive difference between total tax paid over the period and the tax calculated using the averaging system exceeds a certain level, a refund will be given for the excess.

Agri-tax Measures in France

In France, capital allowances on investments in agricultural materials, equipment and buildings are depreciated in the same way as for other businesses. However, accelerated depreciation is available for some specific agricultural items. Capital allowances additionally exist

for materials which are energy-efficient, which produce renewable energy and farmers and other businesses can avail of these capital allowances.

One of the issues of stock relief certain farming businesses in France can use is a simplified accounting method so that stocks can be valued using a fixed method. The value of stocks at the end of the fiscal year is then reduced prior to inclusion in the taxable base.

In France, there is a distinction between short-term and long-term capital gains tax. Short-term capital gains are taxed as income. Long-term capital gains are taxed at a lower rate. The French system includes some exemptions from capital gains tax for small businesses of a commercial, industrial, artisan or agricultural nature. There are no specific inheritance tax measures related to agriculture in France. All individuals in France can, however, avail of the certain exemptions.

In France, young farmers benefit from a lower rate of stamp duty tax of 0.7% on purchases in rural regeneration zones if they are in receipt of the Young Farmers' Grant. Certain conditions apply to this and the reduced rate only applies on purchase values up to €99,000. There are a number of schemes which assist in income averaging for farmers in France. In particular there is an interesting bank-deposit-based risk measure in France known as the *Déduction pour Aleas* (DPA). This is a risk reserve and under the DPA farmers are allowed to a deduction for risk; an amount equal to 50% of the deduction must be entered into a specific savings account with a credit institution. These savings are tax deductible. The deduction can, however, only be used for risk related, defined expenditures namely to: purchase fodder in the case of agricultural disaster; cover insurance premiums against property damage; cover expenditure in the case of fire or damage to crops or insured livestock; cover expenditure due to uninsured risk (such as due to climate reasons); and address economic risk, in the case where the difference in value added between the three previous years and the current year is greater than 10%.

Australia and New Zealand

In addition to considering various aspects of agri-tax in the UK, the Netherlands and France we examined a number of income averaging tax reliefs in Australia and New Zealand. One initiative in Australia which assists income averaging is the Farm Management Deposit (FMD) Scheme. This came into effect on 1 January 1999, and provides tax incentives for farmers to set aside income in good years in order to better withstand bad years financially. Deposits into a savings account reduce the tax burden in one year and tax is only paid on sums withdrawn from the account.

In New Zealand there are income equalisation schemes which enable farmers to spread their gross income from year to year, thereby smoothing out fluctuations in income. The three types of income equalisation schemes are: the *main income equalisation scheme*,

which applies to farmer, fishers, foresters; the adverse event income equalisation scheme, which applies to farmers who sell livestock and do not replace it due to an adverse event; and, the thinning operations income equalisation scheme, which applies to businesses with forestry operations and derives income from carrying out thinning operations on the land. The income equalisation scheme works in a similar manner to a savings account, whereby farmers make deposits to an income equalisation account, where deposits are held for a maximum of five years and the minimum deposit period is 12 months.'

Chapter 6: Conclusion and Recommendations

6.1 Conclusion

The Agri-taxation Working Group has carefully considered written submissions to the Review, the consultative meetings held with key stakeholders and the independent Indecon Report. The Working Group considered options to better achieve existing policy goals, with particular reference to Food Harvest 2020, the new Common Agricultural Policy and the Programme for Government; particularly the Government commitments to assist further expansion of the agri-food sector and to promote greater land mobility and involvement of young farmers. The findings of the study ‘Land Mobility and Succession in Ireland’²⁸ were also considered in the course of the Review. Coherence with wider tax policy and any cross-sectoral consequences was also considered, as well as the current economic environment.

The agri-food sector continues to play an integral part in Ireland’s economic recovery and is Ireland’s largest indigenous industry with food and beverage manufacturing enterprises having a turnover of some €26 billion. Agri-food exports have increased to a record value of €10.3 billion in 2013. The sector accounts for around 170,000 jobs or 9% of total employment, and makes a particularly significant contribution to employment in rural areas. While the abolition of milk quotas in 2015 presents opportunities for farmers and the food sector, there are also threats; increasing farm income volatility is predicted.

The Food Harvest 2020 strategy set ambitious targets for 2020, to increase the value of primary output by 33%, and the value of exports by 42% and value-added by 40%. Progress to date has been very positive. The recently published Milestones for Success 2014 (a progress report for Food Harvest 2020) reported that the primary sector has essentially met its target, exports have increased by 24% and value added by 20%.

The Indecon Report concluded, ‘Indecon’s analysis suggests that the existing agri-tax reliefs have a marginal net economic benefit and support a critical sector of the Irish economy. However the ownership structure and age profile of the Irish agricultural sector is preventing it from realising its potential. Indecon’s analysis suggests that with better targeting, the contribution of the incentives to agricultural policy objectives could be enhanced. In particular, there is a need for a new focus on facilitating land access and enhancing the relative incentives for leasing. There is also a need to redirect tax measures to support active farmers and to target the measures to achieve other objectives. With appropriate reforms, Indecon believes the expansion of Irish agricultural output and employment can be accelerated. The

²⁸ Research commissioned by Macra na Feirme and undertaken by Broadmore Research, in partnership with the Irish Farmers Association, the Irish Farmer’s Journal and the Department of Agriculture, Food and the Marine.

proposed reforms would underpin Ireland's inherent comparative advantages in this sector. However, failure to introduce radical effective measures to increase long term leasing and to facilitate younger age farmers would represent a lost opportunity for the Irish economy.'

The Indecon Report sets out thirty recommendations, many of which mirror the Working Group recommendations. Some of the main considerations when proposing recommendations are appropriateness, cost and feasibility. Those recommendations not being pursued at this time may be re-examined by the Working Group in due course. The Working Group would like to acknowledge the exceptional engagement by Indecon on this project and welcomes their comprehensive Report, which exceeded the brief originally set out and provides innovative contributions such as their work on econometrics.

Taking all of the above into consideration, the Working Group has therefore concluded that it is justified to continue support for the primary sector in agriculture through taxation measures, with some additions and amendments. The Minister for Finance in his Budget 2014 speech announcing this review stated, 'The objective of the review is to identify what works and what doesn't, and redirect the existing level of tax expenditure towards activities of maximum benefit to this sector of the economy'. The Working Group believes that the new defined agri-taxation policy objectives and the resulting range of recommendations fulfils this brief and will contribute to maximising the potential of the primary agriculture sector.

6.2 Agri-taxation Policy and Strategy for the Future

This Review's Terms of Reference, as described in Chapter 1, set out some of the objectives which currently underpin taxation policy for the primary agriculture sector. This policy, and the resultant taxation measures, has grown incrementally over many years.

The Working Group believes that this Review is an opportunity to set out a strategy for agri-taxation policy for the future and have concluded that the key policy objectives are:

1. Increase the mobility and the productive use of land.
2. Assist succession.
3. Complement wider agriculture policies and schemes, such as supporting:
 - a) Investment to enhance competitiveness, including assisting new entrant, young trained farmers.
 - b) Environmental sustainability, including the improvement of farm efficiency.
 - c) Alternative farming models such as farm partnerships.
 - d) Responses to increasing income volatility.

Consistent with agriculture policy generally, an overarching principle of policy in this area is to ensure existing resources, especially land, are focussed on active productive farmers.

Increasing the mobility and the productive use of land and assisting succession are policy objectives which can be primarily supported through the taxation system. While support for investment, environmental sustainability and alternative farming models are features of agri-taxation policy, significant support in these areas is also available through the Rural Development Plan. Direct payments under the CAP include support for young farmers, incorporated in two elements of the new Direct Payment Regulation, the Young Farmers Scheme and the National Reserve. Direct payments also assist in mitigating income volatility, while private sector solutions are also available.

6.3 Recommendations

The Working Group has set out 25 recommendations below, grouped as per the key policy objectives 1 to 3 outlined above. Due to resource and time constraints, not all of the recommendations of the Agri-taxation Review may be implementable immediately. In Budget 2015 the Minister for Finance will outline those that will be implemented in the near future; some of the recommendations will be considered for future budgets, while others will be the subject of further examination by the Working Group. Administrative difficulty in implementation and EU State Aid issues will also be factors requiring consideration.

Agri-taxation policy objective 1: Increase the mobility and the productive use of land

As discussed in chapter 2, the low level of land mobility is one of the main structural challenges facing the agriculture sector in Ireland. Probably the biggest constraint for farmers who want to increase their productivity is access to land. Historically there has been a focus in Ireland on the ownership of land but the annual turnover of land through sales does not meet demand. The focus is now shifting from ownership to securing access to land through leasing. There is an active rental market; currently nearly 41% of farms rent or lease in land from other land owners. However, the majority of these cases are for short-term conacre lettings (for further information, please see section 2.4 on 'Leasing and Rental Data').

During the Review, a consensus emerged among most stakeholders that a greater supply of land for long-term leasing is the key issue in addressing the issue of land mobility and the productive use of land. Long-term leasing allows progressive farmers to enlarge their farm holdings and increase productivity; it also:

- Provides security of tenure and therefore the certainty required to encourage lessees to maintain and make an investment in improving land.
- Allows young farmers and new entrants to the sector gain access to land by providing a cheaper means of long term access to land, as opposed to the relatively high cost of ownership.
- Is especially important in accessing bank credit.
- Provides a route to retirement for older farmers, assisting in generation renewal.

The Working Group recognises that there are many reasons for the imbalance in the leasing market and that moving from conacre to long-term leasing is a cultural shift for Irish agriculture. There are no measures that would cause such a major shift in the short term. However, it is possible to create the policy conditions to allow a shift over time. Therefore the Agri-taxation Working Group makes the following recommendations.

Recommendation 1: Retain Relief for certain income from leasing of farm land.

This measure is vital to encourage land owners to enter into long-term leasing arrangements. However, the uptake to date has been relatively low. Indecon state in their report that the measure is 'one of the reliefs most aligned with the strategic objectives of enabling greater access to land for new entrants. However because of a range of factors the uptake had been very low and ways to encourage greater leasing should be a priority'. Recommendations 2 to 7 below are a package of measures designed to encourage an increase in the supply of land available for long-term leasing.

Recommendation 2: Increase the income thresholds for relief from leasing income by 50%.

Currently the lessor is exempt from income tax on progressively increasing amounts linked to lease duration; these amounts will be increased by 50%, as follows:

5 to 7 year leases; up to €18,000 per annum

7 to 10 year leases; up to €22,500 per annum

Over 10 year leases; up to €30,000 per annum.

Recommendation 3: Introduce a fourth threshold for lease periods of 15 or more years with an exemption for the first €40,000 per annum.

To make repayments affordable, expanding, younger and new entrant farmers require longer-term loans. Generally, loan terms cannot exceed the land-lease term. This new threshold should increase the availability of land in this category and therefore allow for longer-term loans.

Recommendation 4: Remove the lower age threshold of 40 years of age for eligibility for the long-term leasing tax relief.

There is currently a lower age threshold of 40 years of age for eligibility of land owners for the long-term leasing tax relief. In some instances, land owners under this age have inherited farms and proceed to lease land under short-term conacre arrangements or, with little experience or knowledge in farming, proceed to farm it in an unproductive and inefficient manner.

Recommendation 5: Allow non-connected limited companies as an eligible lessee for the long-term leasing tax relief.

There is a trend towards the incorporation of farms, i.e. some farmers are changing the structure of their businesses from self-employed sole traders to limited companies. As the current income tax exemption is not available to land owners leasing to companies, these incorporating farmers are finding problems with current leasing arrangements and accessing new land. This is becoming a problem in the dairy sector especially where the majority of incorporations are taking place; longer-term certainty around land tenure is critical given the need to have suitable grazing land near the milking parlour.

Recommendation 6: Relieve stamp duty on long-term leases (5 years or more) for agricultural land.

Currently an anomaly prevails whereby a once-off 1% stamp duty charge is applicable on the annualised market value of agricultural land leases, but no charge is applicable on conacre lettings as they are deemed not in the nature of tenancies.

Recommendation 7: Raise awareness among land owners of the current reliefs for long-term leasing.

The study 'Land Mobility and Succession in Ireland' concluded that 'there is an unwarranted fear and scepticism about long-term leasing and a lack of awareness of the tax exemptions available which are possibly stifling the uptake of this option'.

In order to promote more long-term leasing, there is a need to engage with all stakeholders in dispelling misconceptions associated with leasing, raising awareness of this specific taxation measure and of the benefits of long-term leasing in general. This can be done through engagement with professionals dealing with farmers, the farming organisations, the farming media, through, among others, Teagasc and through the Knowledge Transfer Measures under the new Rural Development Plan.

Impact of CAP Reform

The recent reform of the CAP has created a more positive policy environment for long-term leasing. There is now clarity that land owners who heretofore have been actively farming and have established EU Basic Payment Scheme entitlements on their farm holding can retain ownership of these entitlements after a long-term lease expires (provided certain actions are taken by both the lessor and lessee at the commencement of any new lease periods from 2015 onwards).

Long-term leasing versus conacre

As well as measures to improve the uptake of long-term leasing, during the consultation process there were proposals to disincentivise conacre in some way, perhaps by a charge or levy. The Group has considered this issue and decided that in the short term it would be appropriate for the moment to focus on measures to encourage long-term leasing.

Agri-taxation policy objective 2: Assist succession

As discussed in chapter 2, the age profile of Irish farmers is increasing as the number of farmers aged under 35 fell by more than 50% between 2000 and 2010 to just 6.2% of all holders. More than half (51.4%) of all farm holders in 2010 were aged 55 years or older, while more than a quarter (26.3%) of all farm holders were aged over 65 years.

The Working Group recognises that there are many social and economic reasons why succession management is a challenge for farmers. The study 'Land Mobility and Succession in Ireland' found that half of farmers aged over 50 years do not have an identified farming successor and that there is a tradition of late transfer. It recommended various ways of improving the situation and recent initiatives such as 'The Land Mobility Service' are welcome. The study also found that it is critically important that current measures are maintained and protected for the future.

Assisting succession and the transfer of farms has been a central part of agri-taxation policy to date, especially earlier lifetime transfers. The Agri-taxation Working Group makes the following recommendations.

Recommendation 8: Retain Agricultural Relief from Capital Acquisitions Tax.

Among the agri-taxation measures, with an estimated costing of some €77 million in 2012, Agricultural Relief from Capital Acquisitions Tax is second in terms of direct exchequer cost. However, it is a vital measure to ensure the ongoing viability of farming businesses that pass from one generation to another. While a farming businesses may be asset rich, in many cases the income from the farm could not sustain major tax charges, hence the existence of Agricultural Relief. The Indecon Report shows a positive cost benefit analysis for Agricultural Relief from Capital Acquisitions Tax; they also state that the relief is critical but only where the land concerned is actively farmed.

Recommendation 9: Target Agricultural Relief from Capital Acquisitions Tax to qualified or full-time farmers or to those who lease land out on a long-term basis.

There are concerns that the definition of 'farmer' for the purposes of the relief is not sufficiently robust to ensure that this relief is only being availed of by active, productive farmers. There have also been suggestions that the relief being used as tax efficient inter-generational wealth transfer mechanism for non-family farms. Therefore this relief will now only be available to those who are deemed 'qualified' or full-time farmers or those who lease land out on a long-term basis.

The definition of qualified should be consistent with other agri-taxation measures for younger farmers. It is recommended that a three-year grace period be granted where the beneficiary intends to complete a qualifying agricultural course, which must then be successfully completed within a specified timeframe after the initial transfer.

It is recommended that the definition of full-time farmer should be that the person spend not less than 50% of their normal working time farming the land (farming as defined in the Taxes Consolidation Act 1997 – Finance (No.2) Act 2013 Edition - Part 23).

Alternatively it is proposed that if the beneficiary leases out their land on a long-term basis on gift or inheritance, they will not have to meet the minimum qualification requirements and can become eligible for the relief. This is consistent with the policy objective of increasing the mobility and the productive use of land.

Recommendation 10: Retain Retirement Relief from Capital Gains Tax at current levels.

Although not exclusive to the agriculture sector, this is widely used measure in the farming sector and essential to allow for inter-generational transfers. The Indecon Report shows a positive cost benefit analysis for Agricultural Relief from Capital Acquisitions Tax and again they also state that the relief is critical but only where the land concerned is actively farmed.

Recommendation 11: For transfers under Retirement Relief, extend the eligible letting period of a qualifying asset to 25 years.

Currently the following are qualifying assets for Retirement Relief from Capital Gains Tax: 'land which was let at any time during the 15 year period prior to its disposal but, prior to its first letting, was farmed for 10 years by the individual making the disposal and the disposal is to a child of the individual concerned' and 'land leased for a minimum period of 5 years up to a maximum of 15 years ending with the disposal but, prior to its first letting, was farmed for 10 years by the individual making the disposal and the disposal is to a person other than a child of the individual concerned'. The letting period prior to disposal should be extended to 25 years to allow for family situations where successors are too young to take over a farming business and to promote the productive use of land. The 10 year usage condition would still apply.

Recommendation 12: For transfers other than to a child under Retirement Relief, as a once-off measure until the end of 2016, allow conacre lettings as eligible.

- a) For transfers to an individual other than a child, a qualifying asset can included leased land, but only land let on a long-term basis, i.e. conacre does not qualify. To give those who have been using conacre a window of opportunity to dispose of land and avail of this relief, as a once-off measure until the end of 2016, land let on a conacre arrangement will be eligible.

b) Also, for those who switch to long-term leasing during the period to the end of 2016, their previous conacre arrangements be disregarded for the purposes of the relief. The 10 year usage condition will still apply. There is a cohort of farmers who are effectively caught in conacre arrangements without exit options, therefore this is a once-off opportunity for them to either retire or move to long-term leasing. This is also consistent with the policy objective of increasing the mobility and the productive use of land.

Recommendation 13: Extend Stamp Duty Consanguinity Relief on Non-Residential Transfers to the end of 2017

Stamp Duty Consanguinity Relief on Non-Residential Transfers is due to expire at the end of 2014. However, in extending the relief, the eligibility criteria should be amended to be consistent with the changes proposed under Recommendation 9 above (i.e. target Agricultural Relief from Capital Acquisitions Tax to qualified and full-time farmers or to those who lease out their land on a long-term basis).

Recommendation 14: Retain current stamp duty exemptions on transfers of land.

Retain the following:

- Stamp Duty Exemption on Transfers of Land to Young Trained Farmers
- Stamp Duty Exemption for Certain Family Transfers
- Stamp Duty Relief for Commercial Woodlands
- Stamp Duty Exemption on Single Farm Payment Entitlements.

The Indecon Report states, 'Indecon's analysis suggests that while stamp duty or other reliefs encourage land mobility to younger active farmers it is likely to impact on output levels in the sector'.

Agri-taxation policy objective 3: Complement wider agriculture policies and schemes

A. Investment to enhance competitiveness, including assisting new entrant, young trained farmers

As discussed above, there will be significant supports available to assist investment under the new Rural Development Plan. For young farmers, the 'Young Farmer Capital Investment Scheme' will provide an enhanced grant rate of 60 per cent in respect of investments by young farmers, as well as grant aid support for dairy buildings for qualifying young farmers. Nevertheless the Working Group has concluded that the agri-taxation system should continue to assist investment in the following ways.

Recommendation 15: Retain the current Capital Allowances available to the sector.

The farming sector benefits from generous capital allowances with a dedicated measure for Farm Buildings and Other Works. Capital Allowances ranks first in terms of direct exchequer cost among the agri-taxation measures, with an estimated costing of some €192 million in 2011 (not including allowances for milk quota purchase). The Indecon Report shows a positive cost benefit analysis on Capital Allowances in the agriculture sector and their econometric analysis concludes that there is a positive relationship between investment and output. They state 'Indecon's judgement is that it is likely that the capital allowances on plant and equipment and on farm buildings result in a higher level of investment in the sector than would be economically justified if farmers were not in a position to have any tax allowance for investment in the sector.'

Recommendation 16: Retain current Stock Reliefs.

Stock Relief is an important aid to encourage investment in improving stock quality. Its retention is considered vital by the sector. The Indecon Report concludes that there is a positive relationship between investment in stock and output. The Group recommends retaining:

- 25% General Stock Relief on Income Tax
- 100% Stock Relief on Income Tax for Certain Young Trained Farmers
- 50% Stock Relief on Income Tax for Registered Farm Partnerships
- Relief for Stock Transfer due to discontinued Farming Trade

B. Environmental sustainability, including the improvement of farm efficiency.

Again, environmental sustainability is a focus under the new Rural Development Plan and is also a significant feature of the new direct payment scheme. The Working Group concludes that the following will complement the new CAP measures.

Recommendation 17: Retain CGT relief on farm restructuring, allow whole-farm replacement and extend the measure to the end of 2016.

CGT relief for farm restructuring was introduced in Budget 2013. However, whole-farm replacement is precluded from this relief, i.e. the disposal of an entire smaller or fragmented farm holding and replacement with a larger or more efficient farm holding. Achieving the targets in Food Harvest 2020 will require further consolidation of farms to increase efficiency, particularly in the dairy sector. Uptake of this measure to date has been limited as many factors have to be in place before any restructuring. Stakeholder feedback indicated that the failure to allow whole farm replacement was a major barrier to uptake to date on the measure. It is therefore proposed to extend the measure to whole-farm replacement. As the logistics of restructuring can take a significant amount of time, it is proposed to extend the measure to the end of 2016. This measure will be subject to advance certification, which will be based on objective criteria to reduce land fragmentation across an individual holding.

Recommendation 18: Retain as tax exempt, profits or gains from the commercial occupation of woodlands.

Forestry plays a key role as a carbon sink, helping to mitigate the increase in greenhouse gas emissions from other sectors of the economy. Forestry is capital-intensive investment with costs front-loaded. Compared with other industrial sectors it has a relatively long period before returns are realised. The Department of Finance 2006 Review of Tax Schemes recommended that the tax treatment of forestry should remain and this was echoed by the Commission on Taxation in 2009. The Working Group agrees with the concerns of forestry stakeholders expressed during the consultation process that the non-retention of this measure would act as a major disincentive to new investment in forestry.

Recommendation 19: Examine the broadening of the scope of Sustainable Energy Authority of Ireland's (SEAI) ACA scheme to incentivise investment in energy efficient equipment by making it available to non-incorporated businesses.

Currently this is available only to companies; the majority of farmers operate as sole traders. Broadening the scheme would strengthen Bord Bia's marketing message of sustainable Irish agriculture production through its Origin Green Programme and its various Quality Assurance Schemes. While it is planned that some types of equipment for milking parlours will be funded under the forthcoming RDP round of EU co-funding commencing in 2015, specific

grant aid will not be available for the higher specification, more costly energy efficient equipment that the SEAI ACA scheme covers. The feasibility of broadening the scheme to the non-incorporated businesses in the farming sector will be examined in advance of Budget 2016.

C. Alternative farming models such as farm partnerships.

Recommendation 20: Retain the current measures and review in the context of new partnership register and supports under the RDP.

The tax code contains a number of provisions that ensure participants in Milk Production Partnerships are not at a disadvantage. New broader-based registered farm partnership arrangements will be introduced shortly. In this context and in the context of new supports under the RDP, taxation as it relates to alternative farming models should be reviewed. As a guiding principle, the agri-taxation system should continue to not disadvantage a person who participates in collaborative type farming models.

D. Responses to increasing income volatility.

Increasing farm income volatility is predicted to become an even more prevalent feature of the agriculture sector. Direct payments under the CAP assist in mitigating income volatility; private sector solutions are also available. However further flexibility is required in the tax system to reflect this new reality to allow farmers more scope to smooth volatile income levels over time.

Recommendation 21: Retain and enhance Income Averaging by increasing the period from 3 to 5 years.

Increasing the averaging period from 3 to 5 years will give more scope for income smoothing within a commodity price cycle. The Indecon Report states, 'Indecon accepts that income volatility is a particular challenge in the agriculture sector and assisting farms to manage this has social benefits and could assist cash flow in family farms. However the impact on agricultural output may be more indirect'.

Recommendation 22: Allow averaging to be availed of where a farmer and/or their spouse receive income from an on-farm diversification trade or profession.

A condition of income averaging is that it is not available to a farmer where they or their spouse is in receipt of income from another 'trade or profession'. Many smaller family farm holders cannot derive a sufficient income from their farm. As a pro-business initiative, it is

proposed that election to income averaging is made available to a farmer where either they or their spouse are in receipt of income from an on-farm diversification trade or profession.

Recommendation 23: Examine the scope for extending income averaging to forestry clear-felling profits.

Clear-felling forestry profits are subject to the upper tax exemption limits of the High Earners Restrictions rules. This has had a disproportionate effect on forest owners as the majority of income comes at a single point in time, i.e. clear-felling. The forestry sector is a unique investment in agriculture terms as the majority of the revenue is realised at the end of an extended growing cycle of 30 to 100 years. The current restriction is impacting long-term decision making and afforestation planting targets. The restriction is also currently influencing behaviour in that harvests are being split into two/three years in order to avoid the current annual relief threshold of €80,000. This is clearly inefficient and influencing behaviour in an unintended way. In order to offset the impact of the high earner restriction rules on the forestry sector it is recommended to allow income averaging for the trade of farming to be extended to include clear-felling profits earned from the forestry sector. The Working Group will examine the feasibility of extending income averaging to forestry clear-felling profits. Safeguards to ensure that only fulltime farmers and foresters benefit from this measure will be examined.

Tax deposit schemes

Many of the written submissions and stakeholders consulted proposed the introduction of a farm deposit scheme to counteract income volatility. This is based on similar schemes in Australia and New Zealand that are essentially tax deferral schemes, where farmers lodge money tax free (in years of surplus), and pay tax on withdrawal (in years of deficit). However indications are that a scheme such as this would not be compatible with EU State Aid rules which preclude supports to falling farm incomes arising from low commodity prices in the market place. It should be noted in this regard that Australian and New Zealand farmers do not receive direct payments. However there is a risk deposit scheme currently operating in France and, as stated below, this will be examined further (see Recommendation 24 below).

General Recommendations

There are more general Recommendations not falling within the scope of the key objectives.

Recommendation 24: The Agri-taxation Working Group should remain in place to monitor the agri-taxation measures and examine other issues arising; and specifically to:

- Examine the feasibility of introducing a risk deposit scheme: there is a risk deposit scheme currently operating in France and this will be examined further.
- Examine the feasibility of introducing a 'Phased Transfer Partnership': There are a number of barriers to increasing the number of life-time transfers of family farms. The most significant issue for farm families is the requirement for two generations to derive an income stream from the farm. In addition, where both parent and child are of working age, the full transfer of the family farm may be considered too abrupt a change. A Phased Transfer Partnership is a proposed progression model in which there would be a defined, phased transfer of the family farm over a defined time period. This would require a contract for the phased and progressive transfer of assets between parent and child (or favoured niece/nephew) with some kind of income tax relief attached. This innovative model was proposed during the consultation process.
- Examine the tax system to determine unintended barriers to female participation: In the course of this review and in consultation with stakeholders, a view was expressed that certain conditions around some of the agri-taxation measures act as a de facto barrier to greater female participation in agriculture. The Working Group will attempt to identify any barriers and make any proposals necessary for their elimination.
- Examine other issues as necessary.

The Working Group will also deal with any administrative issues arising from implementation.

Recommendation 25: The Agri-taxation Working Group should also work to ensure better data collection on costs and benefits.

In the course of this review, deficiencies in data collection on both costs and benefits were identified. The Working Group should examine how to address these deficiencies. This could include the identification of suitable performance indicators, e.g. indicators of benefits associated with enhanced land mobility might be increased primary output from the sector and increased agri-food exports.

List of Recommendations & indicative timescale for implementation

Agri-taxation policy objective 1: Increase the mobility and the productive use of land		
1	Retain Relief for certain income from leasing of farm land.	Ongoing
2	Increase the income thresholds for relief from leasing income by 50%.	Budget 2015
3	Introduce a fourth threshold for lease periods of 15 or more years with an exemption for the first €40,000 per annum.	Budget 2015
4	Remove the lower age threshold of 40 years of age for eligibility for the long-term leasing tax relief.	Budget 2015
5	Allow non-connected limited companies as an eligible lessee for the long-term leasing tax relief.	Budget 2015
6	Relieve stamp duty on long-term leases (5 years or more) for agricultural land.	Budget 2015
7	Raise awareness among land owners of the current reliefs for long-term leasing.	Ongoing
Agri-taxation policy objective 2: Assist succession		
8	Retain Agricultural Relief from Capital Acquisitions Tax.	Ongoing
9	Target Agricultural Relief from Capital Acquisitions Tax to qualified or full-time farmers or to land owners who lease land out on a long-term basis.	Budget 2015
10	Retain Retirement Relief from Capital Gains Tax at current levels.	Ongoing
11	For transfers under Retirement Relief, extend the eligible letting period of a qualifying asset to 25 years.	Budget 2015
12	For transfers other than to a child under Retirement Relief, as a once-off measure until the end of 2016, allow conacre lettings as eligible.	Budget 2015
13	Extend Stamp Duty Consanguinity Relief on Non-Residential Transfers to the end of 2017.	Budget 2015
14	Retain current stamp duty exemptions on transfers of land.	Ongoing
Agri-taxation policy objective 3: Complement wider agriculture policies and schemes		
A. Investment to enhance competitiveness, including assisting new entrant, young trained farmers		
15	Retain the current Capital Allowances available to the sector.	Ongoing
16	Retain current Stock Reliefs.	Ongoing
B. Environmental sustainability, including the improvement of farm efficiency.		
17	Retain CGT relief on farm restructuring, allow whole-farm replacement and extend the measure to the end of 2016.	Budget 2015
18	Retain as tax exempt profits or gains from the commercial occupation of woodlands	Ongoing
19	Examine the broadening of the scope of Sustainable Energy Authority of Ireland's (SEAI) ACA scheme to incentivise investment in energy efficient equipment by making it available to non-incorporated businesses.	Budget 2016
C. Alternative farming models such as farm partnerships.		
20	Retain the current measures and review in the context of new partnership register and supports under the RDP.	Ongoing
D. Responses to income volatility.		
21	Retain and enhance Income Averaging by increasing the period from 3 to 5 years.	Budget 2015
22	Allow averaging to be availed of where a farmer and/or their spouse receive income from an on-farm diversification trade or profession.	Budget 2015
23	Examine the scope for extending income averaging to forestry clear-felling profits.	Budget 2016
General Recommendations		
24	The Agri-taxation Working Group should remain in place to monitor the Agri-taxation measures and examine other issues arising.	Ongoing
25	The Agri-taxation Working Group should also work to ensure better data collection on costs and benefits.	Ongoing

Appendices >

Appendix 1 – Public Consultation Paper



An Roinn Airgeadais
Department of Finance



Department of
**Agriculture,
Food and the Marine**
An Roinn
**Talmhaíochta,
Bia agus Mara**

Public Consultation Paper

Agri-taxation review

Department of Finance

Department of Agriculture, Food and the Marine

February 2014

Fiscal Division

Department of Finance

Government Buildings, Upper Merrion Street, Dublin 2

Ireland

Economics and Planning Division

Department of Agriculture, Food and the Marine

Agriculture House, Kildare Street, Dublin 2

Ireland

E-mail: agritaxation@finance.gov.ie

Website: www.finance.gov.ie

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1. Introduction

The Minister for Finance announced in his Budget speech, in conjunction with his colleague the Minister for Agriculture, Food and the Marine, that he would be commissioning a review of the tax reliefs available to the farming sector. This process will entail:

- (a) A cost benefit analysis
- (b) A public consultation.

In order to focus the review it is intended that it will look at the primary sector only. This document represents the public consultation element of the review.

For information, the general terms of reference for the review are set out in Annex A.

The Department of Finance regularly reviews major tax expenditures. The purpose of this review will be to assess the costs and benefits of the various agricultural tax expenditures with a view to ensuring that the maximum benefit to the sector and the wider economy is obtained. There are a number of taxation expenditure measures which are exclusively aimed at the farming community. Farmers can also avail of a number of other measures which are not exclusive to the sector. The overall objective of the review is not to change the level of Exchequer support to the sector through the tax system but rather to maximise the benefits to the economy for the existing level of State support. Any recommendations will be considered in the context of Budget 2015 with particular reference to the Food Harvest 2020 Strategy. As Food Harvest 2020 is the basis for Government agriculture policy, the primary objective of agri-taxation reliefs is to incentivise farmers to deliver on its objectives of smart, green, growth.

The Minister for Finance, Mr. Michael Noonan TD, and his colleague the Minister for Agriculture, Food and the Marine, Mr. Simon Coveney TD, are now launching the public consultation aspect of the review and interested parties are invited to make submissions. A list of questions is provided for guidance but additional tax policy issues of relevance to the primary agriculture and forestry sector are also welcome in order to enable both Departments to better understand the impact of Exchequer support through tax reliefs to the agricultural sector in Ireland.

2. The Consultation Process

Consultation Period

The consultation period will run from Tuesday 11th February 2014 to Tuesday 25th March 2014, a period of 6 weeks. Any submissions received after this date cannot be considered.

How to Respond

The preferred means of response is by email to: agritaxation@finance.gov.ie.

Alternatively, you may respond by post to:

Agri-taxation review,
Fiscal Division,
Department of Finance,
Government Buildings,
Upper Merrion Street,
Dublin 2.

Please include contact details if you are responding by post.

When responding, please indicate whether you are farming as a sole trader, incorporated, in a collaborative farming arrangement, a professional adviser, representative body or member of the public.

Freedom of Information

Responses to this consultation are subject to the provisions of the Freedom of Information Acts. Parties should also note that responses to the consultation may be published on the website of the Department of Finance.

Meetings with key stakeholders

The joint Department of Finance / Department of Agriculture, Food and the Marine (DAFM) working group may also invite key stakeholders to meet with them, including representative bodies, tax professionals dealing with the Agricultural sector and other interested groups or individuals.

After the Consultation

Tax policy issues from this public consultation, along with the outcome of the independent cost benefit analysis will form part of the Minister for Finance's considerations in the context of Budget 2015.

3. Background

The agriculture sector is Ireland's largest indigenous industry, which collectively employs about 167,000²⁹ people. Bord Bia estimates that in 2013, the sector accounted for almost €10 billion in exports to over 160 export destinations. The stated Food Harvest 2020 goal is to increase this export value to €12 billion by 2020.

According to the 2010 Census in Agriculture there are 139,860 farms in Ireland with an average farm size of 32.7 ha, and 99.8% were classified as family farms. A little over half of all farm holders in 2010 were aged 55 years or older, while just over a quarter of all farm holders were aged over 65 years. The number of holders aged less than 35 years represented just 6.2% of all holders in 2010. Farms in Ireland are quite fragmented with the average holding made up of 3.8 separate parcels. Specialist beef production is the dominant type of farming in Ireland with over 55% of farms.

The average income on Irish farms in 2012 was almost €25,500. Within this, the relative profitability of the various sectors ranged from €49,000 for the dairy sector to an average of €12,000 for the cattle-rearing farms. An analysis of the NUTS III regions³⁰ show the Border and West regions have the lowest average farm income at about €15,500 per farm. The Southeast has the most profitable farms with an average farm income of nearly €39,000, which is about two and half times the income per hectare of the Border and West regions. The wide variation in farm incomes is also underscored when national average incomes are compared for full and part-time farms in 2012. Full-time farmers earned a little over €45,000, while part-time farmers' incomes averaged about €12,000.³¹

The output from the primary agriculture sector has been estimated at €6.7 billion (at producer prices) with intermediate consumption estimated at almost €5.3 billion in 2012. Gross new investment in farming totalled €647 million in 2012, while the average borrowings per farm in 2012 were almost €24,000.

More than any other industry, the economic benefits in the agri-food sector, both direct and indirect, are dispersed throughout the country making it particularly important to rural areas.

²⁹ CSO QNHS data, Q3, 2013.

³⁰ There are eight NUTS III regions assigned by the EU for statistical purposes (Border, West, Midlands, Mid-east, Dublin, Southeast, Southwest and Mid-west). The BMW and SE are the two NUTS II regions.

³¹ The source for the income figures is the Teagasc National Farm Survey 2012.

Agriculture in relative terms is significantly more important to the BMW (Border, Midland, and West) region than the SE (South and East).

4. The Consultation Questions

In responding to this consultation you are invited to:

- Give your views on the specific questions set out below. You don't have to answer every question – you can choose to answer any or all of the questions.
- Provide details of any alternative approaches or options you feel might be beneficial in dealing with the issues being addressed.
- Provide details of relevant issues not covered in this paper.
- If possible, provide some analysis of the Exchequer cost/yield of your preferred option.
- Comment generally on the direction you would like to see tax policy in this area develop.

Your views are important as they may help influence the taxation treatment and policy to be applied in future to this sector.

Question 1 What current agri-taxation measures are working effectively and why?

Question 2 What current agri-taxation measures are not working effectively and why?

Question 3 How could the tax system better influence activity in any of the key policy areas of :

- Encouraging and attracting young farmers and new entrants to farming
- Land mobility – transfers via the market, whether by sale or long-term leasing
- Succession – earlier lifetime transfers within families (and non-family transfers also where no apparent successor is available)
- Alternative farming models - collaborative farming such as farm partnerships, share farming, contract rearing or cow leasing; also farm business structure, i.e. sole trader or incorporation
- Environmental sustainability
- Smart Farming - encouraging innovation, improving skill levels and maximising the adoption of best practice.

Question 4 Are there any other priority areas or future challenges that the tax system should seek to address?

Question 5 Is there a high awareness of agri-taxation measures among a) farmers and b) professionals dealing with farmers; how can awareness of agri-taxation reliefs be raised?

Consultation Period

The consultation period will run from Tuesday 11th February 2014 to Tuesday 25th March 2014, a period of 6 weeks. Any submissions received after this date cannot be considered.

How to Respond

The preferred means of response is by email to: agritaxation@finance.gov.ie

Alternatively, you may respond by post to:

Agri-taxation review,
Fiscal Division,
Department of Finance,
Government Buildings,
Upper Merrion Street,
Dublin 2.

Please include contact details if you are responding by post.

When responding, please indicate whether you are farming as a sole trader, incorporated, in a collaborative farming arrangement, a professional adviser, representative body or member of the public.

Annex A – Overall Terms of Reference

‘The objective of the review is to identify what works and what doesn’t, and redirect the existing level of tax expenditure towards activities of maximum benefit to this sector of the economy.’³² The review will focus on the following general themes:

- Public consultation.
- Review the tax supports available to the primary agricultural sector in Ireland.
- Analyse the benefits available to the sector and the wider economy versus the Ex-chequer costs, i.e. value for money to the economy.
- Recommend, where necessary, changes that could be made to enhance or maximise the value for money to the tax payer, taking EU State Aid considerations into account.
- Suggest any improvements that can be made to better achieve existing stated policy goals, with particular reference to Food Harvest 2020 and the Programme for Government, the key policy areas being:
 - Encouraging and attracting young farmers and new entrants to farming.
 - Land mobility – transfers via the market, whether by sale or long-term leasing
 - Succession – earlier lifetime transfers within families (and non-family transfers also where no apparent successor available)
 - Alternative farming models - collaborative farming such as farm partnerships, share farming, contract rearing or cow leasing; also farm business structure, i.e. sole trader or incorporation
 - Environmental sustainability
 - Smart Farming - encouraging innovation, improving skill levels and maximising the adoption of best practice.
- Survey of accountants and tax professionals dealing with the primary agriculture sector.
- Benchmark of Irish agri-taxation policy measures against 3 other EU countries, such as, but not exclusively, the UK, France and the Netherlands.

³² Statement of the Minister For Finance, Budget 2014

Appendix 2 – Agriculture Review Request For Tender



An Roinn Airgeadais
Department of Finance



Department of
**Agriculture,
Food and the Marine**
An Roinn
**Talmhaíochta,
Bia agus Mara**

Agri-taxation review

Invitation to Tender

Part 1

For a review of the benefits and costs associated with tax measures
impacting on the primary agricultural sector in Ireland

Part 2

An international review of the agri-taxation measures available in the
primary agricultural sector in other EU countries

Fiscal Division

Department of Finance

Government Buildings, Dublin 2

Ireland

Economics and Planning Division

Department of Agriculture, Food and the Marine

Agriculture House, Kildare Street, Dublin 2

Ireland

E-mail: agritaxationRFT@finance.gov.ie

Website: www.finance.gov.ie

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Introduction

In line with Department of Finance policy to review major tax expenditures on a regular basis, the Departments of Finance and Agriculture, Food and the Marine (hereinafter “the Departments”), are commissioning this cost benefit analysis and international review to enable both Departments to better understand the impact of Exchequer support through tax measures to the agricultural sector in Ireland today.

There are a number of taxation expenditure measures which are exclusively aimed at the farming community. Farmers can also avail of a number of other measures which are not exclusive to that sector. Besides taxation, there are of course a range of EU and Irish State payments to the sector.

Review Terms of Reference

‘The objective of the review is to identify what works and what doesn’t, and redirect the existing level of tax expenditure towards activities of maximum benefit to this sector of the economy.’³³

The review will focus on the following general themes:

- Public consultation.
- Review the tax supports available to the primary agricultural sector in Ireland.
- Analyse the benefits available to the sector and the wider economy versus the Exchequer costs, i.e. value for money to the economy.
- Recommend, where necessary, changes that could be made to enhance or maximise the value for money to the tax payer, taking EU State Aid considerations into account.
- Suggest any improvements that can be made to better achieve existing stated policy goals, with particular reference to Food Harvest 2020 and the Programme for Government, the key policy areas include:
 - Encouraging and attracting young farmers and new entrants to farming
 - Land mobility – transfers via the market, whether by sale or long-term leasing
 - Succession – earlier lifetime transfers within families (and non-family transfers also where no apparent successor available)
 - Alternative farming models - collaborative farming such as farm partnerships, share farming, contract rearing or cow leasing; also farm business structure, i.e. sole trader or incorporation
 - Environmental sustainability

³³ Statement of the Minister For Finance, Budget 2014

- Smart Farming - encouraging innovation, improving skill levels and maximising the adoption of best practice
- Survey of accountants and tax professionals dealing with the primary agriculture sector
- Benchmark of Irish agri-taxation policy measures against 3 other EU countries, such as, but not exclusively, the UK, France and the Netherlands

Public consultation process

The public consultation process of the Review was launched on Tuesday 11th February 2014 and will run to Tuesday 25th March 2014, a period of 6 weeks. A Public Consultation Paper entitled 'Agri-Taxation Review' has been published³⁴ and interested parties have been invited to make written submissions.

Nature of contract

As part of the Departments' Agri-taxation Review the Tender is for the following assignment, which is in two parts:

Part 1 – Cost benefit analysis

Taking into consideration the Review Terms of Reference, undertake a cost benefit analysis of the existing tax supports available to the primary agricultural sector and a survey of accountants and tax professionals dealing with the primary agriculture sector.

Anonymised, aggregated data on some of the tax measures will be provided to the successful Tenderer. A list of circa 25 measures has been published³⁵. Successful Tenderers will be required to analyse each measure in terms of its objective, cost, observable benefit and recommendations, if any, for change.

Part 2 – International review

Taking into consideration the Review Terms of Reference, undertake a benchmarking review of Irish agri-taxation policy measures available to the primary agricultural sector against primary sector measures in 3 other EU countries, such as, but not exclusively, the UK, France and the Netherlands. The Review Working Group may suggest particular measures in other countries for analysis.

³⁴ <http://www.finance.gov.ie/publications/consultations/public-consultation-agri-taxation>

³⁵ <http://www.agriculture.gov.ie/agri-foodindustry/agri-taxationreview/indicativelistofagri-tax-measures>

As part of this cost benefit analysis evaluation, consultants will be required to meet key stakeholders: farmer representatives, accountants and tax professionals who deal with Agri business, etc. These stakeholder meetings will be convened by the Departments. The successful Tenderer will also be able to benefit from the results of a public consultation process now underway.

Tender Process

Prospective Tenderers may bid for either one or both parts of this Tender. Please state clearly which part(s) you are tendering for.

The successful bidder(s) will be awarded a contract to conduct part 1, part 2, or both, and prepare a report, with supporting data for the relevant parts.

Parties should provide individually costed bids.

The closing date for receipt of the Tender(s) is:

12 noon 02 April 2014

Any replies received after this date will not be considered.

The final report (or reports) is expected to be delivered no later than **19 June 2014**.

The key deliverable from the contract will be a report (or reports) and presentation to the Departments setting out the key findings. A spreadsheet containing a record of the collected data must also be provided.

The successful bidder will be invited to formally present the outcome to the Departments and other interested parties nominated by them in both draft and final format.

The Review is being overseen by a working group made up of the Department of Finance, the Department of Agriculture, Food and the Marine and the Revenue Commissioners. This inter-departmental working group expect to be closely involved in the ongoing work associated with both parts 1 and 2 and will oversee the work as it progresses via a project steering group.

The successful Tenderer will be required to use official Department of Public Expenditure and Reform guidelines and parameters in their analysis. Further details can be found at the following website: www.publicspendingcode.per.gov.ie

It is important to note that any material or information submitted as part of this request for Tender process, including unsuccessful bids, will be subject to the Freedom of Information Acts 1997 and 2003. The Departments may receive requests for any or all information supplied as part of this process. **Any information which would be considered commercially sensitive should be highlighted as appropriate.** The Departments will consult with the relevant Tenderers before any commercially sensitive information is released.

Tenderers are requested to complete the following:

Name of company	
Contact person	
Job Title	
Address	
Telephone	
E-mail	
Is the Tender a single company Tender or a joint Tender with a third party (if so please name all parties).	

All completed Tenders should be returned in the required format on or before the closing date and should be marked 'Agri-taxation review' and submitted to:

*Fiscal Division,
Department of Finance,
Upper Merrion Street, Dublin 2*

Please return 6 hard copies of your Tender response and one electronic copy.

Electronic copies of Tenders and any queries in relation to this Request for Tender should be submitted by email to: agritaxationRFT@finance.gov.ie

Instructions for Submitting the Tender

Parties should clearly identify if all or any part of the assignment will be conducted by a third party. Where the services of third parties are being used, that party's experience and credentials in the area should be described.

Information on making a Tender

The following information is required in respect of each team member assigned to manage the project:

- Name of team member;
- Job title of team member;
- Qualification of team member;
- Relevant experience of team member;
- Team member's defined role within the project; and,
- Proportion of team member's time allocated to the project components (see table below).

Please indicate in the following table the proportion of each person's time that will be allocated to each aspect of the project, as follows:

Team Members	Project Days	Project Components			
		Set-up Days	Data Processing Days	Analysis Days	Reporting Days
Name 1					
Name 2					
Name 3					
Name 4					
Name 5					
Total					

Parties should provide a project plan setting out key milestones including presentation of preliminary and final reports.

Pricing

For this assignment the contract will be awarded for the completion of the primary research and final report. Failure to price the project according to the proposal pricing template provided may result in disqualification from the tendering process.

A pricing template is set out below

Task	Cost (ex VAT)
Project Management	
Questionnaire Design	
Fieldwork	
Data Processing & Analysis	
Drafting Presentations	
Presenting the Final Report	
Total Cost (ex VAT)	
Cost per Additional Presentation	

All pricing should be VAT exclusive, noting the applicable VAT rate separately.

While the Departments always expect rates submitted to be competitive, potential service providers should be particularly mindful of this in the current economic climate.

The Departments are not bound to accept the lowest, or any, Tender received. Contracts will be awarded from the qualifying Tenders on the basis of the most economically advantageous Tender consistent with the following award criteria:

AWARD CRITERIA	Share of Marks Available
Methodological Approach	35%
Understanding of assignment	20%
Relevant Experience of staff and resources to be provided to assignment	25%
Ultimate Cost	20%
TOTAL	100%

A minimum score of 60% is required in order for the Tender to be considered. The Departments reserve the right to reissue the invitation to Tender in the event that none of the Tenders received satisfy the award criteria.

Annex 1: Indicative Timetable

Stage	Estimated Timeline
Publication of notice on Government Procurement Website www.etenders.gov.ie	Wednesday 12 March 2014
Closing date for clarification questions to be received	Wednesday 19 March 2014
Closing date for responses	Wednesday 02 April 2014
Approval and awarding of contract	Wednesday 16 April 2014
Commencement of contract	Thursday 17 April 2014
Draft Final Report Deadline	Thursday 12 June 2014
Final Report Deadline	Thursday 19 June 2014

Annex 2: General Terms and Conditions

1. Tender Documents - Ambiguity, Discrepancy, Error, Omission

If you consider that you are missing any documents, the absence of which would prevent you from submitting a comprehensive Tender, please email agritaxationRFT@finance.gov.ie as soon as possible.

Prospective Tenderers shall immediately notify the Departments should they become aware of any ambiguity, discrepancy, error or omission in the Tender documents, via the email address. The Departments shall, upon receipt of such notification, notify all prospective Tenderers of its ruling in respect of any such ambiguity, discrepancy, error or omission. Such ruling shall be issued in writing and shall form part of the invitation to Tender document.

2. Closing Date and Time for Receipt of Tenders

The deadline date for receipt of Tenders is **12 noon 02 April 2014**. Any Tenders received after this date and time will not be considered and will be returned unopened.

3. Queries

All queries regarding this invitation to Tender should be emailed to agritaxationRFT@finance.gov.ie. Queries should be in question format and should be submitted by email. All such queries will be responded to in writing or by e-mail, and the queries and responses will be forwarded to all prospective Tenderers in order to ensure that no party has an unfair advantage over any other. The details of the person making a query will not be disclosed when circulating the response. The closing date for receipt of queries is **19 March 2014**.

4. Qualification of Tenders

Please note that qualifications to a Tender may be considered a counter offer and may render the Tender invalid.

5. Tender Submission

All completed Tenders should be returned in the required format to the following address on or before the closing date and should be marked 'Agri-taxation review' and submitted to:

*Fiscal Division,
Department of Finance,
Upper Merrion Street, Dublin 2*

Please return 6 hard copies of your Tender response and one electronic copy.

Electronic copies of Tenders and any queries in relation to this Request for Tender should be submitted by email to: agritaxationRFT@finance.gov.ie

6. Extension of Tender Period

The Departments reserve the right, at their sole discretion, to extend the closing date for receipt of Tenders by giving notice in writing to prospective Tenderers before the original closing date.

7. Modifications prior to the Closing Date for Receipt of Tenders

Modifications to Tenders will be accepted in the form of supplementary information, provided they are submitted in a sealed envelope before the closing date for receipt of Tenders.

8. Cost of Preparation of Tender

The Departments will not be liable for any costs incurred by prospective Tenderers in the preparation of Tenders or any associated work effort or attendance at meetings with the Departments relating to the competitive dialogue procedure. It is the responsibility of the prospective Tenderer to ensure that they are fully aware and understand the requirements as laid down in the Tender document. Prospective Tenderers will be responsible for any costs incurred by them in the event of their being required to attend clarification or other meetings.

9. Tender Validity Period

To allow sufficient time for Tender assessment, a Tender Validity period of 6 months is required, this period commencing on the closing date by which the Tenders are to be returned.

10. Currency

Tender prices may be submitted in Euro only. All invoices and payments will be in Euro only.

11. Confidentiality

The distribution of the Invitation to Tender document is for the sole purpose of obtaining Tenders. The distribution does not grant permission or licence to use the documents for any other purpose.

Prospective Tenderers are required to treat the details of all documents supplied in connection with the Tender process as private and confidential. Similarly, the Departments undertake to use their reasonable endeavours not to disclose to third parties any confidential information received from Tenderers, subject to its legal obligations.

12. Conflict of Interest

Any conflict of interest involving a prospective Tenderer must be fully disclosed to the Departments. Any registrable interest involving the Tenderer and the Departments or employees of the Departments or their relatives must be fully disclosed in the Tender or should be communicated to the Departments immediately upon such information becoming known to the Tenderer, in the event of this information only coming to their notice after the submission of a bid and prior to the award of the contract. The terms 'registrable interest' and 'relative' shall be interpreted as per Section 2 of the Ethics in Public Office Act, 1995. Failure to disclose a conflict of interest may disqualify a Tenderer or invalidate an award of contract, depending on when the conflict of interest comes to light.

13. Freedom of Information Act

Each of the parties will undertake to use their reasonable endeavours to hold confidential any information received from the other party, subject to the Departments obligations under law, including (if applicable), the provisions of the Freedom of Information Acts, 1997 and 2003. The Tenderer will agree that, should it wish any confidential information supplied by it to the Departments not to be disclosed, because of its commercial sensitivity, it will, when supplying such information, identify same and specify the reasons for its sensitivity. The Departments will consult with the Tenderer about such sensitive information before making a decision regarding release of such information under the Freedom of Information Acts 1997 and 2003. However, the Departments will give no undertaking or assurance that such information will not be released under the provisions of the Freedom of Information Acts 1997 and 2003 and the final decision on whether or not to release such information rests with the Departments or as set out in the Freedom of Information Acts 1997 and 2003.

14. Tax Clearance Certificate

The prospective Tenderer should be in a position to promptly produce a current Tax Clearance Certificate. See Irish Revenue web site: www.revenue.ie.

15. Irish Legislation

Prospective Tenderers should be aware that national legislation applies in matters such as Employment, Working Hours, Official Secrets, Data Protection and Health and Safety. All relevant aspects of such legislation must be observed at all times by the successful service provider.

Tenderers must also have regard to statutory terms relating to minimum pay and to legally binding industrial or sectoral agreements in preparing Tenders and apply these provisions if awarded the contract.

16. Confidentiality of Evaluation

After the official opening of Tenders, information relating to the examination, clarification, evaluation and comparison of Tenders will not be disclosed to Tenderers or any other persons save as required by law.

17. Determination of Responsiveness

After the official opening of Tenders, the Departments or their staff or agents will determine whether each Tender is substantially responsive to the requirements of the Tender documents. If a material deviation exists that limits in any substantial way the Departments' rights or the Tenderer's obligations, the Tender shall be rejected.

18. Clarification of Tenders

Without prejudice to the conduct of the competitive dialogue procedure, to assist in the examination and comparison of Tenders, the Departments may ask prospective Tenderers for clarification of aspects of their Tenders, including a breakdown of the financial proposal or other information.

19. Correction of Errors

Detailed pricing of all Tenders will be examined for arithmetical errors and the following approach to the correction of such errors will apply:

- Where there is a discrepancy between amounts in figures and words the amount in words shall apply.
- Where there is a discrepancy between the unit price and the total amount derived from the multiplication of the unit price and the quantity, the unit price as quoted will normally govern unless, in the opinion of the Department of Finance, there is a gross mathematical error in the unit price, in which event the total amount as quoted will govern.

The amount stated in the Form of Tender will be adjusted by the Departments in accordance with the above procedure and, with the agreement of the Tenderer, shall be considered as binding upon the Tenderer. A Tenderer not accepting the correction of their Tender as outlined above may have their Tender rejected.

20. Interference

Any effort by the prospective Tenderer to unduly influence the Departments, relevant agency personnel or any other relevant persons or bodies in the process of examination, clarification,

evaluation and comparison of Tenders shall have their Tender rejected. In accordance with Section 38 of the Ethics in Public Office Act 1995, any money, gift or other consideration from a person holding or seeking to obtain a contract will be deemed to have been paid or given corruptly unless the contrary is proved.

21. Inducements to Purchase

The Departments shall be entitled to disqualify a Tenderer in the following circumstances:

- If the Tenderer has offered or given or agreed to give, to any person, any gift or consideration of any kind as an inducement or reward for doing or forbearing to do, or for having done or forborne to do, any action in relation to the obtaining or execution of this contract award procedure or showing or forbearing to show favour or disfavour to any person in relation to this contract award procedure or any other contract award procedure with the Department of Finance, or
- If like acts have been done by any other person employed by the Tenderer or acting on its behalf (whether with or without the knowledge of the Tenderer).

The Competition Act 2002 makes it a criminal offence for Tenderers to collude on prices or terms in a public Tendering procedure. Where the Departments have reasonable grounds to believe that a Tenderer may have been involved in collusion, it shall be entitled to exclude such Tenderers from competition at its sole discretion.

22. Notification of Award Decision

All prospective Tenderers concerned will be notified by email of the outcome of their Tender.

23. Payment

The Departments operate in accordance with the European Communities (Late Payment in Commercial Transactions) Regulations 2002.

24. Terms of Payment & VAT

Payment for the conclusion of the project will be made by the Department of Finance.

Following receipt of the Department of Finance purchase order, the Service Provider shall send an invoice to the Department of Finance (indicating the relevant Purchase Order number) together with all other relevant supporting documentation as may be required. Payment shall be made within 30 days of receipt of a correct and appropriately vouched invoice at the Fiscal Policy Division, the Department of Finance, provided there is no dispute in relation to the provision of the relevant Services. In the event of any such dispute, payment may be withheld in respect of any disputed amount until the dispute is resolved.

All prices quoted must be exclusive of VAT.

25. Copyright

Any programmes developed or used in the course of carrying out this contract, and all materials associated with these programmes, will be owned by the Department of Finance.

Part B: Indecon Report >

Indecon Review of Agricultural Tax Incentives

Report

Submitted to

**Department of Finance and the Department of
Agriculture, Food and the Marine**

Prepared by

Indecon International Economic Consultants

Indecon

October 2014

Disclaimer: This report is provided solely in connection with the consultancy project for the Department of Finance/Department of Agriculture, Food and the Marine concerning certain matters relating to Agricultural Tax Incentives. Any liability Indecon will assume to the Department will be governed by specific liabilities, if any, as specified in a contract to be agreed between us. This report is provided on the basis that Indecon accepts no liability whether in contract tort (including negligence) or otherwise to the Department or to any other person in respect of this.

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Executive Summary

Introduction and Background

This report is prepared by Indecon International Economic Consultants and is submitted to the Department of Finance and the Department of Agriculture, Food and the Marine. This concerns an independent review of the tax reliefs available to the farming sector and includes a cost-benefit analysis and a summary of international experience. Indecon was appointed to conduct this review following a competitive tender.

Agriculture represents an important sector for Ireland in terms of employment, exports and output. In order to support the sector, there are a number of taxation measures which are exclusively targeted at the farming community, while farmers can also avail of a number of other general tax measures. In addition, the sector receives a range of EU and Irish State payments/supports. The Department of Finance reviews major tax expenditures on a regular basis. In this context, the Department of Finance and the Department of Agriculture, Food and the Marine jointly determined the need to ensure that the maximum benefits are accruing to the agriculture sector and the wider economy with the existing level of state support.

Indecon believes that this review is very important as it is essential to ensure that scarce state resources are used efficiently and our analysis suggests the need for reform in tax reliefs in order to maximise the economic benefit of any incentives provided to the sector.

Overview of Irish Farming & Forestry Sectors

Direct employment in farming, fishing and forestry amounts to around 112,900 in 2014. The sector from an employment perspective is therefore of national significance. Identifying ways in which the sector can continue to expand and support additional employment is a key policy issue.

Employment in Agriculture, Forestry and Fishing (000s)		
	2013	2014
Agriculture, forestry and fishing	98.4	112.9
Source: CSO QHNS, Quarter 1 Annual Estimates		

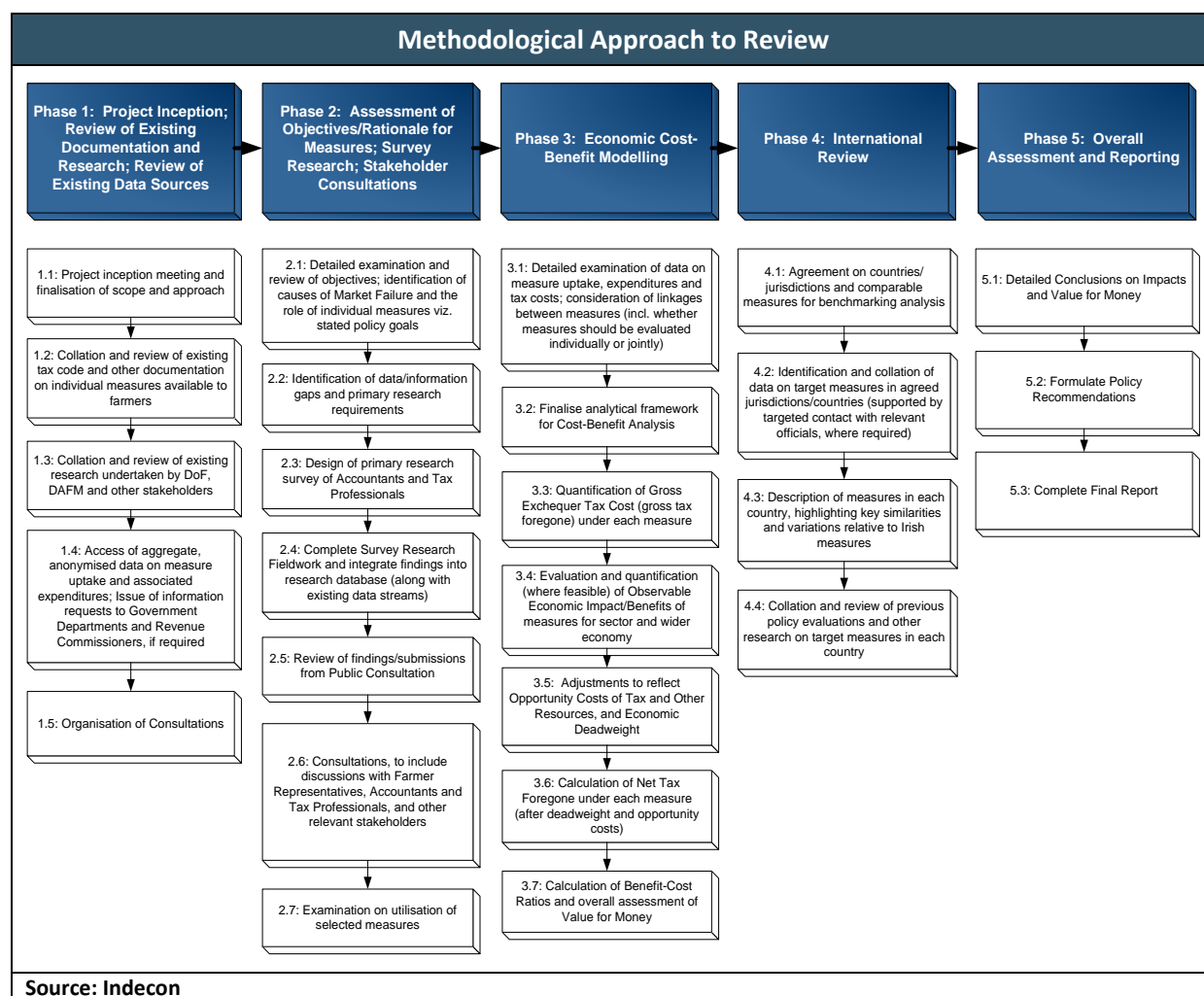
Family farm income increased very significantly from 2009 to 2013 but there is annual volatility in incomes and a 15% reduction was recorded in 2012. This reflects the large increase in production costs in the year due to adverse weather conditions. Wide variation in family farm income persists but reliance on direct payments is a feature of the sector. While this report is focusing on the agri-tax reliefs and examining the costs and benefits of these, it is also useful as context to note that the farming sector pays around €475 million per annum in income tax and PRSI. In addition we understand capital gains tax over the last three years averaged around €50 million from the agriculture sector.

Food Harvest 2020 – Industry Strategy & Targets for 2020

Increasing investment in the sector is a key component of Food Harvest 2020 which is a strategy for the medium-term development of the agri-food, fisheries and forestry sector for the period up to 2020. The objective is sustainable growth of the sector through the delivery of high quality, safe and naturally based produce. Three specific quantified targets have been set out in this strategy in relation to growth. The first of these is to increase the value of primary output in the sector by €1.5 billion which represents a 33% increase compared to the 2007-2009 average. The second aims to increase the value added in the sector by €3 billion which would represent a 40% increase on 2008 levels. Finally, a sectoral target of €12 billion in export sales has been set. A review of the growth performance for the sector shows significant progress. However Indecon's view is that it is essential to ensure that this momentum is maintained and it would be a mistake to assume that the balance of the targets will be easily achieved.

Methodological Approach

The scope of this review required detailed analysis of a wide range of evidence, data, consultations and submissions. Indecon's approach to this review is outlined in the following schematic. Further details on the methodology used to evaluate costs and benefits are presented in Chapter 11. The cost-benefit model assumptions are consistent with guidelines from the Department of Public Expenditure and Reform.



Review of Agri-Tax Measures in Other Countries

As part of our analysis we examined some of the taxation measures in the UK, the Netherlands and France. In particular we reviewed the position concerning capital allowances, stock relief, capital gains taxes, capital acquisition tax measures, stamp duty and income averaging in each of these countries. We also considered specific agri-tax measures in New Zealand and Australia. This is not meant to represent a comprehensive up-to-date position of agri-tax measures in different countries which is outside the scope of this review. It is however designed to provide context to the review of Irish measures.

Agri-tax Measures in the United Kingdom

The UK does not currently offer a capital allowance measure which is targeted at the agriculture sector. However, farmers can qualify for the Annual Investment Allowance (AIA) which permits a 100% first-year allowance on certain business plant and machinery expenditure. While this was traditionally capped at £25,000 per year, a new temporary measure has been introduced which permits an increase to £500,000 per annum up to the end of 2015.

The UK does not have any specific reliefs for agriculture with respect to stock but farmers can opt for 'herd basis' accounting. In the UK, stock for agriculture is treated as trading stock, which can be expensed under normal UK tax rules for businesses.

Sale or disposal of assets which have accrued value in the UK is subject to Capital Gains Tax (CGT). While capital gains are taxable, there are personal standard exemptions. Farmers do not receive special treatment but there are certain reliefs which may be available to farmers. Entrepreneur's Relief is one such relief, which applies to capital gains received upon disposal of a business. Capital gains tax is charged at a lower rate of 10% under Entrepreneur's Relief on capital gains up to £10 million.

In the UK a farm is classed as an asset and taxed in the standard way for inheritance tax purposes. However, for qualifying farms, agricultural inheritance tax relief is available for working farms. To qualify, the farm must be a working farm and one must have owned it for two years prior to death, and if a leased farm, seven years.

There are no specific stamp duty exemptions or reliefs offered to farmers in the UK. In the UK, Stamp Duty Land Tax rates are capped at lower values for non-residential property than for residential property. Non-residential property includes agricultural land and forests.

Income averaging for farmers (and creators of literary or artistic works) is provided for under the UK taxation system. The basis of the relief is that income can be averaged over two years and tax is paid on half of the average profit in each of two years. In the UK, profits must differ by more than 30% in the two years considered. The income averaging is applied retrospectively in the second year. There is also provision for a marginal adjustment if the profits in the two years differ by between 25% and 30%.

Agri-tax Measures in the Netherlands

Capital allowances in the Netherlands are structured in terms of depreciation methods. In addition, the Dutch government has introduced a specific system of depreciation for investment in environmentally friendly equipment (VAMIL). Under VAMIL, the timing of the depreciation schedule can be selected; this not only allows accelerated depreciation, but also means that depreciation can be deferred. Qualifying equipment includes investment in equipment specifically related to agriculture and farming. A special system of depreciation also exists for start-up businesses.

Capital gains realized on the disposal of business assets and on the disposal of other assets that qualify as income are taxed in the Netherlands at the normal rates of income. Capital gains from the sale of farm property are, however, in certain cases exempt from tax, although there are exceptions. Importantly, any profit made on the transfer of agricultural land is only exempt from tax as long as it continues to be used as agricultural land under its new owners. This is known as the *Landbouwwijziging*.

In the Netherlands there are no specific inheritance tax exemptions for agriculture. However, individuals can benefit from certain exemptions based on the degree of their relationship to the deceased which could apply in the case of inheriting a family farm.

The Netherlands has an income averaging system, but this is a general relief and is not restricted to farmers or agricultural producers. Under the income averaging system (or *Middelings*), income is averaged over a three-year period, and then the tax rates are applied to each average year. If the positive difference between total tax paid over the period and the tax calculated using the averaging system exceeds a certain level, a refund will be given for the excess.

Agri-tax Measures in France

In France, capital allowances on investments in agricultural materials, equipment and buildings are depreciated in the same way as for other businesses. However, accelerated depreciation is available for some specific agricultural items. Capital allowances additionally exist for materials which are energy-efficient, which produce renewable energy and farmers and other businesses can avail of these capital allowances.

One of the issues of stock relief certain farming businesses in France can use is a simplified accounting method so that stocks can be valued using a fixed method. The value of stocks at the end of the fiscal year is then reduced prior to inclusion in the taxable base.

In France, there is a distinction between short-term and long-term capital gains tax. Short-term capital gains are taxed as income. Long-term capital gains are taxed at a lower rate. The French system includes some exemptions from capital gains tax for small businesses of a commercial, industrial, artisan or agricultural nature. There are no specific inheritance tax measures related to agriculture in France. All individuals in France can, however, avail of the certain exemptions.

In France, young farmers benefit from a lower rate of stamp duty tax of 0.7% on purchases in rural regeneration zones if they are in receipt of the Young Farmers' Grant. Certain conditions apply to this and the reduced rate only applies on purchase values up to €99,000.

There are a number of schemes which assist in income averaging for farmers in France. In particular there is an interesting bank-deposit-based risk measure in France known as the *Déduction pour Aleas* (DPA). This is a risk reserve and under the DPA farmers are allowed to a deduction for risk; an amount equal to 50% of the deduction must be entered into a specific savings account with a credit institution. These savings are tax deductible. The deduction can, however, only be used for risk related, defined expenditures namely to: purchase fodder in the case of agricultural disaster; cover insurance premiums against property damage; cover expenditure in the case of fire or damage to crops or insured livestock; cover expenditure due to uninsured risk (such as due to climate reasons); and address economic risk, in the case where the difference in value added between the three previous years and the current year is greater than 10%.

Australia and New Zealand

In addition to considering various aspects of agri-tax in the UK, the Netherlands and France we examined a number of income averaging tax reliefs in Australia and New Zealand. One initiative in Australia which assists income averaging is the Farm Management Deposit (FMD) Scheme. This came into effect on 1 January 1999, and provides tax incentives for farmers to set aside income in good years in order to better withstand bad years financially. Deposits into a savings account reduce the tax burden in one year and tax is only paid on sums withdrawn from the account.

In New Zealand there are income equalisation schemes which enable farmers to spread their gross income from year to year, thereby smoothing out fluctuations in income. The three types of income equalisation schemes are: the *main income equalisation scheme*, which applies to farmer, fishers, foresters; the *adverse event income equalisation scheme*, which applies to farmers who sell livestock and do not replace it due to an adverse event; and, the *thinning operations income equalisation scheme*, which applies to businesses with forestry operations and derives income from carrying out thinning operations on the land. The income equalisation scheme works in a similar manner to a savings account, whereby farmers make deposits to an income equalisation account, where deposits are held for a maximum of five years and the minimum deposit period is 12 months.

Review of Agri-Tax Measures in Ireland

Irish agriculture benefits from a large number of agri-tax measures. In general, there are more sector specific agri-tax reliefs in Ireland than apply in some of the other countries reviewed. However in a number of other countries tax reliefs available to all businesses or to SMEs may have similar benefits for farmers. In Ireland, specific agri-tax reliefs include capital allowances, stock relief, retirement relief, capital acquisitions tax measures, stamp duty reductions, income averaging measures and other tax reliefs. These are summarised overleaf.

Capital Allowances

Capital allowances are one of the income tax measures available to the Irish farming sector. Capital allowances are granted in lieu of a deduction for depreciation and are available in respect of certain qualifying expenditures incurred in the provision of certain assets. These measures allow the write off of the cost of an asset over time. Sector specific capital allowances applicable to the primary agriculture sector provide an allowance for investment in farm buildings. In addition, farmers, like other businesses, are eligible to claim tax relief on investments in plant and machinery.

Stock Relief

Stock relief is an income tax relief which is only available to farmers. This is given in respect of increases in the value of a farm's trading stock. It is calculated by reference to the increase in value of the trading stock between the beginning and end of an accounting period. The relief takes the form of a deduction, to be allowed in computing the trading profits of an accounting period, of a defined percentage amount of the increase in value of trading stock and work-in-progress at the end of the accounting period over and above the opening value.

Retirement Relief from Capital Gains Tax

Retirement Relief from Capital Gains Tax (CGT) is available where an individual, who is at least 55 years of age, disposes, by way of sale or gift, of the whole or part of his/her qualifying assets. Although the relief is commonly known as "retirement relief", it is interesting to note that a claimant does not have to retire in order to qualify.

Capital Acquisition Tax Measure

Agricultural relief from capital acquisitions tax operates by reducing the market value of "agricultural property" by 90%, so that gift or inheritance tax is calculated on an amount - known as the "agricultural value" - which is substantially less than the market value. To qualify for agricultural relief, the person receiving the gift or inheritance must be a "farmer" at the valuation date. However the definition of a farmer is based on the asset valuation rather than whether the individual is actively involved in agriculture. Agricultural relief is clawed back where the agricultural property is disposed of or compulsorily acquired within six years of the gift or inheritance and the proceeds are not reinvested in other agricultural property within one year of the sale or within six years of the compulsory purchase. Relief can also be clawed back if the land is disposed of within six years after the date of inheritance.

Stamp Duty Measures

A lower stamp duty rate of 2% on the consideration value for instruments relating to non-residential property was introduced in 2012. Consanguinity relief provides for a 1% rate applicable to transfers to certain close relations, such as father/son or uncle/nephew for a three-year period until 31 December 2014. Thereafter transfers of all non-residential properties including farm transfers will be stamped at the full rate of 2%. Stamp duty exemption on transfers of land to young trained farmers provides for a full exemption on stamp duty on transfers of farm land to certain young trained farmers. To qualify, the farmer must be less than 35 years of age on the date of execution of the deed of transfer and must have attained a minimum agricultural education.

Income Averaging

Income averaging provides farmers with an option of adding farming profits for the current and previous two years of assessment together and dividing by three in order to arrive at an average income for tax purposes. Effectively, one third of the profit for the three years is charged for a year. From a social perspective and as a way of underpinning the viability of farming, measures which reduce income volatility have value, but the direct impact on output may be less than some other agri-tax measures.

Other Agri-Tax Measures

An exemption of certain income for leasing of farm land is available to the agricultural sector in Ireland. This relief was designed to encourage longer-term leases of farm land. The lease must have a minimum definite term of five years or more to qualify for relief. An eligible individual is exempt from income tax on progressively increasing amounts linked to lease duration. These reliefs are directly linked with a very important policy objective of enhancing land mobility but the level of uptake is low.

Income from woodlands managed on a commercial basis and with a view to the realisation of profits is tax exempt. However from 31 December 2006, this income has been subject to the high earners restrictions limits. This was updated in Budget 2010 when modifications were introduced on the limitations on amount of certain reliefs, including the woodlands exemption. These changes have effect from assessment year 2010 onwards. A capital gains tax relief for woodlands applies where woodlands are being disposed of. Profits/gains from the commercial occupation of woodlands in the State are exempt from income tax and corporation tax.

In 2013 a capital gains tax relief for farm restructuring was introduced. It provides for a rollover relief for farm restructuring and parcel swaps with certain conditions to ensure a more efficient farm holding arises. To be eligible for the relief, the sale and purchase of qualifying land must occur within 24 months of each other with the initial sale or purchase of qualifying land taking place during the period 1 January 2013 – December 2015.

An income tax deduction is allowed for computing the profits of a farming trade to offset the increased costs of green (agricultural) diesel used in that trade which are attributable to the increase in the rate of carbon tax from 1 May 2012. Agricultural diesel used by a farmer in the course of a farming trade is a deductible cost as it is a business expense. In addition to the deduction for the cost of farm diesel, farmers are entitled to a double deduction for the increased carbon tax they incur on farm diesel purchased after 1 May 2012. While carbon tax reliefs are not aligned with environmental sustainability objectives, they are available in some competitor countries.

Measures of Benefits of Agri-tax Measures

An established methodology for measuring the impact of tax on policy goals, such as productivity, output, investment, and employment is the total factor productivity approach as developed by Dale W. Jorgenson and numerous co-authors and contributors, including Solow, Griliches, Hall, Christensen and Lau. The framework and methodology provide a unified approach of modelling producer behaviour and the impacts of taxation. The approach has been applied to the US agricultural sector and other countries to calculate aggregate total factor productivity rates. As part of this study we have developed new quantification econometric measures of the potential impacts of various factors on agricultural output and productivity which shed light on the potential benefits of agri-tax measures. However, because of the large numbers of agri-tax measures available, some of a minor nature, and because of data constraints, the econometric evidence is not amenable to providing specific estimates of benefits for individual tax reliefs. It is, however, important in validating the likely direction of impacts. In order to supplement the econometric work we therefore undertook extensive new survey research which provides indicative judgements on potential benefits of individual agri-tax reliefs. We, however, believe more comprehensive research should be commissioned on the measurement of key benefits.

Impact of Capital Investment on Output

Capital allowances are the most costly to the Exchequer of any of the agri-tax measures. One of the objectives of capital allowances provided to agriculture is to assist the sector to fund necessary investment which has the potential to increase the levels of output and productivity in Irish agriculture. As part of our research, Indecon undertook detailed survey work with agricultural consultants and tax advisers to obtain their views on the impact of the allowances on output. These suggested an indicative impact on gross output of €1.9m for every €1m of capital allowances claimed. It is also important as a validation measure to consider econometric evidence on whether there is an impact on the levels of output in agriculture arising from capital investment.

The regression results of the translog model shown in the next figure indicate a statistically significant result between capital investment and agricultural output. We use this production function model to estimate the impact of capital investment on agricultural output. In other words, we examine how much agricultural output changes relative to changes in capital investment, i.e., capital elasticity of output. We also examine the impact of capital investment on productivity. These outcomes are important in establishing the broad rationale for the agri-tax reliefs which aim to increase capital investment.

Econometric results - Impact of Capital input on output (Translog model)						
Random-effects GLS regression			Number of obs	=	5726	
Group variable: farm_idx			Number of groups	=	1479	
R-sq: within	=	0.2169	Obs per group: min	=	1	
between	=	0.9337	avg	=	3.9	
overall	=	0.9171	max	=	5	
corr(u_i, X) = 0 (assumed)			Wald chi2(23)	=	21219.07	
			Prob > chi2	=	0.0000	
lnq_farm	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
lnlab	-.3661927	.1139571	-3.21	0.001	-.5895444	-.142841
lnlab_2	.0140551	.0140924	1.00	0.319	-.0135655	.0416757
lnsize	.9363953	.1155266	8.11	0.000	.7099674	1.162823
lnsize_2	-.0997451	.0223335	-4.47	0.000	-.143518	-.0559722
lnc_farm	-.4288638	.0665476	-6.44	0.000	-.5592947	-.2984329
lnc_farm_2	.0950058	.0085124	11.16	0.000	.0783219	.1116898
t	.1055691	.0204497	5.16	0.000	.0654885	.1456497
t_2	-.0215255	.0027993	-7.69	0.000	-.027012	-.0160389
d_o70	-.0570463	.0163725	-3.48	0.000	-.0891358	-.0249569
lnc_size	-.0748544	.0146749	-5.10	0.000	-.1036167	-.0460921
lnc_labhrs	.0172823	.0012969	13.33	0.000	.0147404	.0198241
lnkap	-.1719336	.0686638	-2.50	0.012	-.3065121	-.0373551
lnkap_2	.0209044	.0071456	2.93	0.003	.0068993	.0349094
lnlab_kap	.0595327	.0123292	4.83	0.000	.0353678	.0836976
lnkap_t	-.0076736	.0016708	-4.59	0.000	-.0109483	-.0043989
lnkap_size	.0408435	.0138143	2.96	0.003	.013768	.0679191
lnlab_size	-.0675306	.0224973	-3.00	0.003	-.1116244	-.0234368
Note: We also include variables for the different farm types.						
Source: Indecon analysis						

A summary of the various output elasticities is shown in the next table and indicate that increasing the level of capital input increases the agricultural output of the farm. This is relevant as any agri-tax measures such as capital allowances which result in increased investment are likely to have national benefits in terms of increased agricultural output and employment. These benefits need then to be compared against the Exchequer and wider economic costs of the allowances.

The results vary depending on the choice of econometric specification but all results are statistically significant and indicate a positive relationship between investment and increased output. The results indicate that for a 10% increase in capital inputs, annual agricultural output is likely to increase by between 1.6% and 4.2%. Our preferred specification is the translog model which captures second order and combined impacts of the input variables and indicates that for a 10% increase in capital inputs, agricultural output is likely to increase by around 2%, but we accept that the impacts may be higher.

Summary of Capital Elasticity of Output	
Econometric Model	Capital Elasticity of Output
Cobb-Douglas Production Function	0.423
Translog Production Function	0.205
Olley-Pakes Production Function	0.162
Note: These output elasticities refer to the % change in output as a result of a % in capital investment	
Source: Indecon analysis	

Stock and Output

A number of the agri-tax measures are designed to incentivise increased investment in stock levels and of economic importance is the likely impact of this on agricultural output. As part of our analysis we considered the views of agriculture consultants and the tax advisers on the likely impact of stock relief. All of the agricultural advisers surveyed suggested that stock relief has a significant positive impact on increasing output in the farming sector. It is, however, an empirical question of whether there is a relationship between stock levels and output and productivity. As part of our econometric research we treat stock relief in a very similar fashion as capital allowances. Thus, the benefits of increasing the level of stock will be observed through increased output and improved productivity. The econometric results indicate that increasing the size of the stock has a positive and statistically significant impact on productivity. We test the robustness of this model by including a number of other variables such as type of farm and whether the land is rented.

Training and Output

An objective of one of the stamp duty measures is to encourage the transfer of land to young trained farmers. As part of our research we examine the impact of training on farmer productivity. We find significant positive results of training. The regression indicates that a trained farmer has on average 12% higher levels of output compared with an untrained farmer. These regressions control for other variables that may lead to differences in the outcomes of the different groups.

Farm Size and Output

Another possible benefit of some of the agri-tax measures such as land consolidation reliefs may be in terms of the impact on average farm size. The impact of farm size on output and productivity can be modelled using a production function approach where farm size is one of the inputs in the model. The result of some of the agri-tax reliefs is likely to be in terms of increased availability of land. Our analysis indicates that the impact will depend on the size of farms involved, and that some forms of farm consolidation could have a positive net effect on the level of overall agriculture production.

Farmer Age and Output

Retirement relief combined with capital acquisition tax measures are designed to incentivise some farmers to retire earlier than would otherwise have been the case. The objective is to reduce the average age of farmers and increase land mobility. Of particular interest concerning the additional benefits of retirement relief from capital gains tax and capital acquisition relief is the potential impact of such changes on increasing productivity, output and investment. This is, in turn, related to whether the transfer of farms to a younger generation impacts on output levels. Many older farmers have expertise and experience which is of real value. However, in most walks of life, particularly where significant manual work may be required, there can be an impact on productivity after a certain age. The impact of retirement and land transfers on productivity and output will of course vary significantly by individuals. However, it is interesting that most of those surveyed felt the retirement reliefs would have a significant positive impact on productivity, output and investment. Research undertaken by Indecon for this study suggested an estimate of €1.76m in additional agricultural output for every €1m in retirement relief from capital gains tax. For capital acquisitions relief, survey evidence suggested a €1.88m impact on output for each €1m in tax relief. In order to consider some validation of the estimates of such impacts we econometrically tested the impact of age on output and productivity.

The results from our different econometric models are all statistically significant and indicate that older farmers (over 65) have lower levels of output relative to all farmers under 65. The new econometric estimates presented below for Irish agriculture suggest that reducing the number of farmers who are over 65 would increase overall agriculture output by between 4.0% and 7.1%. Farmers over 65 typically have output that is between 4-7.1% lower than farmers who are under 65. Overall, our results are consistent across a number of different econometric specifications and indicate that farmers who are over 65 have lower levels of productivity than younger farmers. This has obvious policy implications. In designing tax policy to support this objective, Indecon is, however, concerned that some of the capital acquisitions relief is being claimed by individuals who are not active farmers and the beneficial impacts of the relief would therefore not apply.

Percentage Estimates of relationship between Output and being over 65	
Econometric Model	% estimate
Cobb-Douglas Production Function	-4.6%
Translog Production Function	-4.0%
Olley-Pakes Production Function	-7.1%
Source: Indecon analysis	

Cost-Benefit Analysis of Agri-tax Measures

The annual exchequer costs of tax reliefs are very significant and amounted to nearly €340 million as outlined in the next table. Indecon would however point out that care is needed in interpreting the estimated annual tax costs as these are determined significantly by the level of uptake and by the tax rates applicable. In previous years when investment levels (and in some cases tax rates) were higher, the annual tax costs were even higher than the levels identified. In future periods, Indecon believes the tax costs are likely to rise as the sector expands. Detailed tax cost estimates for previous years are presented in the main report. The other noteworthy feature of the reliefs is that some of the high profile reliefs designed to facilitate land mobility and support younger farmers account for a much lower percentage of exchequer costs than reliefs such as capital allowances and capital acquisitions tax reliefs.

Estimated Annual Exchequer Costs	
	€ million
Capital Allowances*	192.00
General Stock Relief	4.80
Stock Relief for Young Trained Farmers	0.90
Retirement Relief	15.24
Capital Acquisition Tax Relief	77.00
Stamp Duty Relief on Agricultural Land	11.70
Stamp Duty Relief on Woodlands	8.90
Income Averaging **	5.63
Leasing Reliefs	5.20
Carbon Tax Reliefs	3.40
Capital Gains Tax Relief from Farm Restructuring	0.15
Profits from Woodlands	14.60
Other Reliefs	0.12
Total Tax Reliefs	€339.7
*Some of these allowances are not agriculture specific and are available to all businesses and some of the actives may not be farm-related ** There is greater uncertainty regarding these costs	
Source: Indecon analysis	

The exchequer costs are driven by the level of uptake for each of the measures. In terms of economic cost, it is important to consider costs in addition to the tax costs. These include administration costs, the shadow price of public funds and environment costs associated with increasing agricultural production. When account is taken of these wider costs the total economic cost of the agri-tax measures increase to over €681 million per annum.

Estimate of Total Economic Costs - All Agri-tax Measures	
	€ million
Tax Cost	339.70
Total Economic Costs	681.32
Source: Indecon analysis	

These economic and exchequer costs, however, have to be weighed against the potential benefits of the agri-tax reliefs. Our analysis suggests that benefits may be of the order of €790 million per annum. This suggests that in aggregate the agri-tax reliefs have a small positive net economic benefit to the Irish economy. A key challenge for the sector and policymakers is whether a better targeting of the reliefs could enhance the benefit to cost ratio. The analysis undertaken by Indecon suggests it is likely that the net economic benefit could be significantly enhanced by changes in policy.

Summary of CBA results - All Agri-tax Measures based on survey research	
	€ million
Total Benefits	€789.55 M
Total Costs	€681.32 M
Total Net Benefits	€108.23 M
Benefit-Cost Ratio	1.16
Source: Indecon analysis	

RECOMMENDATIONS

Our recommendations are designed to realise the potential of the sector, as Indecon recognises the importance of the Irish agricultural sector to the Irish economy. This was effectively summarised by the Irish Farmers Association in their input to this review where they noted that:

“The importance of the agri-food sector as a source of employment and economic activity across the entire country has become clearly evident during Ireland’s economic downturn. Agriculture has a very high output multiplier, with the result that increases in output at farm level have a hugely positive knock-on effect for the overall economy.”

Before we outline our recommendations it is important to highlight that being part of the EU requires that any measures which are introduced are consistent with EU State Aid guidelines. All of the recommendations are inevitably subject to State Aid compliance. Our analysis has focused firstly on the substantive policy issues and the challenges which the sector faces; and, any measures which we believe would assist in meeting these challenges in a cost effective way have been carefully considered. However, it is essential to ensure that any measures proposed meet State Aid compliance.

The State Aid Guidelines for the Agriculture sector states that *“despite that general prohibition State Aid may be necessary to address market failures so as to ensure a well-functioning and equitable economy. Therefore the Treaty (on the Functioning of the European Union) leaves room for the granting of State Aid in respect of several policy objectives.”* The guidelines further note that *“the Commission may consider compatible with the internal market State aid to promote the economic development of the agriculture and forestry sector, and in rural areas, provided that it does not adversely affect trading conditions.”*

This suggests there is a list of measures which are potentially State-Aid compatible. It is, however, also necessary to find a provision within the Guidelines for State Aid in the agricultural and forestry sectors (GL) or the Agricultural Block Exemption Regulation (ABER) that will specifically allow for the payment of State aid.

A summary of our recommendations is outlined in the table overleaf and discussed in subsequent paragraphs. As highlighted above, any changes proposed can only be implemented if deemed to be consistent with State Aid provisions. We would also point out that there are strict limits on what national governments can implement and State Aid rulings are binding. Indecon would also note that a number of issues may require detailed evaluation before Government decides to implement the recommendations and this may impact on the timescales for implementation.

Summary of Recommendations

Overall Strategy Recommendations

- (1) Implement Better Alignment of Tax Reliefs and Strategic Objectives
- (2) Enhance Measurement of Costs and Benefits of Tax Reliefs
- (3) Government should establish Implementation Group to Drive Reforms

Recommendations to Facilitate Land Mobility and Access to Agricultural Land

- (4) Restrict Agricultural Relief for CAT to ensure productive use of agricultural land
- (5) Retention of 90% Agricultural Relief where Transfer of Farms is to Active Farmers
- (6) Income Received from Leasing to be Exempt from Calculations of Certain State Payments
- (7) Undertake Fundamental Review of Integration of Social Welfare Provisions and Agricultural Tax Reliefs
- (8) Consider Taxation of Non-use of Agricultural Land
- (9) Double Levels of Income Tax Relief on Land Leasing
- (10) Remove Stamp Duty on Agricultural Leasing
- (11) Permit Option for Farmers to Lease Land to Limited Companies
- (12) Remove 40 Age Threshold for Leasing Relief
- (13) Short-Term renting must be structured as formal Leases to be Eligible as Business Expenses
- (14) Introduce Measures to Significantly Alter Relative Attractiveness of Conacre
- (15) Amendment of Leasing Restriction on Capital Gains Retirement Relief

Recommendations to Facilitate Access by New Entrants and Support Young Farmers

- (16) Permit Income Averaging from On-farm Diversification for Young Farmers
- (17) Temporary Revise Eligibility Criteria for Retirement Relief from CGT for Non-Child Transfers
- (18) Evaluate a Phased Transfer Partnership Model
- (19) Accelerated Capital Allowances for Young Farmers in first five years of Business
- (20) Retention of Stamp Duty Consanguinity Relief for Non-Residential Transfers
- (21) Remove Any Unintended Technical Tax Barrier to Female Participation in Agriculture

Recommendations to Improve Farm Efficiency and Facilitate Farm Restructuring and Consolidation

- (22) Allow Whole Farm Replacement for CGT Relief on farm Restructuring
- (23) Accelerated Capital Allowance for Investment in Farm Access and Infrastructural Works
- (24) Retention of certain Reliefs for Farm Partnerships
- (25) Permit CGT Relief on Land Parcels provided Reinvestment in Farms

Recommendations to Assist Agricultural Sector to Respond to Income Volatility

- (26) Increase Income Averaging Period from three years to five years
- (27) Consider a Tax-Based-Risk Deposit Scheme as Implemented in France
- (28) Evaluate Pay and File Deadline for Self-Assessed Income Tax Return

Recommendations to Improve Environmental Sustainability of Irish Agriculture

- (29) Widen Scope of SEAI Investment in Energy Efficient Equipment
- (30) Consider Extending Extend Income Averaging to Forestry Clear-Felling Profit

OVERALL STRATEGIC RECOMMENDATION

1. Implement Better Alignment of Tax Reliefs and Strategic Objectives

Our recommendations for specific changes in agri-taxation in Ireland are designed to realise the potential of the sector. We, however, as a general recommendation propose that the various tax resources which may be available to support the sector are reformed in a manner which maximises the cost effectiveness of the funds available, by ensuring a better alignment with strategic objectives.

One of the key implications of our analysis in this report is that only a small percentage of the resources allocated to agri-taxation reliefs are directly focused on the key objectives of encouraging new entrants or facilitating the long-term leasing of land. While there are tax reliefs aimed at these objectives, most of the tax costs are utilised by other measures. Of more concern is that some of the agri-tax measures in their current form may have unintended consequences which are not aligned with the best interest of developing the sector. The most significant example of this is where capital acquisitions tax relief may apply to those acquiring land but who do not actively use it for agricultural purposes. This results in exchequer costs but is counter to the objective of encouraging the productive use of agricultural land.

The fact that the balance of exchequer costs relating to agri-tax reliefs may not in all cases be aligned with the current priorities for the sector is not surprising given that many of the measures have developed over time on a somewhat *ad hoc* basis. Decisions on agri-tax measures have also been made without any detailed evaluation of the economic costs and benefits of specific measures. However, our analysis suggests similar issues apply in other EU Member States and a number of the agri-tax measures are available in competitor countries albeit often in form of general business reliefs. Indecon however believes that any measures within the agri-tax area should be continually examined from the perspective of the rationale for the incentives and what objectives they are attempting to achieve. Also important is the issue of how to prioritise the use of any tax reliefs which are available to assist the sector. Such a realignment is needed to realise the undoubted potential of the sector. This may require more fundamental reforms over time than the specific changes proposed in this report for short-term adjustments. In this context, we recommend a three-year review of the measures and ongoing focus on agri-tax incentives to ensure an alignment with the five key strategic objectives as identified by Indecon for the sector outlined below.

- (A) Facilitate Land Mobility and Access to Agricultural Land.
- (B) Facilitate Access by New Entrants and Support Young Farmers.
- (C) Improve Farm Efficiency and Facilitate Farm Restructuring.
- (D) Assist Agricultural Sector to Respond to Income Volatility and Risk.
- (E) Improve Environmental Sustainability of Irish Agriculture.

One further general comment is that the very large number of agri-tax measures which exists might suggest the merits of consolidation of some measures over time.

2. Enhance Measurement of Costs and Benefits of Tax Reliefs

In this review we have documented for the first time the exchequer and wider economic costs of many of the agri-tax measures and the costs are very significant. It is essential that policymakers continually evaluate such costs as without this policymakers do not have an adequate basis for resource decisions. In this context we commend recent initiatives by the Revenue Commissioners/Department of Finance to track the costs of selected measures but further work on costs is needed. Indecon, however, also accepts that the measurement of benefits must also be considered, as if only the costs are measured, there is a danger that we could be in the position of knowing the costs but having no insights into whether the value of benefits are commensurate with the costs. Without this, policy decisions are very unlikely to be appropriate. We therefore recommend increased resources to measure the benefits of both costs and benefits. Because of the information gaps at the start of this assignment there were no quantified estimates of any of the benefits of the agri-tax measures

and limited information on costs. Within the scope of this project we have made major progress in considering the costs of all of the main measures with the valuable assistance of the Revenue Commissioners and the Department of Agriculture, Food and the Marine and the Department of Finance. However, further refinement of information systems to measure costs on an ongoing basis is required. On the benefits side we have for the first time attempted some quantification of the benefits using evidence from survey research and from econometric modelling. We, however, note the significant limitations of what has been possible on this aspect within the scope of the restricted study. Ongoing investment by policymakers to commission research to precisely measure the benefits is essential to ensure value for money and to improve resource decisions for this very important sector.

Overall, our analysis suggests that the economic costs of agri-tax reliefs are marginally less than the economic benefits. This is an important finding but is qualified by the uncertainty regarding the estimated benefits and some of the cost estimates. We also believe our analysis suggests the potential to increase the benefit cost ratio in a way which enhances the return on scarce exchequer resources. This has been reflected in our detailed measure specific recommendations. We also recommend that any of the proposed changes should only be for a defined period of a maximum of three years unless otherwise specified. Measures should then be subject to independent cost-benefit review. As a medium-term strategy we would also encourage the sector and policymakers to consider the abolition or restriction of any measures which are not seen as having a high benefit-cost ratio and to use these resources to support other measures.

3. Government Should Establish Implementation Group to Drive Reforms

While many of the proposed recommendations can be implemented as part of the annual budgetary processes, Indecon believes there is merit in the Government establishing an implementation group to drive the recommendations identified. The group could also advise on detailed implementation or administrative issues involved in certain cases.

Indecon's recommendations on individual agri-tax measures which are outlined in this report are not designed to restrict assistance to the sector but are focused on maximising the impact of any agri-tax reliefs which are provided. We are of course conscious of the very significant constraints on exchequer resources at this time. However, as the public finances improve there may be scope for even more significant initiatives to achieve the objectives for the agriculture sector including measures to accelerate land mobility. We would, over time, support such targeted new measures in certain areas if analysis is available to suggest they have a high benefit-cost ratio and this could be considered by the implementation group.

RECOMMENDATIONS TO FACILITATE LAND MOBILITY

4. Restrict Agricultural Relief for CAT to Ensure Productive use of Agricultural Land

At present, individuals are entitled to certain agricultural reliefs from capital acquisitions taxes based on a definition of farmers related to asset value. This facilitates a percentage of individuals acquiring such land to be exempt from capital acquisitions tax even if they do not actively farm the land or lease the land to farmers who would actively farm the land. As one of the most insightful commentators on Irish agriculture who made a detailed submission to the consultation process noted, "There is little incentive to transfer land to a successor who will actively engage in farming the land." Indeed, the current agricultural relief from CAT is structured in a way in which non-farming acquirers who are interested in subsequently selling the land have a tax based incentive not to sell the land for a period of six years. This provides an incentive for non-use or low productive use of agricultural land and we believe is an unintended and inappropriate consequence of the tax measure.

Indecon therefore recommends that agricultural relief from CAT is restricted to active farmers. We believe active farmers for this purpose should be defined as acquirers who have farming qualifications or those acquiring the land who lease the land on a long-term basis for agricultural use. We also, however, recognise that there may be some individuals who acquire the land and who are interested in engaging full time in agriculture but who for various reasons do not hold agricultural qualifications. We believe it would be inappropriate if such individuals were prevented from availing of the tax reliefs because of their lack of agricultural qualifications. We therefore recommend that individuals should be eligible for the reliefs providing they are full time employed in agriculture for at least six years post the acquisition.

5. Retention of 90% Agricultural Relief where Transfer of Farms is to Active Farmers

In the IFA 2015 Budget Submission entitled Addressing the Challenges to Deliver Growth in Farming, they proposed the retention of 90% agriculture relief in order to support the transfer of viable family farms. Indecon believes this has validity and we recommend its retention but only in cases where the farm is transferred to an active farmer or where the land is leased. This is consistent with our recommendation on restricting agriculture relief to active farmers.

6. Income Received from Leasing by Farmers to be Exempt from Calculations of Certain State Payments

As part of initiatives to significantly enhance land mobility and to facilitate younger entrants, Indecon recommends that income received from leasing of land entered into by farmers aged 65 or younger should be exempt from calculation of certain state payments. This could include eligibility from medical cards, nursing home entitlements and other state payments. Careful evaluation of how to design such incentives is required and will require evaluation by the Department of Social Protection, the Department of Health and Children and the Department of Finance.

7. Undertake Fundamental Review of Integration of Social Welfare Provisions and Agricultural Tax Reliefs

This may be somewhat outside scope of the review's Terms of Reference but as it is such an important area it warrants highlighting. Because of the size of land holdings in Ireland or other factors farmers may need social welfare income supports to support their farms and families in order to survive. However, in some cases where farms are a viable size, the interaction of agri-tax reliefs and social welfare provisions in areas such as old age pension supports may unintentionally encourage farmers to postpone the transfer or leasing of land to more productive farmers. In some countries, certain social welfare supports are only provided where the farm has been transferred. Indecon understands that farmers in France (as in Germany and Austria) must choose between the State pension and direct payments when they reach retirement age, i.e., they cannot collect both. In France, a farmer does not automatically receive a state pension at 65. This only applies when the farmer officially retires. At that point, they stop receiving direct aid as they are no longer farming. There is an exception whereby farmers who retire can retain a portion of their land and can continue to receive payment entitlements on this land along with the state pension.

Given the importance of facilitating younger farmers to access land in order to enhance the output and efficiency of farms we recommend a fundamental examination of the integration of the impact of social welfare provisions and agricultural tax reliefs. A joint review by Department of Finance/Department of Agriculture, Food and Marine and Department of Social Protection is recommended and the focus of this review should be on how to ensure the interactions of agri-tax and the social welfare provisions supports land mobility. This may for example provide that farmers who are not actively farming will continue to be entitled to social welfare provisions but if they choose to leave land underused then they will not subsequently be entitled to certain agri-tax reliefs. This review should take account of any entitlement arising from self-employed PRSI contributions.

8. Consider Taxation of Non-use of Agricultural Land

The non-use of agricultural land hinders the development of the sector and prevents Irish agriculture realising its output and employment potential. This also acts as a constraint on the expansion of the agri-food processing sector. Given the high levels of unemployment in Ireland such an outcome should be disincentivised. Indecon believes there is therefore a strong economic case for the taxation of the non-use of agricultural land. This concept is similar to the idea of the taxation of derelict sites. Indecon accepts that detailed evaluation of how to design such a measure is needed. There may also be other ways of implementing this such as local authority levies on non-use but in general we believe a tax based measure is likely to be more effective. The best way to achieve this should be addressed by the proposed Implementation Group.

9. Double Levels of Income Tax Relief on Land Leasing

In order to send a clear signal of the importance of long-term land leasing we recommend the doubling of the existing income tax reliefs on land leasing. While there may be a reluctance to increase reliefs by such a percentage, we believe this will be needed to support the objectives proposed. Both the sector and the banks have also indicated that younger and new entrant farmers require loan terms of upwards of 15 years in order to make re-payments affordable. The banks have advised that loan terms cannot exceed the land lease term and, as the length of leases tend to take their lead from the maximum income tax exemption available leases for longer than 10 years are not usual. Therefore it is proposed to introduce a fourth, higher income tax exemption threshold for longer-term lease periods of 15 or more years. Indecon also considered raising the minimum period to encourage longer leasing but on balance we do not believe it is the best option as there is a need for a radical change in attitudes to encourage all forms of land leasing.

10. Remove Stamp Duty on Agricultural Leases

Stamp duty is currently applicable on agricultural leases with a term of less than or equal to 35 years and a rate of 1% of the annual rent reserved is levied. As there is a key policy objective to encourage such leases we recommend subject to State Aid approval that agricultural leases should be exempt from such stamp duty. We note that conacre agreements are not subject to such stamp duty and residential leases for less than 35 years with an annual rent not exceeding €30,000 are currently exempt.

11. Permit Option for Farmers to Lease Land to Limited Companies

Most farms in Ireland are operated under sole trader business structures. This is in common with small businesses in other sectors and sole trader structures may remain as the best option for most farmers. However, for some family owned and other farms, limited companies have been established and this can be advantageous in selected targeted circumstances. There are of course significant issues for any farmer in deciding whether to incorporate or not and while farm profits in a company are subject to corporate tax if a farmer then wishes to obtain some of these profits in the form of dividends they are subject to additional taxation at personal tax rates. There are also different disclosure and other rules applying to limited companies and many farmers may choose not to structure their business in such a manner. However, for a number of farm businesses it may be appropriate. At present, the relief on lease income is not available where the land is leased to a farmer who is incorporated, i.e., it is only available where the land is leased to farmers who are taxed as individuals. This means that potential lessors are not inclined to engage in long-term lease arrangements with incorporated bodies.

This issue may be particularly significant in the dairy sector where longer-term certainty around land tenure is critical given the need to have suitable grazing land near the milking parlour and the need for high levels of investment. In some cases, usually for reasons of local geography, the only suitable farmer that is available to lease the land on a long-term basis is incorporated with the resultant effect that land remains rented out as conacre. Thus it is proposed to amend the eligibility requirements for the long-term leasing tax exemption to remove this distortion or bias and to include incorporated farmers as a qualifying lessee.

Indecon considered whether there are any significant implications of this for other economic sectors but as land leasing measures are already in place for non-incorporated farms we do not consider this as likely to be an issue. There may however be a need to ensure suitable anti-avoidance measures.

12. Remove 40 Age Threshold for Leasing Relief

Currently in order to qualify for leasing relief, the lessor must be over 40 years of age or be permanently mentally or physically incapacitated. It is proposed to remove the reference to any age threshold for lessors. Indecon believes the 40 age threshold is not justified on economic or policy grounds and could act as a disincentive to leasing. In many instances, persons have inherited farms and have little or no interest in active farming. In such cases they may either decide not to use the land for agricultural purposes or to engage in short-term conacre letting of the holding. As this offers no security of tenure to the active farmers it is not aligned with agri policy objectives on land mobility. We therefore recommend the removal of the 40 age threshold for leasing relief. While this could have the impact of providing an ongoing tax relief, we believe it is justified in terms of the key policy objective of facilitating productive agri-land transfers and promoting long-term leasing. This and the other measures should be reviewed after three years.

13. Short-Term renting must be structured as formal Leases to be Eligible as Business Expenses

It is proposed that in order for a farmer to claim rental or lease costs as a deductible tax expense, it will only be allowed if a formal short-term lease has been used. This should be implemented through the self-assessment process with compliance checks in the normal way through Revenue audit. This will assist in removing an advantage of conacre over leasing.

14. Introduce Measures to Significantly Alter Relative Attractiveness of Conacre

In addition to the specific measures proposed to enhance the relative attractiveness of leasing, we believe that there would be merit in the Government considering additional measures to significantly alter the relative attractiveness of conacre vis-a-vis long-term leases. This should be a priority area for examination by the proposed Implementation Group. It may necessitate a range of measures including taxation of conacre. For example, during the consultation process, one submission noted the following:

"It is estimated that approx. 40,000 farmers rent land on conacre annually. This is approximately one third of Irish farmers. Conacre is the worst use of land for all concerned – the farmer won't improve the land as they have to exit in eleven months, while the owner will see the land value deteriorate year on year. More stable collaboration (long-term leases, partnerships and share farming arrangements) deliver greater value. The tax review must seriously consider dis-incentivising conacre to make the alternatives more attractive. Young and progressive farmers are willing to invest and grow their farms, but this cannot happen on the back of conacre."

15. Amendment of Leasing Restriction on Capital Gains Retirement Relief

Retirement Relief from CGT currently applies where an individual over 55 years disposes of some or all of his qualifying agricultural assets. Different relief thresholds apply where a person disposes of the business/farm to a person other than their child,³⁶ and where the business/farm disposal is to the person's child.³⁷ Currently retirement relief on CGT is restricted, in the case of land transfers to a person other than their child, to transferors who have farmed the land for the previous 10-year period prior to retirement or, arising from a change in Budget 2014, if a person leased their land out for five or more years in the period up to the disposal of land they can qualify for retirement relief from CGT if they also met the 10-year usage rule prior to the letting. The requirement for a 10 year usage provision in addition to any leasing period can act as a barrier to long-term leasing in certain cases and we believe it has no economic justification. We therefore recommend the amendment of this restriction so that any 10 year combination of either leasing or usage would result in qualification providing the lease period was a minimum of 5 years.

RECOMMENDATIONS TO FACILITATE ACCESS BY NEW ENTRANTS AND SUPPORT YOUNG FARMERS

16. Permit Income Averaging from on-farm Diversification for Young Farmers

A condition of income averaging is that it is not available to a farmer where they or their spouse is in receipt of income from another trade or profession. This discriminates against smaller family farm holders and young farmers who cannot derive a sufficient income from their farm and are either considering, or have already undertaken an on/off farm business diversification initiative. It is recommended that election to income averaging is made available to young farmers where either they or their spouse are in receipt of income from another trade or profession if this is based on farm diversification.

17. Temporary Revise Eligibility Criteria Relief from CGT for Non-Child Transfers

It is proposed to broaden the eligibility requirements for retirement relief on Capital Gains Tax (CGT) in the case of land transfers to *a person other than a child* to include farmers who have rented out their land on a conacre or other short-term basis in the period up to the disposal of the land, as long as they farmed the land themselves for a 10-year period prior to the commencement of the conacre or short-term lease. Arising from a change in Budget 2014 if a person *leased their land out for five or more years* in the period up to the disposal of land they can qualify for retirement relief from CGT if they also met the 10-year usage rule prior to the letting. However there is a large bank of land nationally that cannot avail of this relief as traditionally conacre letting has been the preferred mode of rental; therefore this requirement is seen as an impediment to land mobility. However, in order to disincentivise conacre in the future, it is suggested that this requirement is introduced on a temporary basis for land owners, i.e., conacre and other short-term lettings up to end 2016 will be disregarded for the purposes of ascertaining eligibility for retirement relief. The 10-year usage requirement will continue to apply in order to qualify for the relief. Increases should also be considered to the levels of retirement relief provided. Indecon notes that the existing provisions are only in operation for a year but we believe this change would be appropriate.

18. Evaluate a Phased Transfer Partnership Model

There are a number of barriers to increasing the early lifetime transfers of family farms. One significant issue for farm families is the requirement for two generations to derive an income stream from the farm. In addition, where both parent and child are of working age, the full transfer of the family farm may be considered too abrupt a change.

³⁶ Since 1 January 2014 the amount of full relief is €500,000 for those aged over 66 years of age but a higher €750,000 threshold relief level is available for those who dispose of property between 55 and 66 years of age.

³⁷ Since 1 January 2014 the amount of full relief is €3 million for those aged over 66 years of age, but an unlimited threshold level applies to those who transfer between 55 and 66 years of age.

Indecon believes there is merit in considering Phased Transfer Agreement (PTA) which would be a progression model in which there would a defined, phased transfer of the family farm over a set time period. This would require an agreed transfer contract where both parent and child (favoured niece/nephew) would have a landlord/tenant relationship over the period of the phased and progressive transfer of assets. A maximum length of the agreement should be defined. The incentive to the parents (land owners) to enter into the contract is access to the existing tax relief on the lease income (connected persons are currently ineligible). A possible structure could provide for the phased transfer of the ownership of the assets and liabilities of the partnership including the land and buildings by aligning the lease period duration (up to ten years) with a phased transfer agreement.

Indecon accepts that how to design this relief to ensure it is effective and to reduce the likelihood of any tax abuses will require some detailed work on implementation. The issue of State Aid compliance also requires evaluation as well as anti-avoidance measures. However, we strongly support the evaluation by the Implementation Group of such a measure.

19. Accelerated Capital Allowances for Young Farmers in first 5 Years of Business

In general, Indecon supports the provision of capital allowances in a manner which structures allowances in line with expected depreciation or expected lifetime of assets involved. However, in order to assist young farmers in the early years of a business we recommend the introduction of capital allowances for young farmers in the first five years of business. This measure should apply to any investment for young farmers incurred over the next three years.

In particular, we recommend accelerated capital allowances for young farmers on buildings and equipment at least up to 50% in year one and the balance at 12.5% per annum over the next four years. This should only apply for the first five years of business and to be restricted to young farmers earning €50,000 or less per annum over the period. There may be merit in considering a cap to the order of €500,000 on the level of investment which would qualify in any year. We also note that this level is below the current, wider accelerated capital allowances available in the UK and could be implemented as a measure to facilitate new entrants to support investment. This would require State Aid approval but given the very low percentage of young farmers in Ireland and the need to incentivise entry by such individuals we believe this is justified.

20. Retention of Stamp Duty Consanguinity Relief for Non-Residential Transfers

Consanguinity relief is a relief which halves the normal stamp duty rate on transfer of non-residential property between certain relatives. The relief is scheduled to cease after 31 December 2014. Indecon supports the retention of a more targeted version of this relief where it facilitates access of land to younger farmers. In particular, we recommend the retention of this relief where the transferee is 65 years or younger and where the transfer is to an active farmer.

21. Remove Any Unintended Technical Tax Barrier to Female Participation in Agriculture

Ireland has very low levels of female participation in the ownership of farms compared to other countries and this is not consistent with realising the potential of the sector. It is therefore important to remove any unintended technical tax barriers to female participation. This will also be likely to contribute to on-farm diversification. In other sectors the contribution of female entrepreneurs to employment and innovations have been very significant and any tax barriers which inhibit female participation should be removed.

One area which requires amendment is to allow sharing of ownership and usage between spouses in the context of retirement relief from CGT. For an individual to be eligible for Retirement relief from CGT they need to have owned and used as a chargeable business asset (such as a farm) for a period of not less than 10 years ending with the disposal. Where a farm is transferred on death from husband to wife, the period of ownership and usage of the farm by the husband is taken as a period of ownership by the wife. However, if a lifetime transfer of ownerships into joint names occurs, the period of usage by the husband does not count as a period of usage by the wife. Thus currently, lifetime transfers of holding from a single person's name into joint ownerships between spouses are discouraged as the receiving spouse will have to work with the asset for at least 10 years before he/she could avail of retirement relief. In order to remove this disincentive to female participation in agriculture, it is proposed that the same arrangements apply on lifetime transfer as on death. Anti-avoidance measures should be considered as necessary.

RECOMMENDATIONS TO IMPROVE FARM EFFICIENCY AND RESTRUCTURING

22. Allow Whole Farm Replacement for CGT Relief on Farm Restructuring

CGT relief for farm restructuring was introduced in Budget 2013 and provides for a rollover relief for farm restructuring and parcel swaps with certain conditions to ensure a more efficient farm holding. However, whole farm replacement is precluded from this relief, i.e., the disposal of an entire smaller or fragmented farm holding and replacement with a larger or more efficient farm holding. Achieving the targets in Food Harvest 2020 will require further consolidation of farms to increase efficiency, particularly in the dairy sector.

Stakeholder feedback on poor uptake to date on the relief (only six restructuring certs were issued by Teagasc in 2013) was that the inability to allow whole farm replacement was a major barrier to uptake to date on the measure. Given the very low level of private land sales, circa 0.5% of land is sold annually (a majority of which are executor sales); the level of tax foregone is likely to be minimal. Indeed it is felt that in the absence of a provision for CGT relief for whole farm replacement that strategic disposals of entire farm holdings are not occurring due primarily to long standing historic and cultural reasons that feed into an innate conservatism thinking around the disposal of family farms. Allied with this, the current rate of 33% tax charged on the gains arising from a farm disposal mitigates any possibility of many farm consolidations occurring. Thus a targeted stimulus to trigger increased farm consolidations and supply of land into the open market is proposed by allowing whole farm replacement be an eligible transaction for CGT relief on farm restructuring.

23. Accelerated Capital Allowance for Investment in Farm Access and Infrastructural Works

With the abolition of milk quotas in 2015, a grazing land platform within walking distance of the farmyard rather than quota will become the limiting factor in maximising a farm's production potential. The concern is the dairy farmers will delay investing in the upgrade of farm access and infrastructure elements in their expansion phase for cash flow reasons and fail to maximise their farm's productive potential in the short term. Therefore a time bound stimulus is proposed in order incentivise farmers to undertake these types of investments. It is proposed that the farm access and infrastructural works that would qualify for this ACA would be restricted to only the following three types of investments: farm roadways, fencing and public road underpasses/overbridges. Indecon recommends that accelerated capital allowances for investment in farm access and infrastructure would be introduced for any investment in these areas made before the end of 2017. Specifically, we recommend that allowances can be used over a five-year period with 50% in Year 1 and 12.5% in each of the following four years. This recommendation is subject to securing State Aid approval by the EU Commission.

24. Retention of Certain Reliefs for Farm Partnerships

The removal of barriers and the provision of incentives reliefs for farm partnerships is an issue which was highlighted during our consultation process. A number of specific measures have also been introduced to support milk production partnerships. Indecon believes that following the abolition of milk quotas in 2015 there is significant potential for the dairy industry to expand and that partnership incentives would facilitate this expansion. We therefore recommend the retention of CGT retirement relief for milk production partnership, and special income average provisions for milk production partnerships as well as existing enhanced stock relief for registered farm partnerships.

25. Permit CGT Relief on Land Parcels provided Reinvestment in Farms

Where farmers have the option to sell a less productive parcel of land in order to reinvest the proceeds into farm capital infrastructure, Indecon believes this would assist in enhancing efficiency. We therefore support the proposal to permit CGT relief on such sales. However this should only apply to cases where this results in more active land use for agricultural purposes and is designed to facilitate farm consolidation. As a result any land parcels sold for sites or for other non-agricultural purposes should be treated under the standard tax code.

RECOMMENDATION TO ASSIST AGRICULTURAL SECTOR TO RESPOND TO INCOME VOLATILITY

26. Increase Income Averaging Period from 3 – 5 Years

Increasing farm income volatility is predicted to become an even more prevalent feature of the agriculture sector as the EU payment support system through various Common Agricultural Policy reform rounds has evolved away from market-based interventions. Further flexibility is required in the tax system to reflect this new reality to allow farmers more scope to level out volatile incomes level over time; thus it is proposed that the income averaging period be increased from three to five years. However, the costs of this measure should be closely monitored as there is uncertainty regarding the level of take-up and exchequer costs of the existing measure.

27. Consider a Tax-Based-Risk Deposit Scheme as Implemented in France

An interesting tax-based-risk deposit scheme is available to farmers in France. This provides a tax break under certain conditions for bank deposits focused on addressing certain specified risks. This includes tax deduction which can be exercised as follows:

- (a) During each year, to acquire fodder to feed the farm animals in the six months which precede or follow the recognition of an agricultural disaster in the area or neighbouring areas;
- (b) For the payment of premiums and contributions for insurance against damaged goods or loss of business taken out by the farmer throughout the year;
- (c) For the payment of expenses resulting from a fire or damage to crops or loss of insured livestock within the deductible limit throughout the year;
- (d) For the payment of expenses resulting from an uninsured climactic, natural or health hazard recognised by a qualified administrative authority throughout the year; and,

- (e) In the case of economic hazard when the difference between the average value added from the three previous years and the value added of the year exceeds 10% of this average when carried out under comparable conditions. For the purposes of this assessment, the value added is defined as the difference between on the one hand, the value before taxes of sales, changes in inventory, capitalised production and allowances and operating subsidies and, on the other hand, the value before tax, deducting transfers of allocated operating expenses, the purchase cost of goods sold and intermediate consumption.

Indecon accepts that this is a change in the basis of assessment of taxable income but we believe it has merits as it is directly related to specific risks faced by the sector. However, administration costs should be compared against the likely levels of take-up.

28. Evaluate Pay Deadline for Self-Assessed Income Tax Return form Farming Sector

Future budgets are scheduled for an earlier date in mid-October and there is the possibility at some stage for a mid-summer payment tax date for self-assessed income. This raises potential cash flow problems for the sector and particularly for small farmers. This is accentuated by the fact that farming is a very seasonal business with much of income arising at specific times in the year. Indecon is supportive of overall national intervention of earlier filing dates as this would enhance macroeconomic and taxation planning. However, there is potential for filing and payment dates to be at different periods. Permitting the agriculture sector to have different dates for tax payments than other sectors may, however, not be permitted under State Aid rules. We would recommend careful consideration of ways of ensuring that any changes in tax payment deadlines do not cause unintended consequences. One option in this regard would be to provide an exemption from earlier payment dates for all SMEs subject to an assessment of the costs involved. While this issue was not explicitly included in our terms of reference and may be deemed to be outside the scope of this study, it was raised during the consultation process and has impacts on managing income volatility.

RECOMMENDATIONS TO IMPROVE ENVIRONMENTAL SUSTAINABILITY

29. Widen scope of SEAI ACA Scheme for Investment in Energy Efficient Equipment

The agri-sector is a significant end user of energy demanding equipment in the rural economy. However to date there has not been a targeted scheme available for the sector to encourage such expenditure in energy-efficient equipment. While all sub-sectors of the agriculture sector have uses for energy efficient equipment, in the shorter term the dairy sector in particular has a significant need for investment and upgrading of milking facilities equipment arising from the forthcoming milk quotas abolition in 2015 when large increases output³⁸ will be possible for the first time in a generation.

The Sustainable Energy Authority of Ireland (SEAI) has an Accelerated Capital Allowance (ACA) scheme in place since 2008. The scheme allows companies paying corporation tax (current rate 12.5%) to write off the full cost of SEAI approved energy efficient equipment against tax in the year of purchase. The ACA scheme was introduced 2008 for an initial three-year period. Arising from its success, the scheme was extended in 2011 for an additional three years and currently includes c. 10,000 registered products across 10 different equipment categories and 52 associated technologies. Teagasc have advised that a number of the 10 equipment categories in the ACA scheme have considerable potential for uptake in the agri-food sector. However as the vast majority of farmers are not incorporated they are currently excluded from availing of this ACA. Indecon therefore recommends widening the scope of the ACA scheme to include certain energy efficient equipment which may be accessed by small and medium non-incorporated farm businesses. There may however be a need to extend this to some other SMEs and this requires consideration. Indecon notes that accelerated capital allowances on energy efficient farm equipment are aligned with the need for enhanced sustainability. Similar measures are available in other countries such as the Netherlands.

30. Extend Income Averaging to Forestry Clear-Felling Profit

³⁸ 50% increase in dairy production planned by 2020 in Department's Food Harvest 2020 Strategy, 2010

Clear-felling forestry profits are subject to the upper tax exemption limits of the High Earners Restrictions rules. This has had a disproportionate effect on forest owners as the majority of income comes at a single point in time, i.e., clear-felling. This is an important issue for the forestry sector as forestry is a unique investment where the majority of the revenue is realised at the end of the growing cycle (typically 40 years and sometimes significantly longer). It is felt that the effect of these ongoing restrictions is impacting on land owners' long-term decision making in afforesting land and thus impacts on the Government's afforestation planting targets. It is currently influencing behaviour in that harvests are being split into two/three years in order to avoid the current limit (€80,000) and this is less than efficient. Forestry plays a key role as a Carbon sink, helping to mitigate the increase in GHG emissions in other sectors of the economy.

In order to offset the impact of this restriction on the forestry sector it is proposed to allow income averaging from the trade of farming to be extended to include clear-felling profits earned from the forestry sector in estimating the upper tax exemption limits. Indecon however recognises the need to ensure that there is equity in the tax system and that any changes in this do not dilute high income earners' restrictions in unintended ways. We also note that precise ways to achieve the objective of recognising that forestry income arises in one particular year needs to take account of how different sections of Tax Acts dealing with farming and woodlands will require careful examination. How to ensure that changes are focused on those employed in farming and forestry rather than external investors should also be considered.

Conclusions

Indecon's analysis suggests that the existing agri-tax reliefs have a marginal net economic benefit and support a critical sector of the Irish economy. The significance of the agri sector was noted in a wide range of submissions and for example the IFA referred to "the importance of the agri-food sector as a source of employment and economic activity across the entire country". However the ownership structure and age profile of the Irish agricultural sector is preventing it from realising its potential. Indecon's analysis suggests that with better targeting, the contribution of the incentives to agricultural policy objectives could be enhanced. In particular, there is a need for a new focus on facilitating land access and enhancing the relative incentives for leasing. There is also a need to redirect tax measures to support active farmers and to target the measures to achieve other objectives. This will require actions which disincentivise unproductive or less productive use of agricultural land. There is also a wider need to ensure agri-tax measures do not unintentionally hinder structural change and instead support the more productive use of land. The importance of facilitating younger new entrants with resultant benefits for farm output should be prioritised. The scale of this challenge was highlighted by Macra na Feirme where they pointed out that, "There are currently more farmers over 80 years of age than under 35 years of age." The issue of access to land and the age profile of farmers was also pointed out by ICMSA where they indicated that a "major issue is in relation to structural matters namely the age profile of farmers, fragmentation and the price and availability of land". The measure of success will be determined by whether sufficient changes are made to enable progressive farmers to have access to land to unlock the potential in Irish agriculture.

With appropriate reforms, Indecon believes the expansion of Irish agricultural output and employment can be accelerated. The proposed reforms would underpin Ireland's inherent comparative advantages in this sector. However, failure to introduce radical effective measures to increase long term leasing and to facilitate younger age farmers would represent a lost opportunity for the Irish economy.

1 Introduction and Background

1.1 Introduction

This independent report is prepared by Indecon International Economic Consultants and is submitted to the Department of Finance and the Department of Agriculture, Food and the Marine. This report concerns a review of the tax reliefs available to the farming sector via a cost-benefit analysis and a review of international experience. Indecon was appointed to conduct this review following a competitive tender process.

1.2 Background and Scope of Review

The agriculture sector represents an important sector for Ireland in terms of employment, exports and output. In order to support the sector, there are a number of taxation expenditure/relief measures which are exclusively targeted at the farming community, while farmers can also avail of a number of other general tax measures which are not exclusive to the sector. In addition, the sector receives a range of EU and Irish State payments/supports.

The Department of Finance reviews major tax expenditures on a regular basis. In this context, the Department of Finance and the Department of Agriculture, Food and the Marine jointly determined the need to ensure that the maximum benefits are accruing to the agriculture sector and the wider economy with the existing level of State support.

Certain key issues are of particular importance in the context of this review. These include identification of the impact of these tax measures in key policy areas compared to the exchequer and wider economic costs. In particular, the overall objective of the review is “to redirect the existing level of tax expenditure towards activities of maximum benefit to the economy”.

The review encompasses a cost-benefit analysis (‘CBA’) and an international overview. This study involved a detailed public consultation including examination of consultation submission by representative organisations and individual farmers and other experts. It also involved an analysis of the benefits to the sector and the wider economy of the tax reliefs available. Our international review included agri-taxation measures in the UK, France and the Netherlands as well as selective included innovative agri-tax measures in New Zealand and Australia.

1.3 Overview of Irish Farming & Forestry Sectors

The total land area of Ireland is 6.9 million hectares of which 4.5 million hectares are used for agriculture and a further 760,000 hectares are used for forestry.³⁹ The average farm size in Ireland is small and is estimated to be of the order of 32.7 hectares.⁴⁰ Based on the Census in 2011 there were 80,117 farm owners and/or farm managers in Ireland which represents an increase of over 11% on 2006 figures. This may suggest an increase in the number of farms during the same period. In 2011, there were also 5,687 people working as farm workers, and 5,128 agricultural machinery drivers and other farming occupations. Overall employment in agriculture, fisheries and forestry amounts to around 110,000 in 2014. The sector from an employment perspective is therefore of

³⁹ Fact Sheet on Irish Agriculture 2013, Department of Agriculture, Food & Marine.

⁴⁰ CSO (2010) Census of Agriculture

national significance. Identifying ways in which the sector can continue to expand and support additional employment is a key policy issue.

Table 1.1: Employment in Agriculture, Forestry and Fishing (000s)		
	Q1 2014	Q2 2014
Agriculture, forestry and fishing	110.5	109.8
Source: CSO QHNS		

A more detailed breakdown of employment is available from the census figures as outlined below.

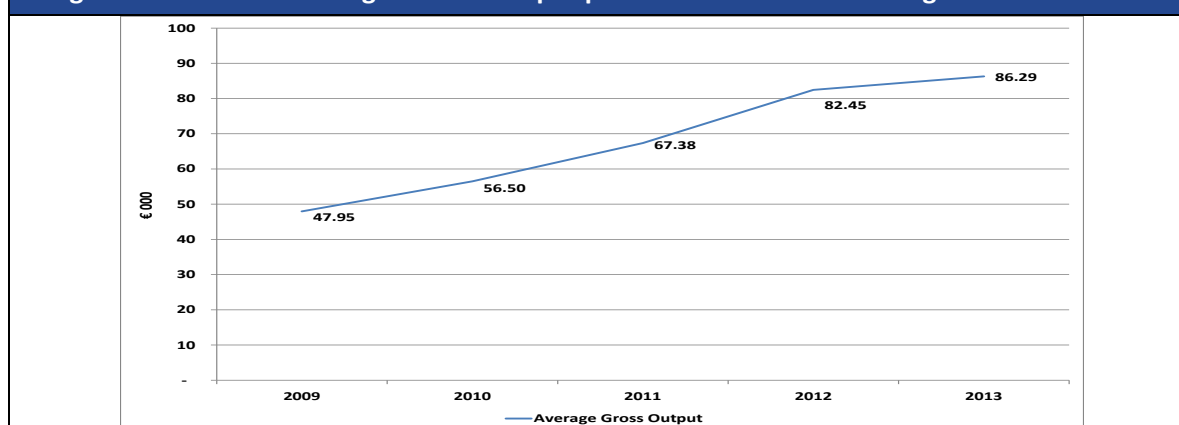
Table 1.2: Employment in Farming and Related Occupations in Ireland 2006 & 2011		
	2006	2011
Farm Owners and Managers	72,048	80,117
Farm Workers	7,034	5,687
Agricultural Machinery Drivers and other Farming Occupations	5,555	5,128
Horticultural Trades	484	493
Forestry Workers	1,576	1,398
Fishing & Related Workers	1,717	1,544
Total Farming, Fishing & Forestry Workers	88,414	94,367
Source: Indecon Analysis of Department of CSO Census of Population 2006 & 2011.		

Ireland's farming sector is the main component of the agricultural forestry and fisheries industry. Total agricultural output in Ireland amounted to €7.43 billion in 2013. Encouragingly, annual agricultural output increased each year for the period from 2009 to 2013 but growth slowed in 2012 and 2013.

Table 1.3: Total Agricultural Output at Basic Prices 2009-2013		
	€m	% Change
2009	5,017.5	-
2010	5,622.1	12%
2011	6,632.4	18%
2012	7,048.9	6%
2013	7,434.7	5%
Source: Indecon Analysis of Department of Agriculture Annual Review and Outlook (data from CSO National Accounts).		

The trend in the value of gross output per farm in the agri-food sector in Ireland is shown in Figure 1.1. Average gross output has been growing year-on-year but the rate of growth slowed in 2013. While a levelling off in annual increases in international commodity prices was a key driver for this, it also suggests the need to avoid complacency and in Indecon's view, major challenges must be overcome in realising the potential of the sector.

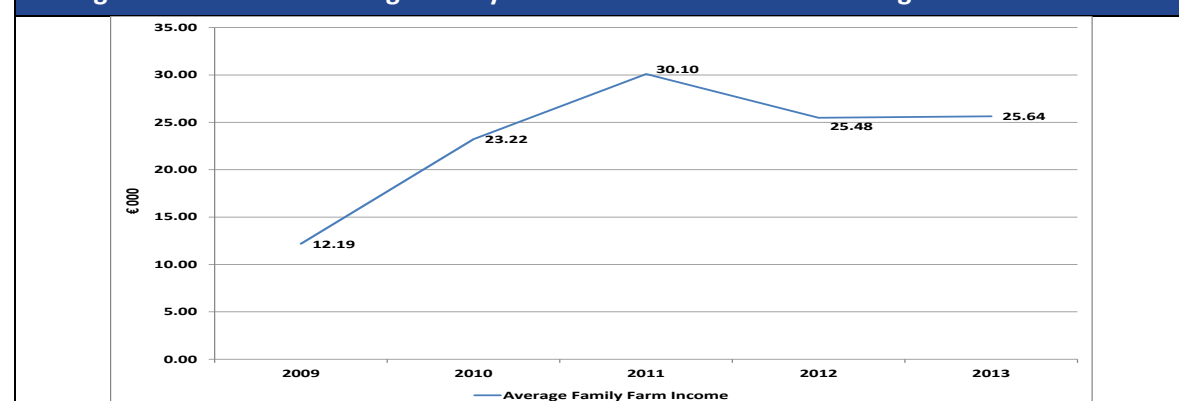
Figure 1.1: Trend in Average Annual Output per Farm in the Irish Farming Sector 2009-2013



Source: Indecon Analysis of Teagasc National Farm Survey.

Figure 1.2 shows the trend in average family farm income in the Irish farming sector from 2009 to 2013. Family farm income increased significantly from 2009 to 2011 followed by a 15% reduction in 2012 and a marginal increase in 2013. The drop in income in 2012 reflects the large percentage increase in production costs in the same year of 33% due to adverse weather conditions. From a social perspective and to underpin the viability of farming, ways to reduce income variability has value although the direct impact on output may be limited. Wide variation in family farm income persists across the various farming sectors. Reliance on direct payments is a feature of the sector. Such payments were €19,173 per farm on average in 2013 which accounts for a large portion of income.⁴¹

Figure 1.2: Trend in Average Family Farm Income of the Irish Farming Sector 2009-2013



Source: Indecon Analysis of Teagasc National Farm Survey.

⁴¹ Single Farm Payment (SFP), Disadvantaged Area Scheme (DAS) and The Rural Environmental Protection Scheme (REPS).

Continuing and expanding investment is a critical component of sustaining and growing the farming sector. Table 1.4 shows the trend in capital investment among farmers in Ireland from 2009 to 2012. Capital investment declined in 2009 after a peak in the previous year due in part to the effects of the Farm Waste Management Scheme.⁴² Investment grew again by 14% and 24% in 2011 and 2012.

Table 1.4: Trend in Average Annual Investment Expenditure by Farmers in Ireland 2009-2012

Year	Gross Investment (€)	% Change
2009	6,473	-
2010	5,782	-11%
2011	6,601	14%
2012	8,173	24%

Source: Indecon Analysis of Teagasc National Farm Survey.
 Note: Data on investment is not yet available for 2013.

The wider sector also includes the forest and forest products sectors. Some industry sector estimates suggest that forestry and forest products amounted to a total value of €2.2 billion of the Irish economy at the end of 2012 and employed 11,939 persons in 2012/13. Woodlands tax measures currently available to the agri-industry are intended to support the forestry and forest products sector.

Table 1.5: The Economic Contribution of Ireland's Forestry & Forest Products Sector

Forestry & Forest Products Sector	2012/13
Total Value to the Irish Economy	€2.2 billion
Forestry as % of GDP	1.3%
Number Employed	11,939

Source: Irish Forestry & Forest Products Association (IBEC), An Overview of the Irish Forestry & Forest Products Sector 2013.

Private sector afforestation has been mainly by farmers as is shown in the next table. Total afforestation was 6,252 hectares in 2013, of which 6,009 were accounted for by farmers. This highlights the link between forestry and the viability of the farming sector.

⁴² Department of Agriculture, Food & Marine (2012/13), Annual Review & Outlook.

Table 1.6: Area of Land Afforested by Farmers & Non-Farmers 2009-2013

	Farmer	Non-Farmer	Total	Farmer Afforestation as % of Total
	Hectares	Hectares	Hectares	%
2009	6,217	431	6,648	94%
2010	7,935	379	8,314	95%
2011	6,269	384	6,653	94%
2012	6,237	415	6,652	94%
2013	6,009	243	6,252	96%

Source: Indecon Analysis of Afforestation Data from The Department of Agriculture, Food & The Marine (IFORIS).

1.4 Food Harvest 2020 – Industry Strategy & Targets for 2020

Food Harvest 2020 is a strategy for the medium-term development of the agri-food, fisheries and forestry sector for the period up to 2020. The key objective is sustainable growth of the sector through the delivery of high quality, safe and naturally based produce. Three specific quantified targets have been set out in this strategy in relation to growth. The first of these is to increase the value of primary output in the sector by €1.5 billion which represents a 33% increase compared to the 2007-2009 average. The second aims to increase the value added in the sector (including wood products) by 40% compared to 2008 levels. Finally, a sectoral target has been set of €12 billion in export sales.

Table 1.7: ‘Achieve Growth’ Targets for 2020 for the Agriculture, Fisheries & Forestry Sector

	2020 Target
Value of Primary Output in the Agriculture, Fisheries & Forestry Sector	€1.5 Billion Increase (33%)*
Value-added in the Agri-food, Fisheries and Wood Products Sector	40% Increase (40%)**
Value of Exports in Agriculture, Fisheries and Forestry Sector	€12 Billion***

Source: Department of Agriculture, Fisheries & Food, Food Harvest 2020.

*This represents a 33% increase compared to the 2007-2009 average.

**This represents a 40% increase compared to 2008.

***This represents a 42% increase compared to the 2007-2009 average.

The Harvest 2020 ‘Milestones for Success 2014’ evaluates the progress made against the targets set out. Table 1.8 provides a summary of the progress made in relation to the growth rates set out for the sector for 2020. The 2014 Milestones report has shown that there has been growth rates in value terms for the agri-food sector of 33% (primary output), 23% (value added) and 24% (exports) shows significant progress but Indecon’s view is that it is essential to ensure that this momentum is maintained and it would be a mistake to assume that the balance of the targets will be easily achieved.

Table 1.8: Harvest 2020 Progress in relation to Growth Targets

	Targets to be Achieved by 2020	2013 Progress Compared with Baseline
Primary Production	33%	33%
Value Added	40%	23%
Exports	42%	24%
Source: Indecon Analysis of Department of Agriculture, Fisheries & Food, Food Harvest 2020. Milestones for Success 2014.		

1.5 Tax contribution of Farming Sector

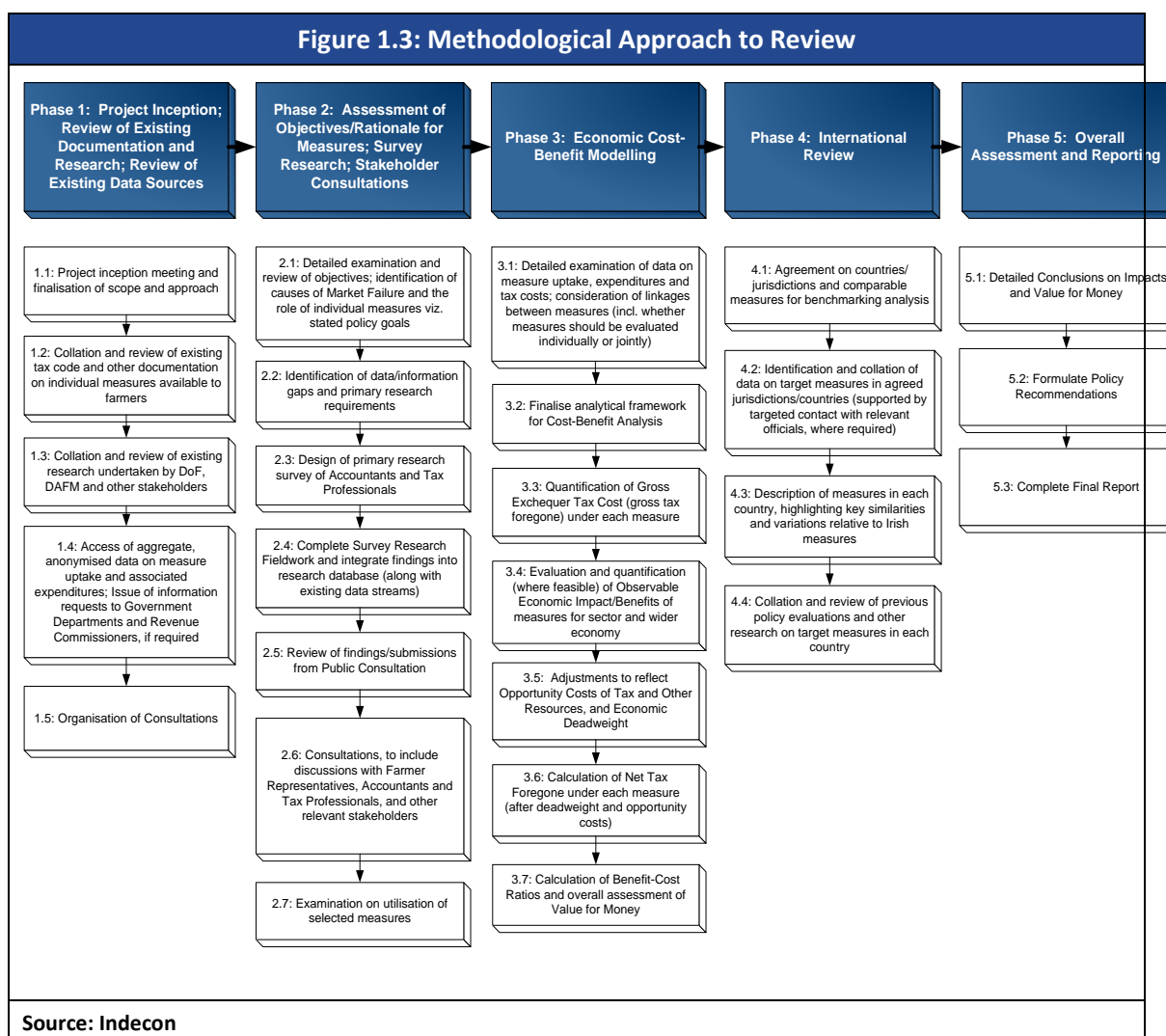
While this report is focusing on the agri-tax reliefs and examining the costs and benefits of these, it is also useful as context to note that the farming sector pays around €475 million per annum in income tax and PRSI. The relevant figures are presented in Table 1.9. In addition we understand capital gains tax over the last three years averaged around €50 million from the agricultural sector.

Table 1.9: Farmer Tax Payments

Tax Year	Tax (non PAYE) (€m)	PAYE (employment) (€m)	PRSI (non PAYE)(€m)	Total (€m)
2005	130	319	29	478
2006	156	338	39	533
2007	173	356	43	572
2008	159	352	39	550
2009	99	299	30	428
2010	117	252	31	400
2011	148	284	25	457
2012	163	289	23	475
2013	183	-	32	-
* Includes Income Levy (2009 and 2010) and Universal Social Charge (2011 onwards).				
Tax (non-PAYE) represents the Income Tax paid by self-employed taxpayers identified as having an agricultural related trade based on the "NACE" code system of classification used in tax records. This also includes payments from any non-agricultural trade engaged in by these cases. PAYE (employment) represents the amount of Income Tax paid on behalf of employees of employers operating in the agricultural sector (based on the NACE code of the employer).				
Source: Revenue Commissioners				

1.6 Methodological Approach

The scope of this review required detailed analysis of a wide range of evidence, data, consultations and submissions. Indecon's approach to this review is outlined in the following schematic. Further details on the methodology used to evaluate costs and benefits are presented in Chapter 11. The cost-benefit model assumptions are consistent with guidelines from the Department of Public Expenditure and Reform. Details of estimates of the costs of the benefits for individual tax reliefs are presented in the individual chapters.



1.7 Report Structure

This report is structured as follows. Section 2 comprises the review of international evidence on agri-tax measures. Sections 3 to 9 present detailed analysis of key agri-tax measures in Ireland; Section 10 outlines our econometric analysis and other measures of benefits of agri-tax measures; and Section 11 provides an overall evaluation of the costs and benefits of agri-taxation measures. Section 12 outlines Indecon's key policy recommendations.

1.8 Acknowledgements and Disclaimer

We would like to acknowledge the valuable assistance and inputs of a number of individuals as part of the completion of this review. We would particularly like to express our gratitude to the representative organisations including individual farmers, tax specialists who contributed to the consultation process. A list is presented in Annex 1. We also acknowledge with thanks the valuable assistance of agricultural consultants and tax advisors who participated in our survey research. A special thanks is also to Teagasc who provided data which assisted Indecon to evaluate the benefits of the measures. It must be noted that any information provided by Revenue to Indecon related only to aggregate level information (to ensure confidentiality of taxpayer information). Finally, we acknowledge the insightful inputs made by the Steering Group for this study including representatives from the Department of Finance, the Department of Agriculture, Food and the Marine and the Revenue Commissioners. Specifically we particularly appreciate the assistance provided by Ann Derwin, Sean Bell, Noel Collins, from the Department of Agriculture, Food and the Marine, Gary Tobin, John Moore, Des O’Leary, Aisling Greene and Cillian Byrnes from the Department of Finance and Keith Walsh and Linda Byrne from the Revenue Commissioners.

We are also very grateful to valuable insights into international experience provided by Carmel Cahill, Michelle Harding and Nils Axel Brathen from the OECD, Karl Walsh from the Irish Department of Foreign Affairs and by officials in a number of other countries.

The usual disclaimer applies and the findings in this independent report are, however, the sole responsibility of Indecon.

2 Review of Agri-tax Measures in Other Countries

2.1 Introduction

This section reviews some of the agri-tax measures in the UK, the Netherlands and France. In particular, we examine the issue of capital allowances, stock relief, capital gains taxes, capital acquisition tax (CAT) measures, stamp duty and income averaging in each of these countries. We also consider any other specific agri-tax measures. We also consider specific agri-tax measures in New Zealand and Australia. We would point out that this is not meant to represent a comprehensive up-to-date position of agri-tax measures in different countries which is outside the scope of this review. It is however designed to provide context to the review of Irish measures. Any organisation requiring detailed information for business planning purposes should, however, seek independent tax advice.

2.2 Agri-tax Measures in the United Kingdom

Capital Allowances

The UK does not currently offer a capital allowances measure which is targeted at the agriculture sector. However, farmers can qualify for the Annual Investment Allowance (AIA) which permits a 100% first-year allowance on certain business plant and machinery expenditure capped at £25,000 per year;⁴³ illustrative examples of qualifying equipment provided by HM Revenue and Customs include “tractors, combine harvesters and other agricultural machinery”.⁴⁴ The AIA cap was temporarily increased to £250,000 for two years from 1 January 2013 and it was subsequently announced that a further increase to £500,000 would apply from April 2014 to 31 December 2015.⁴⁵ Other capital allowances which could be applied by farmers for any remaining balance of capital expenditure on plant and machinery following the application of the AIA include Writing-Down Allowances (WDA) and Small Pools Allowance (SPA).⁴⁶

Stock Relief

In the UK, stock for agriculture is treated as trading stock, which can be expensed under normal UK tax rules for businesses. The UK does not have any specific reliefs for agriculture with respect to stock but farmers can opt for ‘herd basis’ accounting, which creates options to reduce tax from stock. This type of accounting can only be selected by farmers who keep “production livestock” – livestock which is kept for the production of goods or offspring, rather than livestock which is reared to be sold.⁴⁷

⁴³ HM Revenue and Customs, CA23081 – PMA: Qualifying expenditure: Annual Investment Allowance (AIA) qualifying expenditure: outline. [Accessed 14/07/14 <http://www.hmrc.gov.uk/manuals/camanual/CA23081.htm>]

⁴⁴ HM Revenue and Customs, CA 23084 – PMA: Qualifying Expenditure: Annual Investment Allowance (AIA) qualifying expenditure: what is AIA qualifying expenditure? CAA01/S38A and S38B, S51A to S51N. [Accessed: 26/06/14 <http://www.hmrc.gov.uk/manuals/ca-manual/CA23084.htm>]

⁴⁵ HM Revenue and Customs, Capital allowances on plant and machinery. [Accessed: 08/08/14 <http://www.hmrc.gov.uk/capital-allowances/plant.htm#3>]

⁴⁶ HM Revenue and Customs, Capital Allowances on Plant and Machinery. [Accessed 26/06/14 <http://www.hmrc.gov.uk/capital-allowances/plant.htm#2>]

⁴⁷ HM Revenue and Customs, Helpsheet 224: Farmers and Market Gardeners. [Accessed: 19/06/14 <http://www.hmrc.gov.uk/helpsheets/hs224.pdf>]

‘Herd basis’ accounting means that the net cost of replacing livestock is considered to be an allowable deduction and that the proceeds from the sale of more than 20% of the herd are not included in the farming profits if the livestock is not replaced. However, the costs associated with initial purchase of the herd or growing of the herd are not considered to be allowable deductions and proceeds must be included in farm profits if less than 20% of the herd is sold. ‘Herd basis’ accounting can also be selected if more than 20% of the herd is subjected to compulsory slaughter.

Capital Gains Tax

The sale or disposal of assets which have accrued value in the UK are subject to Capital Gains Tax (CGT). While capital gains are taxable, there are personal standard exemptions, which currently stand at £10,900 per year.⁴⁸ There are other reliefs for persons as executors of estates during a certain ‘qualifying’ period, and for persons as trustees of disabled persons.

Farmers do not receive special treatment but there are certain reliefs which might be available to them, depending on the circumstances surrounding the capital gain. Entrepreneur’s Relief is one such relief, which applies to capital gains received upon disposal of a business. Capital gains tax is charged at a lower rate of 10% under Entrepreneur’s Relief on capital gains up to £10 million.⁴⁹

Another scheme which addresses a wider population is the Business Roll-over Relief. This is relevant for farmers in receipt of subsidies under the Basic Payment Scheme. Business roll-over relief allows for capital gains tax and corporation tax to be deferred in the case that proceeds from the sale of assets are re-invested in new assets. A specific measure was introduced by the UK government in 2014 to ensure that payments to farmers under the Basic Payment Scheme are eligible for roll-over relief.⁵⁰

One other relief which farmers can apply for is the Gift Hold-Over Relief. In this instance, an individual who disposes of a business asset as a gift is eligible for full relief from capital gains tax. The capital gains tax will then be charged to the individual who received this asset as a gift when they decide to sell it. HM Revenue and Customs indicates that this relief can be applied when disposing of property including agricultural property and farm buildings (along with Entrepreneur’s Relief and Business Asset Roll-Over Relief).⁵¹

Capital Acquisitions Tax Measures

In the UK, a farm is classed as an asset and taxed in the standard way for inheritance tax purposes. However, for qualifying farms, agricultural inheritance tax relief (“Agricultural Relief”) is available for working farms. It must be a working farm and one must have owned it for two years prior to death, and if a leased farm, seven years. The rationale for this is to avoid persons buying farms at times near death as a means of estate planning for tax reduction. The estimated cost of the inheritance tax relief for agricultural property in 2013 was approximately €485 million. This relief is

⁴⁸ HM Revenue and Customs, *Introduction to Capital Gains Tax*. [Accessed 26/06/14 <http://www.hmrc.gov.uk/cgt/intro/basics.htm#5>]

⁴⁹ HM Revenue and Customs, *Capital Gains Tax reliefs for business assets*. [Accessed: 26/06/14 <http://www.hmrc.gov.uk/cgt/businesses/reliefs.htm#1>]

⁵⁰ HM Revenue and Customs, *Capital gains business asset roll-over relief*, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/293907/TIIN_9042_chargeable_gains_rollover_relief.pdf

⁵¹ HM Revenue and Customs, *Capital Gains Tax reliefs on property that’s not your main home*. [Accessed 26/06/14 <http://www.hmrc.gov.uk/cgt/property/reliefs.htm>]

classed as one of the principal tax expenditures under the UK system. For land which was leased before 1995, there is a 50% relief from inheritance tax. However, in certain circumstance, there is a 100% relief for land leased before 1981.⁵² Agricultural relief can also apply in the case of shares in a company which owns agricultural property. In this case, the relief is available for property which satisfies the following conditions:⁵³ occupied by the company for the purposes of agriculture throughout the period of two years ending with the date of the transfer (the occupation test) or owned by the company throughout the period of seven years ending with that date and throughout that period occupied (by the company or another) for the purposes of agriculture (the ownership test).

It should however be noted that it is rare for companies to qualify for Agricultural Relief rather than Business Relief. An example of a company qualifying for Agricultural Relief is the case where a company is involved in the leasing of agricultural land.⁵⁴ Agricultural Relief qualifying land and assets must be located in the UK, Channel Islands or Isle of Man.⁵⁵

Certain assets included in the estate but not qualifying as farm lands do not qualify for the relief, including farmhouses if the value is higher than its agricultural worth, farm equipment and machinery, derelict buildings, harvested crops and livestock. In addition, farmhouses occupied by individuals who are not employed in farming are not eligible for Agricultural Relief except for a few circumstances, e.g., retired, spouse of deceased farm employee, etc. Gifts of agricultural property within seven years of death can still avail of the relief as long as the agricultural use of the land has continued and the land is still owned by the transferee.⁵⁶ If one gives away property more than seven years before death then the gift is not subject to inheritance tax; it should however be noted that this is not restricted to agricultural property but can be applied to any gift.⁵⁷

Woodland Relief is also available for the purposes of inheritance tax – specifically, the value of timber can be excluded from the estate. Woodland that qualifies for Agricultural Relief from inheritance tax instead may not be eligible for Woodland Relief.⁵⁸

⁵² HM Revenue and Customs, *Agricultural Relief*. [Accessed 19/06/14 <http://www.hmrc.gov.uk/inheritancetax/pass-money-property/agricultural-relief.htm>]

⁵³ HM Revenue and Customs, *SVM112060 – IHT Agricultural Property Relief: Company occupation/ownership tests*, [Accessed 19/06/14 <http://www.hmrc.gov.uk/manuals/svmanualnew/SVM112060.htm>]

⁵⁴ HM Revenue and Customs, *SVM112020 – IHT Agricultural Property Relief: Practice Notes / dealing with companies where AR may be an issue*. [Accessed 26/06/14 <http://www.hmrc.gov.uk/manuals/svmanualnew/SVM112020.htm>]

⁵⁵ HM Revenue and Customs, *Agricultural Relief*. [Accessed 19/06/14 <http://www.hmrc.gov.uk/inheritancetax/pass-money-property/agricultural-relief.htm>]

⁵⁶ HM Revenue and Customs, *HMRC Inheritance Tax: Customer Guide*. [Accessed 26/06/14 <http://www.hmrc.gov.uk/cto/customer-guide/page17.htm#21>]

⁵⁷ HM Revenue and Customs, *Gifts that are exempt from Inheritance Tax*. [Accessed: 27/06/14 <http://www.hmrc.gov.uk/inheritancetax/pass-money-property/exempt-gifts.htm>]

⁵⁸ HM Revenue and Customs, <http://www.hmrc.gov.uk/inheritancetax/pass-money-property/iht-reliefs.htm#3>

Stamp Duty Measures

There are no specific stamp duty exemptions or reliefs offered to farmers in the UK. Stamp Duty Land Tax rates are capped at lower values for non-residential property than for residential property. The maximum rate for non-residential property is 4% and this applies for any property valued over £500,000. In contrast, the maximum rate for residential property is 7% and this is charged for property valued over £2 million. Non-residential property includes commercial property (shops, offices), agricultural land, forests, other land not used for residential purposes and when six or more residential properties are bought in one transaction.⁵⁹

Income Averaging

Income averaging for farmers (and creators of literary or artistic works) is provided for under the UK taxation system. The basis of the relief is that income can be averaged over two years and tax is paid on half of the average profit in each of two years. In order to be eligible for income averaging in the UK, farmers must be sole traders, partners or executors, personal representatives and trustees.⁶⁰ In the UK, profits must differ by more than 30% in the two years considered.⁶¹ The income averaging is applied retrospectively in the second year. There is also provision for a marginal adjustment if the profits in the two years differ by between 25% and 30%.⁶²

The total tax expenditure on income averaging in 2013/14 in the UK is estimated to be around €38 million.⁶³ A separate averaging system is in place for income arising from compulsory slaughter payments, which can smooth the tax burden over time. Compulsory slaughter payments can be excluded from income in the year in which the payment is received. The payment can then be reported in equal parts over the subsequent three years.⁶⁴

Business profit loss look back and carry forward provides another means of averaging income to incorporate years in which you have made a loss. If a business in the UK makes a loss, tax relief can be available in terms of setting this loss against:⁶⁵ “other income for the same year or the previous year; gains for the same year or the previous year - if your other income is used up; other income in the previous three years if your business started within the past four years; profits from the business in later years and profits for the business in the previous three years if your business has ceased”. Tax relief in the event of a business making a loss is not restricted to farmers but rather applies to individuals who are self-employed. However, there is an additional restriction for farmers: in general, farmers are not permitted to claim losses against income when they have recorded losses for each of the previous five tax years.⁶⁶

⁵⁹ HM Revenue and Customs, *Stamp Duty Land Tax rates and thresholds*. [Accessed: 27/07/14 <http://www.hmrc.gov.uk/sdlt/intro/rates-thresholds.htm>]

⁶⁰ HM Revenue and Customs, *BIM84055 – Averaging: farmers*, [Accessed: 26/06/14 <http://www.hmrc.gov.uk/manuals/bimmanual/BIM84055.htm>]

⁶¹ HM Revenue and Customs, *BIM 84100 – Averaging: checklist*, [Accessed: 26/06/14 <http://www.hmrc.gov.uk/manuals/bimmanual/BIM84100.htm>]

⁶² HM Revenue and Customs, *BIM84135 – Averaging: marginal relief*. [Accessed: 26/06/14 <http://www.hmrc.gov.uk/manuals/bimmanual/BIM84135.htm>]

⁶³ It should be noted that tax expenditure in this case includes income averaging of creative works, which for the purposes of the calculation is assumed to be small.

⁶⁴ HM Revenue and Customs, *Helpsheet 224: Farmers and Market Gardeners*. [Accessed: 19/06/14 <http://www.hmrc.gov.uk/helpsheets/hs224.pdf>]

⁶⁵ HM Revenue and Customs, *Self-employed tax reliefs and allowances – special rules and situations*. [Accessed 19/06/14 <http://www.hmrc.gov.uk/incometax/self-emp-special.htm>]

⁶⁶ HM Revenue and Customs, *Helpsheet 227: Losses*. [Accessed 27/07/14 <http://www.hmrc.gov.uk/helpsheets/hs227.pdf>]

Other Agri-tax Measures

Vehicles and fuels are subject to tax and excise in the UK, however, a memorandum of agreement which covers agricultural vehicles exists between HM Revenue and Customs, the Driver Vehicle Licensing Agency, the National Farmers Union, the National Association of Agricultural Contractors and the Confederation of Forest Industries.⁶⁷ This memorandum addresses the particular situation of agricultural vehicles in relation to road tax and excise duty on diesel. In the case of agricultural vehicles, there is zero vehicle (VED) tax.⁶⁸ Agricultural tractors and non-road vehicles solely for the purposes of mowing and cutting qualify for reduced rates or zero vehicle tax in the UK. Qualifying vehicles can also use red diesel (rebated fuel) which is taxed at a lower rate of excise.

Farmers may be eligible for the Agricultural Flat Rate Scheme of VAT.⁶⁹ A farmer must choose to opt into this scheme and not to be charged under a standard VAT scheme. If a farmer opts in to the flat rate scheme, the farmer does not reclaim VAT on purchases. However, a flat rate addition of 4% on sales can be applied when selling to VAT-registered individuals. In addition, most farm animals and farm animal food stuffs are zero-rated for VAT purposes in the UK.⁷⁰

Property Taxes

Business rates are payable on non-domestic properties each year. However, farmland and farm buildings are exempt from business rates.⁷¹

Environmental reliefs and taxes

The UK also has certain forms of carbon and GHG emissions taxes, such as carbon price supports, climate change levies and carbon price floors. These are subject to all businesses but mostly apply to large energy users or producers of electricity. Businesses in the UK are required to pay a Climate Change Levy (CCL) on energy products for use as fuels.⁷² Operators in defined agricultural sectors are however entitled to a 35% reduction in the climate change levy in recognition of meeting energy efficiency or emission reduction targets for the period from 2013 to 2023.⁷³

⁶⁷ HM Revenue and Customs, *Memorandum of Agreement in respect of the use of agricultural vehicles*. [Accessed 27/06/14 http://customs.hmrc.gov.uk/channelsPortalWebApp/channelsPortalWebApp.portal?_nfpb=true&_pageLabel=pageMySite_ShowContent&propertyType=document&featurearticle=true&id=HMCE_PROD1_028275]

⁶⁸ Driver and Vehicle Licensing Agency, *Agricultural vehicle licences and fuel*. [Accessed 27/06/14 <https://www.gov.uk/agricultural-vehicle-licences-and-fuel>]

⁶⁹ HM Revenue and Customs, *Agricultural Flat Rate Scheme* [http://customs.hmrc.gov.uk/channelsPortalWebApp/channelsPortalWebApp.portal?_nfpb=true&_pageLabel=pageLibrary_PublicNoticesAndInfoSheets&propertyType=document&columns=1&id=HMCE_CL_000078]

⁷⁰ HM Revenue and Customs, *Animals and Animal Food*, http://customs.hmrc.gov.uk/channelsPortalWebApp/channelsPortalWebApp.portal?_nfpb=true&_pageLabel=pageLibrary_PublicNoticesAndInfoSheets&propertyType=document&columns=1&id=HMCE_CL_000124

⁷¹ <https://www.gov.uk/introduction-to-business-rates/overview>

⁷² http://customs.hmrc.gov.uk/channelsPortalWebApp/channelsPortalWebApp.portal?_nfpb=true&_pageLabel=pageLibrary_ShowContent&id=HMCE_CL_000290&propertyType=document#P101_6039

⁷³ <http://www.hmrc.gov.uk/climate-change-levy/agricultural-sectors.pdf>

2.3 Agri-tax Measures in the Netherlands

Capital Allowances

Capital allowances in the Netherlands are structured in terms of depreciation methods. Several depreciation methods, including linear, reducing balance, decreasing percentage and production output depreciation are permitted.⁷⁴ Businesses are free to choose the depreciation method which suits them best, but this is not restricted to farmers.

In addition, the Dutch government has introduced a specific system of depreciation for investment in environmentally friendly equipment (VAMIL).⁷⁵ Under VAMIL, the timing of the depreciation schedule can be selected; this allows accelerated depreciation but also means that depreciation can be deferred. Qualifying equipment for VAMIL is outlined in an annual Environment List. The Environment List for 2014 includes investment in equipment specifically related to agriculture and farming.⁷⁶ A special system of depreciation also exists for start-up businesses.

Capital Gains Tax

Capital gains realised on the disposal of business assets (including real estate) and on the disposal of other assets that qualify as income are taxed in the Netherlands at the normal rates of income, as are capital gains on liquidation of a company, and capital gains derived from the sale of a substantial interest in a company, i.e., 5% of the issued share capital.⁷⁷

Profit made on the transfer of agricultural land is only exempt from tax as long as it continues to be used as agricultural land under its new owners.⁷⁸ This is known as the *Landbouwwijstelling*. A further exemption applies: capital gains applying for this exemption must not have arisen during the course of business.⁷⁹

In the case where a farm is transferred due to the owner deciding to stop farming, the book value of the farm can be transferred directly to the new owner, resulting in no capital gains tax for the selling farmer. However, this reduces the depreciation base for the new owner.⁸⁰ Sellers in these situations may also be eligible for discontinuation relief, although it should be noted that this is not restricted to agricultural enterprises.

Capital Acquisitions Tax Measures

⁷⁴ Van der Veen, H., Van der Meulen, H., Van Bommel, K. & Doornewert, B. (2007). *Exploring Agricultural Taxation in Europe*. Report for the Agricultural Economics Research Institute (LEI).

⁷⁵ Netherlands Enterprise Agency, *MIA/VAMIL 2014*, [Accessed: 24/06/2014 <http://english.rvo.nl/subsidies-programmes/mia-environmental-investment-rebate-and-vamil-arbitrary-depreciation-environmental-investments>]

⁷⁶ Netherlands Enterprise Agency, *MIA/VAMIL 2014*, [Accessed: 24/06/2014 <http://www.rvo.nl/sites/default/files/2013/12/BrochureMilieulijst%202014.pdf>]

⁷⁷ www.ey.com: the Worldwide Ernst and Young Personal Tax Guide.

⁷⁸ Netherlands Tax and Customs Administration http://www.belastingdienst.nl/wps/wcm/connect/bldcontentnl/belastingdienst/zakelijk/winst/inkomstenbelasting/inkomstenbelasting_voor_ondernemers/objectieve_vrijstellingen/landbouwwijstelling

⁷⁹ Maxius, Art. 3.12 *Landbouwwijstelling*, *Wet inkomstenbelasting 2001*. <http://maxius.nl/wet-inkomstenbelasting-2001/hoofdstuk3/afdeling3.2/paragraaf3.2.2>, Van der Veen, H., Van der Meulen, H., Van Bommel, K. & Doornewert, B. (2007). *Exploring Agricultural Taxation in Europe*. Report for the Agricultural Economics Research Institute (LEI).

⁸⁰ Van der Veen, H., Van der Meulen, H., Van Bommel, K. & Doornewert, B. (2007). *Exploring Agricultural Taxation in Europe*. Report for the Agricultural Economics Research Institute (LEI).

In the Netherlands there are no specific inheritance tax exemptions for agriculture. However, individuals can benefit from certain exemptions based on the degree of their relationship to the deceased which could apply in the case of inheriting a family farm. Under existing regulations, a fixed amount of the value of the estate is exempt from inheritance tax, and this amount differs based on whether one is the partner, child, parent, etc. of the deceased. In addition, the degree of relationship to the deceased also determines the percentage rate of the inheritance tax.⁸¹ Inheritance tax relief is also available in certain cases when family businesses are transferred and farmers may avail of this. The heir must continue to run the business for a period of five years for this relief to stand.⁸² Under the measure in the Netherlands, a 100% relief from inheritance tax is received for going concern values up to €1,045,611; an 83% relief is received for values exceeding this figure.⁸³

Income Averaging

The Netherlands has an income averaging system, but this is a general relief and is not restricted to farmers or agricultural producers. Under the income averaging system (or *Middelning*), income is averaged over a three-year period, and then the standard tax rates are applied to each average year. If the positive difference between total tax paid over the period and the tax calculated using the averaging system exceeds €545, a refund will be given for the excess.⁸⁴

Other Agri-tax Measures

Farmers in the Netherlands have the choice to not account for VAT under the *Landbouwregeling* (Agriculture Arrangement).⁸⁵ Under this arrangement, farmers do not charge VAT. However, in such cases farmers cannot reclaim VAT. If farmers opt in to a normal VAT regime, they can, however, avail of a reduced VAT rate of 6% on many agricultural products.⁸⁶ Gas and oil used for heating in the growth of horticulture products are also eligible for the 6% VAT rate.⁸⁷ In addition, the lower VAT rate of 6% also applies to floriculture products such as bulbs and plants.⁸⁸ If a natural gas connection is not available, farmers who use liquefied petroleum gas (LPG) for heating in the growth

⁸¹ Netherlands Tax and Customs Administration, http://www.belastingdienst.nl/wps/wcm/connect/bldcontentnl/belastingdienst/privere/relatie_familie_en_gezondheid/erven/erfenis_krijgen/hoeveel_erfbelasting_moet_u_betalen/

⁸² Copenhagen Economics, *Attachment: Survey of the Domestic Rules on Taxes Levied Upon Death*, Study Commissioned by European Commission http://ec.europa.eu/taxation_customs/resources/documents/common/consultations/tax/2010/08/inheritance_taxes_report_2010_08_26_attachment_en.pdf

⁸³ Netherlands Tax and Customs Administration, *Erf- en schenkbelasting en de bedrijfsopvolgingsregeling*. [Accessed 30/06/2014 http://download.belastingdienst.nl/belastingdienst/docs/erf_schenkbel_bedrijfsopvolgingsreg_2014_suc0351z41fd.pdf]

⁸⁴ Netherlands Tax and Customs Administration, [Accessed: 30/06/2014 http://www.belastingdienst.nl/wps/wcm/connect/bldcontentnl/belastingdienst/privere/werk_en_inkomen/bijzondere_situaties/middelning_sterk_wisselende_inkomens/belasting-teruggaaf_berekenen/]

⁸⁵ Netherlands Tax and Customs Administration http://www.belastingdienst.nl/wps/wcm/connect/bldcontentnl/belastingdienst/zakelijk/btw/bijzondere_regelingen/landbouwregeling/landbouwregeling

⁸⁶ http://www.belastingdienst.nl/wps/wcm/connect/bldcontentnl/belastingdienst/zakelijk/btw/tarieven_en_vrijstellingen/goederen_6_btw/agrarische_goederen/agrarische_goederen

⁸⁷ Netherlands Tax and Customs Administration, http://www.belastingdienst.nl/wps/wcm/connect/bldcontentnl/belastingdienst/zakelijk/btw/tarieven_en_vrijstellingen/goederen_6_btw/gas_en_mineraleolie_voor_de_tuinbouw

⁸⁸ Netherlands Tax and Customs Administration, http://www.belastingdienst.nl/wps/wcm/connect/bldcontentnl/belastingdienst/zakelijk/btw/tarieven_en_vrijstellingen/goederen_6_btw/agrarische_goederen/sierteeltproducten/sierteeltproducten

of horticulture products can benefit from a refund on the excise duty which would normally be due.⁸⁹

In the Netherlands a difference in taxation between white diesel used by vehicles on public roads, and red diesel used for heating and agricultural tractors used to exist.⁹⁰ However, this measure was repealed in 2013 and the Netherlands no longer differentiates between red diesel and white diesel.⁹¹ While many countries provide such differential taxation such reliefs inevitably raise issues concerning compliance and the possibility for criminal activity as well as environmental issues. These have to be weighed against cost criminal challenges and inevitable competition between producers in different countries.

Income derived from forests is exempt from income tax.⁹²

2.4 Agri-tax Measures in France

In France, the taxation system allows for three separate ways of calculating the taxable base for farmers as follows:⁹³ (1) *Régime du Forfait Collectif*: (valuation method) this method is a simple way of determining profit and is applicable for farmers with an average annual turnover of less than €76,300.⁹⁴ Under this method, the taxable profit is calculated based on a fixed profit per hectare which can vary by region and type of agriculture, and a farm-specific profit calculated based on land, crop quantity, livestock etc.⁹⁵ This is an optional calculation method for qualifying farmers. (2) *Régime Réel Simplifié*: this method is based on accounts and is available for farmers with an average annual turnover of less than €350,000. The calculation is based on profits but certain aspects are simplified allowing for reduced administrative burden throughout the year.⁹⁶ (3) *Régime Réel Normal*: calculation based on real profits. This calculation method is compulsory for farmers with average annual turnover over €350,000. Farmers who apply for other calculation methods can also opt into this method.⁹⁷

Capital Allowances

In France, agricultural materials, equipment and buildings are depreciated in the same way as for other businesses. However, accelerated depreciation is available for some specific agricultural items such as chicken coops, pigsties, vines and racehorses. Capital allowances additionally exist for

⁸⁹ Netherlands Tax and Customs Administration, http://download.belastingdienst.nl/douane/docs/toelichting_teruggaaf_acc-cijns_acc0701t4fd.pdf

⁹⁰ Van der Veen, H., Van der Meulen, H., Van Bommel, K. & Doornewert, B. (2007). Exploring Agricultural Taxation in Europe. Report for the Agricultural Economics Research Institute (LEI).

⁹¹ Netherlands Tax and Customs Administration, http://download.belastingdienst.nl/douane/docs/nieuwsbrief_rode_diesel_acc1121z1fd.pdf

⁹² Netherlands Tax and Customs Administration, http://www.belastingdienst.nl/wps/wcm/connect/bldcontentnl/belastingdienst/zakelijk/winst/inkomstenbelasting/inkomstenbelasting_voor_ondernemers/objectieve_vrijstellingen/bosbouwvrijstelling

⁹³ Code Général des Impôts, Article 69. [Accessed: 01/07/14 <http://www.legifrance.gouv.fr/affichCodeArticle.do?idArticle=LEGIARTI000006314503&cidTexte=LEGITEXT000006069577&dateTexte=20060101&fastPos=1&fastReqId=121667770&oldAction=rechCodeArticle>]

⁹⁴ The average annual turnover is calculated based on the previous two years.

⁹⁵ Bulletin Officiel des Finances Publiques – Impôts. [Accessed 01/07/14 <http://bofip.impots.gouv.fr/bofip/3554-PGP>]

⁹⁶ Bulletin Officiel des Finances Publiques – Impôts. [Accessed 01/07/14 <http://bofip.impots.gouv.fr/bofip/3545-PGP>]

⁹⁷ Impots.gouv.fr [Accessed: 01/07/14 http://www.impots.gouv.fr/portal/dgi/public/popup.jsessionid=YMPI2E11E4XNQFIEIP-SFFI?typePage=cpr02&sfid=50&communaute=2&espld=2&impot=BA&docOid=documentstandard_628&temNvlPopUp=true]

materials which are energy-efficient, which produce renewable energy and farmers and other businesses can avail of these capital allowances for purchases made prior to 2011.⁹⁸

Stock Relief

One of the measures which applies for individuals using the simplified accounting method is that stocks can be valued using a fixed method.⁹⁹ The value of stocks at the end of the fiscal year is then reduced by 20% prior to inclusion in the taxable base. The reduction increases to 30% in the case of cattle or wine products. In addition, the positive variation in the price of stocks throughout the course of the year is capped at 20% for the purposes of calculating stock value.¹⁰⁰

Capital Gains Tax

In France, there is a distinction between short-term and long-term capital gains tax. Short-term capital gains are taxed as income. Capital gains are deemed to be short-term when they concern the transfer of goods which were acquired less than two years before the transfer or within the amortisation period of the goods.¹⁰¹ Long-term capital gains are taxed at a fixed rate of 16%.¹⁰² Long-term capital gains tax is in addition to social contributions¹⁰³ (equal to 15.5% at present).¹⁰⁴

The French system includes some exemptions from capital gains tax for small businesses of a commercial, industrial, artisan or agricultural nature which have been in operation for at least five years. The exemption is determined based on the average annual turnover of the business, calculated over two years:¹⁰⁵ *Turnover* < €250,000: All capital gains are exempt; €250,000 < *Turnover* < €350,000: capital gains are partially exempt from tax. In this case, the proportion of total capital gain which is exempt from tax is calculated by subtracting total turnover from 350,000 and then dividing by 100,000; *Turnover* > €350,000: No exemption from capital gains tax.

Another exemption which applies to industrial, commercial and agricultural businesses is retirement relief from capital gains tax; the capital gains received by a farmer upon transfer of their farm due to retirement are exempt from capital gains tax as long as the annual turnover of the farm is less than €50 million or the farm balance sheet is less than €43 million and the business employs fewer than 250 employees. In addition, the business must have been active for the previous five years.¹⁰⁶

⁹⁸ Bulletin Officiel des Finances Publiques – Impôts. [Accessed 01/07/14 http://bofip.impots.gouv.fr/bofip/3991-PGP.html#3991-PGP_La_duree_damortissement_des_0107]

⁹⁹ Code Général des Impôts, Article 74. [Accessed: 01/07/14 http://www.legifrance.gouv.fr/affichCodeArticle.do?jsessionid=9407B0BAEB8CE53E01DEC32AC7940072.tpdjo01v_3?cidTexte=LEGITEXT000006069577&idArticle=LEGIARTI000006302511&dateTexte=&categorieLien=cid]

¹⁰⁰ Code Général des Impôts, Article 38 sexies JC. [Accessed: 01/07/14 <http://www.legifrance.gouv.fr/affichCodeArticle.do?idArticle=LEGIARTI000006296614&cidTexte=LEGITEXT000006069574&dateTexte=20020331&categorieLien=id>]

¹⁰¹ APCE, *Imposition des plus-values professionnelles*. [<http://www.apce.com/pid10614/imposition-des-plus-values.html?espace=3>]

¹⁰² Code Général des Impôts, Article 39 quinquies. [<http://www.legifrance.gouv.fr/affichCodeArticle.do?idArticle=LEGIARTI000006307715&cidTexte=LEGITEXT000006069577&dateTexte=20000331&fastPos=1&fastReqId=1013493356&oldAction=rechCodeArticle>]

¹⁰³ Bulletin Officiel des Finances Publiques – Impôts. [Accessed 02/07/14 <http://bofip.impots.gouv.fr/bofip/6598-PGP.html>]

¹⁰⁴ Impots.gouv.fr [Accessed: 02/07/14 <http://www.impots.gouv.fr/portal/dgi/public/popup?jsessionid=2EIFW3O3ANDJDQFIEIQCFEY?typePage=cpr02&sfid=501&espld=1&communaute=1&impot=CS&temNvlPopUp=true>]

¹⁰⁵ Code Général des Impôts, Article 151 Septies. [Accessed 20/06/14 <http://www.legifrance.gouv.fr/affichCodeArticle.do?cidTexte=LEGITEXT000006069577&idArticle=LEGIARTI000006307428&dateTexte=&categorieLien=cid>]

¹⁰⁶ Code Général des Impôts, Article 151 Septies A. [Accessed 02/07/14 <http://www.legifrance.gouv.fr/affichCodeArticle.do?idArticle=LEGIARTI000020216057&cidTexte=LEGITEXT000006069577&dateTexte=20111230&fastPos=6&fastReqId=564269474&oldAction=rechCodeArticle>]

2.4.1 Capital Acquisitions Tax Measures

There are no specific inheritance tax measures related to agriculture in France. All individuals in France can, however, avail of the following exemptions:¹⁰⁷ Spouses or civil partners can claim a full exemption from inheritance tax. Brothers and sisters living under the same roof can claim a full exemption from inheritance tax (under certain conditions). Other close family members can claim partial exemptions from inheritance tax. Partial exemptions on inheritance and gift tax exist for individuals who inherit agricultural property on long-term lease. If the value of the property is less than €101,897, 75% of the value is exempt from inheritance tax. If the value of the property exceeds €101,897, the exemption on the excess falls to 50%, i.e., the heir is taxed on 25% of the value less than €101,897 and 50% of the exceeding value.¹⁰⁸ The exemption on inheritance tax for long-term leases is subject to certain conditions; one of these conditions is that the property must remain in the heir's possession for five years following the transfer. Similarly, capital acquisitions tax is payable on 25% only of the value of woodlands or forests when received as an inheritance or a gift under certain conditions.¹⁰⁹

Stamp Duty Measures

Young farmers in France benefit from a lower rate of stamp duty tax of 0.7% on purchases in rural regeneration zones if they are in receipt of the young farmers grant.¹¹⁰ Certain conditions apply to this, for example, the reduced rate only applies on purchase values up to €99,000.¹¹¹ An alternate scheme exists for farmers who wish to purchase land which they have been renting for at least two years. These farmers benefit from the reduced rate of stamp duty tax of 0.7% conditional on making a commitment to farm the land for a period of five years after purchase.¹¹² There are a number of other exemptions to purchase tax on agricultural land in France. The *Société d'aménagement foncier et d'établissement rural* (SAFER) organisations are charged with revitalising agriculture, aiding young farmers, protecting the environment and supporting the local economy.¹¹³ All transactions facilitated by SAFER organisations are exempt from purchase tax as long as the property is maintained as an agricultural property for 10 years following the transfer.¹¹⁴

2.4.2 Income Averaging

A number of schemes assist in income averaging for farmers in France.

Firstly, there is a measure to cap total tax to be paid in the case where income for the year is particularly high. This measure only applies to farmers taxed under a “real income” method of

¹⁰⁷ Impots.gouv.fr [Accessed 03/07/14 http://www.impots.gouv.fr/portal/dgi/public/popup?espld=1&typePage=cpr02&docOid=documentstandard_364]

¹⁰⁸ Bulletin Officiel des Finances Publiques – Impôts. [Accessed 04/07/14 <http://bofip.impots.gouv.fr/bofip/2236-PGP.html>]

¹⁰⁹ Bulletin Officiel des Finances Publiques – Impôts. [Accessed 04/07/14 <http://bofip.impots.gouv.fr/bofip/2237-PGP>]

¹¹⁰ Code Général des Impôts, Article 1594 quinquies E.I [Accessed 04/07/14 <http://www.legifrance.gouv.fr/affichCodeArticle.do?idArticle=LEGIARTI000024394999&cidTexte=LEGITEXT000006069577&categorieLien=id&dateTexte=20110724>]

¹¹¹ Bulletin Officiel des Finances Publiques – Impôts. [Accessed 04/07/14 <http://bofip.impots.gouv.fr/bofip/3116-PGP.html>]

¹¹² Code Général des Impôts, Article 1594 quinquies E.I [Accessed 04/07/14 <http://www.legifrance.gouv.fr/affichCodeArticle.do?idArticle=LEGIARTI000024394999&cidTexte=LEGITEXT000006069577&categorieLien=id&dateTexte=20110724>]

¹¹³ SAFER, [Accessed 04/07/14 <http://www.safer.fr/missions-safer.asp>]

¹¹⁴ Bulletin Officiel des Finances Publiques – Impôts. [Accessed 04/07/14 <http://bofip.impots.gouv.fr/bofip/3297-PGP>]

taxation. In this case, the tax to be paid can be calculated in two ways. Average:¹¹⁵ In this case, taxable income is calculated as an average of current income and income for the preceding two years. This measure is not restricted to averaging of exceptional income. This averaging system is applied for a period of five years, after which it can be renewed. Quotient:¹¹⁶ In the case of “exceptional income”, i.e., income which exceeds €25,000 and is at least 50% greater than the average income over the preceding three years, the excess can be distributed evenly across the year and the subsequent 6 years. This reduces the tax burden in the year of exceptional income and allows for smoothing. An example of exceptional income is the case when livestock has been disposed of due to public health or environmental reasons. In this case, the difference between the allowance received and the value of the stocks can be attributed using the quotient system. The quotient system of averaging in years of exceptional income can be combined with the average system described previously.

Secondly, an interesting bank deposit based risk measure in France is known as the *Déduction pour Aleas* (DPA). This is a risk reserve which could be considered as a form of income averaging. The DPA can only be exercised by a farmer (or an agricultural partnership) taxed under a “real income” method of taxation. Under the DPA, farmers are allowed a deduction for risk; an amount equal to 50% of the deduction must be entered into a specific savings account with a credit institution within six months of the deduction being exercised.¹¹⁷ These savings are tax deductible and thus reduce the burden on profits. The deduction can, however, only be used to: purchase fodder in the case of agricultural disaster in the surrounding area; cover insurance premiums against property damage; cover expenditure in the case of fire or damage to crops or insured livestock; cover expenditure due to uninsured risk (such as due to climate or sanitary reasons); and address economic risk, in the case where the difference in value added between the three previous years and the current year is greater than 10%. The remainder of the deduction must be reintegrated into the results of the seventh year after the deduction was practiced. If the deduction remains unused, it is taxed and a late payment interest rate is applied to the deduction. Because of the specific risk related features of this measure Indecon’s opinion is that an Irish version of this scheme may be comparable with State Aid provision while a more general deposit scheme would be likely to breach State Aid rules.

An additional condition has also been instituted in order to facilitate this measure. Farmers that identify an increase in the value of their stock of fodder can reduce the savings needed to be placed in a specific bank account. For example, if a farmer observes an increase in the value of their fodder stock between the moment when they exercise the deduction and inside the six months where they must place the savings into a specific bank account, they can reduce the savings needed by the amount of the increase in value.

2.4.3 Other Agri-tax Measures

French tax law also allows for incentives to aid the entry of young farmers. To benefit from these incentives, farmers must be between the ages of 21 and 38, must be under a “real income” taxation method and must also possess agricultural qualifications.¹¹⁸ A young farmer is entitled to a 100% reduction on income tax in the first year of farming (installation). For the subsequent four years, young farmers receive an income tax reduction of 50%. This tax allowance is only applicable to

¹¹⁵ Bulletin Officiel des Finances Publiques – Impôts. [Accessed 19/06/14 <http://bofip.impots.gouv.fr/bofip/2737-PGP>]

¹¹⁶ Bulletin Officiel des Finances Publiques – Impôts. [Accessed 19/06/14 <http://bofip.impots.gouv.fr/bofip/2765-PGP>]

¹¹⁷ Bulletin Officiel des Finances Publiques – Impôts. [Accessed 19/06/14 <http://bofip.impots.gouv.fr/bofip/2741-PGP>]

¹¹⁸ Bulletin Officiel des Finances Publiques – Impôts. [Accessed 19/06/14 <http://bofip.impots.gouv.fr/bofip/3113-PGP>]

young farmers who receive the DJA grant or the MTS grant. (Note that the 100% tax reduction in the first year does not apply to recipients of the MTS grant; farmers receiving the MTS grant are instead entitled to a 50% reduction in income tax for five years).

In addition, a 50% relief from property tax exists for young farmers in the first five years after installation. As above, the farmer must be in receipt of either the DJA grant or the MTS grant.¹¹⁹

There are also a number of minor tax reliefs in France which benefit the agricultural sector. These include a tax credit for farm personnel replacements. Farmers working on farms which require a daily presence are eligible for a tax credit if they wish to find a short-term replacement while on leave. This credit is equal to 50% of the costs of the replacement.¹²⁰ There is also a tax credit for organic production. Farms which derive at least 40% of their income from organic production can benefit from a tax credit of €2,500 in each of the years between 2011 and 2014.¹²¹

There is a lower excise duty on diesel for agricultural purposes.¹²² As noted earlier such differential excise duties exist in a number of Member States.

Agricultural VAT in France is treated in two separate ways. Some farmers are subject to the RF (*régime forfaitaire*), which means that they do not have to pay VAT and are not required to undertake the usual administrative work associated with VAT returns.¹²³ Farmers may only opt into this scheme if their average income before VAT, calculated on a three-year basis, is less than €46,000. Under this scheme, farmers do not pay or charge VAT and therefore do not reclaim VAT. However, a fixed rate of reimbursement exists. This reimbursement is set at 5.59% for sales of milk, barnyard animals, eggs, animals raised for meat and certain types of cereals.¹²⁴ For all other products, the reimbursement rate is 4.43%. Farmers with an average income equal to or greater than €46,000 are subject to the RSA (*régime simplifié agricole*). Under this system, VAT can be accounted for in monthly or quarterly instalments. At the end of the year, if VAT paid exceeds VAT charged, the farmer is eligible for a VAT refund. However, if VAT charged exceeds VAT paid, the farmer must repay the difference.¹²⁵ In addition, some agricultural products are subject to a lower rate of VAT. Standard VAT is 19.6% in France.¹²⁶ Some agricultural products are subject to a lower rate of 7% VAT, while other agricultural products destined for human consumption are subject to an even lower rate of 5.5%.¹²⁷ Other agricultural products, such as feed destined for animal consumption, are subject to VAT at 10%.¹²⁸

¹¹⁹ Bulletin Officiel des Finances Publiques – Impôts. [Accessed 19/06/14 http://www.impots.gouv.fr/portal/dgi/public/popup?es-pId=0&typePage=cpr02&docOid=documentstandard_1207]

¹²⁰ Bulletin Officiel des Finances Publiques – Impôts. [Accessed 04/07/14 <http://bofip.impots.gouv.fr/bofip/1580-PGP>]

¹²¹ Bulletin Officiel des Finances Publiques – Impôts. [Accessed 04/07/14 <http://bofip.impots.gouv.fr/bofip/1585-PGP>]

¹²² Douane.gouv.fr. [Accessed 04/07/14 <http://www.douane.gouv.fr/articles/a10990-exoneration-reduction-et-franchise-de-la-taxe-interieure-de-consommation-tic>]

¹²³ Code Général des Impôts, Article 298 bis [Accessed 07/07/14 <http://www.legifrance.gouv.fr/affichCodeArticle.do?idArticle=LE-GIARTI000023371329&cidTexte=LEGITEXT000006069577&dateTexte=20120101&oldAction=rechCodeArticle>]

¹²⁴ Code Général des Impôts, Article 298 quater [Accessed 07/07/14 http://www.legifrance.gouv.fr/affichCodeArticle.do?jsessionid=8CE10A0B7FC4CF11B8766583D0FABA77.tpdjo09v_1?cidTexte=LEGITEXT000006069577&idArticle=LE-GIARTI000006309628&dateTexte=&categorieLien=cid]

¹²⁵ Van der Veen, H., Van der Meulen, H., Van Bommel, K. & Doornewert, B. (2007). Exploring Agricultural Taxation in Europe. Report for the Agricultural Economics Research Institute (LEI).

¹²⁶ Bulletin Officiel des Finances Publiques – Impôts. [Accessed 07/07/14 <http://bofip.impots.gouv.fr/bofip/1376-PGP>]

¹²⁷ Bulletin Officiel des Finances Publiques – Impôts. [Accessed 07/07/14 <http://bofip.impots.gouv.fr/bofip/273-PGP>]

¹²⁸ Bulletin Officiel des Finances Publiques – Impôts. [Accessed 07/07/14 <http://bofip.impots.gouv.fr/bofip/944-PGP>]

2.5 Agri-tax Measures in Other Countries

2.5.1 Australia

As part of our review we also examined some innovative approaches to responding to income volatility in farming in Australia and New Zealand. While we believe these would not be compatible with EU State Aid rules we refer to these as they were highlighted during our consultation process.

Income Averaging and Farm Deposit Scheme in Australia

In Australia, the income averaging scheme allows primary producers to pay tax at a rate based on their average income earned over the previous five years. Where the tax payer has not used this facility for five years, the rate is based on the income years in which averaging has applied, and the previous year.¹²⁹ Primary producers can withdraw from the averaging system, but this decision cannot be repealed at a later date.

Farm Management Deposit Scheme

One initiative in Australia which assists income averaging is the Farm Management Deposit (FMD) Scheme. This came into effect on 1 January 1999, and provides tax incentives for farmers to set aside income in good years in order to better withstand bad years financially. Deposits into a savings account reduce the tax burden in one year and tax is only paid on sums withdrawn from the account. The scheme is a form of income averaging as taxes are proportional to income which may vary from year to year. The scheme is only available to primary producers and applies only to earnings from primary production. In addition, the scheme is only open to individuals – companies or other entities are not eligible.¹³⁰ Farmers earning off-farm taxable income of more than AUS \$65,000¹³¹ in the year of the deposit are not eligible for the tax benefits of the scheme. This level was raised to AUS \$100,000 in 2014.

¹²⁹ Australian Treasury (2013) Tax Expenditures Statement - <http://www.treasury.gov.au/~media/Treasury/Publications%20and%20Media/Publications/2014/TES%202013/Documents/PDF/TES-13-Consolidated.ashx>

¹³⁰ <https://www.ato.gov.au/Business/Deductions-for-business/In-detail/Other-deductions/Farm-management-deposits-scheme/>

¹³¹ €44,738 using Irish Times Exchange Rate for 07/07/2014.

The minimum period under which an account is to be held is 12 months and the minimum deposit (or withdrawal) is AU\$ 1,000.¹³² There is a cap on the maximum amount in an account of AU\$ 400,000.¹³³ The deposit accounts are managed by financial institutions including banks, credit unions and building societies. The FMD scheme replaced the Income Equalisation Deposits and Farm Management Bonds schemes. A 2012 report which assessed the effectiveness of the scheme argued for temporarily increasing the threshold on income from non-primary production activities from AU\$65,000 to AU \$100,000¹³⁴ and phasing it out by 2020.¹³⁵ The scheme is estimated to have cost the Australian Exchequer approximately €112 million in 2013/14.

2.5.2 New Zealand

Income Averaging and Income Equalisation Deposit Account in New Zealand

The income equalisation scheme in New Zealand enables farmers who are taxpayers to spread their gross income from year to year, thereby smoothing out fluctuations in income.¹³⁶

Three types of income equalisation options are¹³⁷ available: the *main income equalisation scheme*, which applies to farmers, fishers, foresters; the *adverse event income equalisation scheme*, which applies to farmers who sell livestock and do not replace it due to an adverse event; and the *thinning operations income equalisation scheme*, which applies to businesses with forestry operations and derives income from carrying out thinning operations on the land.

The income equalisation scheme works in a similar manner to a savings account, whereby farmers make deposits to an income equalisation account, where deposits are held for a maximum of five years and the minimum deposit period is 12 months, however in certain circumstances a refund can be made.¹³⁸ The minimum deposit required is NZ\$200,^{139,140} which is considerably less than the minimum deposit required in Australia. Refunds are also granted after six months if that refund is required to undertake planned development or maintenance work or purchase livestock, at the discretion of the Revenue Commission. Refunds are automatic in the event of bankruptcy or retirement of the taxpayer, or liquidation of the farming business.¹⁴¹ Interest is earned on deposits and is receivable only after the deposit has been in the account for one year. The current rate is 3% and the interest income is assessable as income in the year the deposit is refunded.¹⁴² A taxpayer cannot make a deposit and a withdrawal in the same tax year.

¹³² €688 using Irish Times Exchange Rate for 07/07/2014.

¹³³ €275,311 using Irish Times Exchange Rate for 07/07/2014.

¹³⁴ €68,828 using Irish Times Exchange Rate for 07/07/2014.

¹³⁵ National Rural Advisory Council (2012) 'Report on the effectiveness of the Farm Management Deposits Scheme'

<http://www.daff.gov.au/agriculture-food/drought/nrac/work-program/effectiveness-farm-management-deposits-scheme>

¹³⁶ <http://www.ird.govt.nz/business-income-tax/income-equalisation/>

¹³⁷ <http://www.legislation.govt.nz/act/public/2007/0097/latest/DLM1514810.html>

¹³⁸ New Zealand Inland Revenue [Accessed 09/07/14 <http://www.ird.govt.nz/taxagents/taxtechnical/income-equalisation/how-it-works/>]

¹³⁹ <http://www.ird.govt.nz/taxagents/taxtechnical/income-equalisation/deposits/>

¹⁴⁰ €130 using Irish Times Exchange Rate 09/07/14.

¹⁴¹ http://www.cuffs.co.nz/free_stuff/other_resources/income_equalisation_deposits

¹⁴² Ibid

Discretionary relief in the income equalisation scheme exists for adverse events such as PSA¹⁴³ in orchards, such that many orchardists are now eligible. Orchardists are permitted early withdrawal of deposits in the event of an adverse event. A similar provision exists for farmers in the North Island and West Coast region affected by drought.¹⁴⁴ It has been reported that the income equalisation scheme in New Zealand is not used as widely as it was previously.¹⁴⁵

The adverse event income equalisation scheme also caters for adverse events – for example it allows the deferral of income tax on additional income which is generated by the forced sale of livestock from the year of sale to the next income year.¹⁴⁶ In these circumstances the income arising from the forced livestock sale can be included as a deposit in an income equalisation account. There is an increased interest rate of 6.5% for deposits of this nature and the deposit may only remain in the adverse event income equalisation scheme for 12 months. If the deposit has not been withdrawn within that period, it is transferred to the standard income equalisation scheme. A refund from the adverse event income equalisation scheme may be drawn at any time within the 12-month period.

Another type of income equalisation scheme exists for income derived from the sale of timber. In these circumstances, the income can be allocated to the year in which income is derived and to any of the preceding three years. This is known as the “spreading backward of income from timber”.¹⁴⁷ In this case, any deductions for cost of timber must be allocated to the years in which the income has been spread.¹⁴⁸

Conclusions

Our review of agri-tax measures in other countries has demonstrated that a number of other EU Member States have particular reliefs available to the farming sector and to young farmers. In the UK some specific reliefs for agriculture such as targeted capital allowances scheme or sector specific confidential gains tax reliefs as exists for farming in Ireland are not available but the sector can benefit from a number of generous reliefs available to all SME's. There are however specific capital inheritance tax reliefs available for working farmers. Farmers in the UK do not have access to specific stamp duty reliefs but are entitled to income averaging measures.

In the Netherlands there are no specific capital allowances reliefs available only to the agricultural sector but there are a range of depreciation options available to all businesses and there is an accelerated capital allowances available for essentially farming equipment. There are also specific capital gains tax exemptions for agriculture but only where it is used as agricultural land. There are no specific income averaging reliefs for agriculture but farmers may benefit from a general business relief in this area.

In France there is a range of agri-tax reliefs concerning many of the areas available to Irish farmers or where no such sector specific reliefs are permitted farmers can benefit from wider SME reliefs.

¹⁴³ *Pseudomonas syringae* pv. *actinidiae* (PSA) is a bacterial disease of kiwifruit vines, first identified on New Zealand kiwifruit orchards in November 2010. <http://www.nrc.govt.nz/Environment/Weed-and-pest-control/Kiwifruit-Psa/>

¹⁴⁴ New Zealand Inland Revenue, [Accessed: 09/07/14 <http://www.ird.govt.nz/taxagents/taxtechnical/income-equalisation/discretionary-relief/>]

¹⁴⁵ http://www.cuffs.co.nz/free_stuff/other_resources/income_equalisation_deposits

¹⁴⁶ New Zealand Inland Revenue, [Accessed: 09/07/14 <http://www.ird.govt.nz/taxagents/taxtechnical/income-equalisation/adverse-events/>]

¹⁴⁷ Income Tax Act 2007 – Subpart EI Spreading of Specific Income. [Accessed: 08/07/14 <http://www.legislation.govt.nz/act/public/2007/0097/latest/DLM1515056.html>]

¹⁴⁸ Income Tax Act 2007 – Subpart EJ Spreading of Specific Expenditure. [Accessed: 08/07/14 <http://www.legislation.govt.nz/act/public/2007/0097/latest/DLM1515086.html>]

One area where France has a specific agri-tax relief not available in Ireland is deposit based risk relief measure. While more wider versions of such reliefs are available in New Zealand and Australia we believe that only a targeted risk measure would be permitted under EU State Aid rules.

A review of agri-tax measures in Ireland is presented in a subsequent chapter. Compared to other countries, Ireland has more sector specific agri-tax reliefs. However, in a number of other countries, tax reliefs available to all businesses or to SMEs may have similar benefits for farmers. In Ireland, specific agri-tax reliefs include capital allowances, stock relief, retirement relief, capital acquisitions tax measures, stamp duty reductions, income averaging measures and other tax reliefs.

3 Review of Capital Allowances

3.1 Description of Reliefs

Capital allowances are one of the income tax measures available to the Irish farming sector. Capital allowances are granted in lieu of a deduction for depreciation and are available in respect of certain qualifying expenditure incurred in the provision of certain assets in use for the purposes of a trade or rental business. These measures allow the write off of the cost of an asset over time. Two types of sector specific capital allowances are applicable to the primary agriculture sector as described below. In addition farmers are eligible to claim tax relief on investments in plant and machinery.

Capital Allowance for Farm Buildings and Other Works

For persons liable for tax on their farming profits, an allowance for capital expenditure on the construction of farm buildings is available. This includes farm buildings,¹⁴⁹ fences, farm roadways, holding yards, drains, land reclamation and other ancillary works,¹⁵⁰ as a relief against income tax over a seven-year period for capital expenditure. The rate of the farm buildings capital allowance is 15% of the capital expenditure for each of the first six years of the seven-year period with the balancing 10%, allowed in Year 7. For expenditure that relates only in part to farming purposes, the allowances only apply to the part that related to the farming trade. Farm building allowances do not apply if the expenditure qualifies for an industrial building.¹⁵¹ Our estimates of tax costs, however, include any allowances claimed by farmers on industrial buildings.

Capital Allowance for Milk Quota Purchase

An allowance is available for capital expenditure incurred on the purchase of a milk quota under the National Milk Quota Restructuring Scheme which was introduced by the Minister for Agriculture and Food from 1 April 2000 or any other milk quota purchased after that date. The allowances are granted on a straight line basis over a seven-year period. This expenditure can be written off and the allowance is available over a seven year period at the rate of 15% per annum over six years and 10% in Year 7. In the case of commencements and cessations, the allowance is reduced accordingly. EU quotas on milk production are due to expire in 2015.¹⁵² There is no separate data available on the costs of such allowances but they are included in overall capital allowances figures claimed by farmers but are likely to be a small element of the total.

¹⁴⁹ Excluding dwelling house.

¹⁵⁰ Walls, water and electrical installation.

¹⁵¹ Notes for Guidance – Tax Consolidation Act 1997, Department of Finance/Revenue Commissioners.

¹⁵² Descriptions of the various agri-tax measures available in Ireland are for the most part taken from material from the Department of Agriculture, Food and Marine and the Department of Finance/Revenue Commissioners.

3.2 Discussion of Estimated Costs

The overall aggregate tax cost of the two main capital allowances namely, combined cost of allowances on industrial buildings including farm buildings and the costs of allowances on plant and equipment are shown in Table 3.1. These indicate that in 2011, the tax cost of capital allowances claimed by farmers was around €192 million.

Table 3.1: Agri-tax Measures –Estimates of Tax Cost on Buildings and Plant and Equipment Claimed by Farmers – Capital Allowances	
	Available Estimate of Tax Cost (Revenue Data) – € Million
Capital Allowance on Buildings and Plant and Equipment	
2008	265.10
2009	244.40
2010	235.00
2011	192.00
Source: Indecon Analysis of Data from the Revenue Commissioners Note: Revenue data on combined estimated tax costs of all capital allowances claimed by farmers under headings (a) Plant & Machinery (includes miscellaneous capital allowances), and (b) Industrial Buildings (includes rental capital allowances). Data currently available to 2011. Note that figures relate only to the estimated tax costs/losses in each year shown and do not include costs related to yet-to-be-claimed reliefs.	

In considering the overall costs and benefits of capital allowances claimed by the farming sector it is also useful to examine separately the tax cost associated with Industrial Buildings as shown in Table 3.2. It must be noted that the cost of the tax measure “capital allowance for farm building and other works” is subsumed within this broader category. This relates to the tax cost of industrial building allowances claimed by farmers but it is possible that some of these allowances may not relate to farm related activities. However, we believe the approach of including the tax costs of all industrial building allowances claimed by farmers is justified. The high cost of these allowances in 2008 may have been influenced by EU requirements for enhanced pollution storage facilities to be established by the end of 2008 under the Nitrates Directive, resulting in a significant level of capital expenditure. However, we believe that high levels of investment will be required in coming years and the tax costs will remain high.

Table 3.2: Agri-tax Measures –Estimates of Tax Cost of Capital Allowances for Industrial Buildings Claimed by Farmers	
	Available Estimate of Tax Cost (Revenue Data) - € Million
Capital Allowance for Industrial Buildings (includes rental capital allowances)	
2008	129.2
2009	111.6
2010	94.1
2011	70.0
Note: Industrial Buildings Capital Allowances includes all claims by farmers and <u>not just specific farm related claims</u>. Write-off periods are 25 years for Industrial Buildings and 7 years for Farm Buildings Source: Indecon Analysis of Data from the Revenue Commissioners	

The other main capital allowance that we consider is allowances for plant and machinery. It must be noted that these allowances are not agriculture specific reliefs and are available to all business. The tax cost of this measure is significant as summarised in Table 3.3. As previously, it must be noted that it is possible that a proportion of this capital allowance claimed by farmers relate to non-farm related activities. Thus, in such cases, the impact on the agriculture sector is likely to be negligible. These allowances also include miscellaneous allowances which are not related to industrial buildings or plant and machinery.

Table 3.3: Agri-tax Measures –Estimates of Tax Cost of – Capital Allowances for Plant & Machinery (includes misc. capital allowances) Claimed by Farmers	
	Available Estimate of Tax Cost (Revenue Data) - € Million
Capital Allowance for Plant & Machinery (includes miscellaneous capital allowances)	
2008	135.9
2009	132.8
2010	140.9
2011	122.0
Note: Plant & Machinery Capital Allowances includes all claims by farmers and not just specific farm related claims. Write-off period is 8 years for Plant & Machinery.	
Source: Indecon Analysis of Data from the Revenue Commissioners	

The various capital allowances claimed by farmers represent a very large annual exchequer cost. It must be noted that Tables 3.2 and 3.3 are a disaggregation of the total capital allowances summarised in Table 3.1.

3.3 Identification of Potential Benefits

One of the objectives of capital allowances is to assist the agricultural sector to help fund necessary investment in farm buildings and plant and machinery. This has the potential benefit of increasing the levels of productivity and output in the Irish agricultural sector.

As part of our research we completed a survey of specialised agricultural consultants to obtain their views on the likely impact on the levels of output of capital allowances claimed. Of particular relevance is that we asked respondents to compare this with the counterfactual where the tax reliefs did not exist, i.e., to take account of what is called deadweight and displacement. The same approach was used in surveying tax advisers/accountants.

The results of the research with agricultural consultants on the impacts of capital allowances are presented in Table 3.4 overleaf. This represents the judgement of agriculture consultants on the likely annual impact on the Irish agricultural sector for every €1m per annum of capital allowances claimed for farm buildings and plant and machinery compared to the position which would have arisen without the reliefs. The results in Table 3.4 indicate that over 78% of agricultural advisers surveyed estimated that for every €1m in capital allowances claimed annual agricultural output would increase by more than €1m and of these over 23% estimated output would increase by more than €3m.

Table 3.4: Agricultural Consultants Estimates of Annual Impact in Agricultural Output for Every €1m in Capital Allowances	
Annual output would increase by more than €3m	23.3%
Annual output would increase by circa €2-3m	28.8%
Annual output would increase by €1m - €2m	26.0%
Annual output would increase by €0.5m - €1m	12.3%
Annual output would increase by less than €0.5m	8.2%
Other Impact/no impact on agricultural output	1.4%
Source: Indecon Survey of Agricultural Consultants/Advisers	

If one assumes a mid-point of between €3m and €4m for those who estimate output would increase by more than €3m this would suggest a value of €3.5m. This may underestimate the impacts but Indecon felt this would be a prudent approach to use. We have also used a similar approach in our review of other agri-tax measures.

Based on the findings in Table 3.4 Indecon has estimated the weighted average results from our survey. This estimate is presented in Table 3.5 and suggests that an estimated impact on agricultural output of €2.04m for every €1m of capital allowances claimed. Subsequent econometric research on the impact on investment on agricultural output provides an indicative alternative validation of the estimates of these benefits. Indecon would, however, recommend ongoing research to examine ways to quantify the impact of such measures.

Table 3.5: Overall Agricultural Consultants Estimate of Impact on Agricultural Output for every €1m in Capital Allowance	
Weighted Average for Agricultural Consultants	€2.04m
Source: Indecon Survey of Agricultural Consultants/Advisers	

It is also useful to examine how these views compare with the estimates derived from Indecon's survey of tax consultants/accountants. The results are presented in Table 3.6. This suggests that over 66% of tax advisers felt that agricultural output would increase by more than €1m for every €1m in capital allowances claimed and of these nearly 24% judged it would increase by more than €3m.

Table 3.6: Tax Advisers/Accountants Estimates of Annual Impact in Agriculture Output for every €1m in Capital Allowance	
Annual output would increase by more than €3m	23.7%
Annual output would increase by circa €2-3m	13.6%
Annual output would increase by €1m - €2m	28.8%
Annual output would increase by €0.5m - €1m	18.6%
Annual output would increase by less than €0.5m	10.2%
Other Impact / no impact on agricultural output	5.1%
Source: Indecon Survey of Agricultural Consultants/Advisers	

Indecon estimated the weighted average of the views of tax advisers/accountants on the impact of capital allowance and this is presented in Table 3.7. This suggests an estimated overall impact of €1.74m. For comparison purposes we also include the weighted average of the combined respondents from both the agricultural consultant and for the tax advisers. This indicates an estimated impact of €1.90m. Indecon uses this figure in our cost-benefit appraisal.

Table 3.7: Tax Advisers/Accountants Estimates of Annual Impact in Agriculture Output for every €1m in Capital Allowance		
Weighted Average from Tax Advisers	Weighted Average for Agricultural Consultants	Overall Average
€1.74m	€2.04m	€1.90m
Source: Indecon Survey of Agricultural Consultants/Advisers		

Other Benefits of Capital Allowances

In addition to estimation of the precise impacts on agricultural output we also considered qualitative judgements of both the agriculture consultants and the tax advisers on whether capital allowances had or did not have any impacts on other areas.

In particular, we considered views on the potential impacts on wider agri-sector objectives including:

- ☐ Land mobility, encouraging and attracting new entrants and earlier lifeline succession/ transfer with families;
- ☐ Smart farming/environmental sustainability; and,
- ☐ Productivity, competitiveness, output and investment.

In Table 3.8 we present the results of our research of both agricultural consultants and of tax advisers on the impact of capital allowances on the policy objectives of land mobility, attraction of new entrants and earlier lifetime succession. This suggests that a majority of those surveyed feel capital allowances have an impact on land mobility, new entrants and earlier lifetime.

Table 3.8: Impact of Capital Allowances on Land Mobility, Encouraging and Attracting New Entrants and Earlier Lifetime Success / transfer within Families					
	Very Significant Positive Impact	Significant Positive Impact	Significant Negative Impact	Very Significant Negative Impact	No Impact
Views of Agricultural Consultants	37.7%	59.0%	1.6%	0.0%	1.6%
Views of Tax Advisers	45.1%	31.4%	0.0%	0.0%	23.5%
Source: Indecon Survey of Agricultural Consultants/Advisers					

In Table 3.9 we present evidence on the views of agricultural consultants and tax advisers on the impact of capital allowances and alternative farming methods, smart farming and environmental sustainability. This shows that most felt the allowances have a positive impact on these key environmental objectives.

Table 3.9: Impact of Capital Allowances on Alternative Farming Methods, Smart Farming and Environmental Sustainability

	Very Significant Positive Impact	Significant Positive Impact	Significant Negative Impact	Very Significant Negative Impact	No Impact
Views of Agricultural Consultants	27.1%	61.0%	0.0%	1.7%	10.2%
Views of Tax Advisers	38.0%	48.0%	2.0%	0.0%	12.0%
Source: Indecon Survey of Agricultural Consultants/Advisers					

An analysis of the impacts of capital allowances on increasing productivity, output and investment is presented in Table 3.10. The views on the significant positive impact evident in the results are consistent with the more quantified estimates of the impacts on agricultural output presented earlier in this section and are also consistent with the findings from our econometric research showing the impact of investment on agricultural output. Indeed the different percentages from Tables 3.8 – 3.10 reinforce the significance of the impact on output and investment of these allowances.

Table 3.10: Impact of Capital Allowances on Increasing Productivity, Output and Investment

	Very Significant Positive Impact	Significant Positive Impact	Significant Negative Impact	Very Significant Negative Impact	No Impact
Views of Agricultural Consultants	62.1%	37.9%	0.0%	0.0%	0.0%
Views of Tax Advisers	50.0%	42.0%	2.0%	0.0	6.0%
Source: Indecon Survey of Agricultural Consultants/Advisers					

The importance of measures including capital allowances in encouraging investment and productivity was highlighted by the respondents to Indecon's primary research. Some illustrative comments on this which reflect such opinions are outlined below:

"Capital allowances are the most cost effective form of tax reliefs as it encourages investment in productive assets which increase output and creates jobs in rural Ireland."

"The income focused reliefs are vital to support and encourage further development and stimulate productivity of the Irish farming sector."

The survey research and the econometric research presented later supports the findings on the impact of investment on output in the sector. Indecon's judgement is that it is likely that the capital allowances on plant and equipment and on farm buildings result in a higher level of investment in the sector than would be economically justified if farmers were not in a position to have any tax allowance for investment in the sector. These potential benefits from the Capital Allowances have, however, to be balanced against the exchequer and wider economic costs involved. This also applies to the other agri-tax measures and this is considered in Section 11 of this report.

4 Review of Stock Relief

4.1 Description of Reliefs

Stock relief is an income tax relief which is only available to farmers. This is given in respect of increases in the value of a farm's trading stock. It is calculated by reference to the increase in value of the trading stock between the beginning and end of an accounting period. The relief takes the form of a deduction, to be allowed in computing the trading profits of an accounting period, of a defined percentage amount of the increase in value of trading stock and work-in-progress at the end of the accounting period over and above the opening value.

There are a number of conditions which apply when claiming stock relief. These are:

- ☐ Unused losses from a previous year are not available subsequently;
- ☐ Unused capital allowances for the year of claim are not available to carry forward to subsequent years;¹⁵³ and
- ☐ Stock relief may not be used to create or augment a loss.

25% General Stock Relief on Income Tax

All farmers are allowed a relief on income tax of 25% on the increase in value of trading stock and work-in-progress at the end of the accounting period over and above the opening value. This long-standing measure was extended in Budget 2013 for a further three-year period until 31 December 2015.

100% Stock Relief on Income Tax for Certain Young Trained Farmers

Young trained farmers who meet minimum academic and training requirement are allowed a relief on income tax of 100% of the increase in value of trading stock and work-in-progress at the end of the accounting period over and above the opening value. The farmer must be less than 35 years of age before the commencement of the accounting year of tax assessment. Young farmers in registered farm partnerships are eligible to claim the 100% stock relief. The enhanced 100% relief is available for up to four years to young farmers qualifying in the period on or before 31 December 2015. From 2013 onwards this relief is subject to an upper limit of €40,000 in any one year and €70,000 over any three years with a requirement to submit a business plan before 31 October in the year following first year of assessment.¹⁵⁴

50% Stock Relief on Income Tax for Registered Farm Partnerships

A new stock relief rate was introduced in 2012 whereby farmers in registered partnerships are allowed a relief on income tax of 50% of the increase in value of trading stock and work-in-progress at the end of the accounting period over and above the opening value, for a four year period from 1 January 2012 up to 31 December 2015. This is available to all other categories of farmers¹⁵⁵ participating in registered farm partnerships.

¹⁵³ Including any capital allowances brought forward and treated as capital allowances for the year of claim.

¹⁵⁴ These additional criteria were introduced as part of EU State Aid requirements.

¹⁵⁵ Those who do not qualify as young trained farmers.

The legal basis for the 50% stock relief was Commission Regulation (EC) 1535/2007 on the application of the EC Treaty to *de minimis* aid in the sector of agricultural production, which states that aid to any individual farmer shall not exceed €7,500 over any three-year period and must comply with the *de minimis* €7,500 rolling three-year limit.

Relief for Stock Transfer due to discontinued Farming Trade

This relief on income tax allows a special method of valuing a farm's trading stock which is transferred to another farmer by a farmer who is ceasing farming. The parties to the transfer have the option of electing to have the trading stock transferred at its book value (instead of at market value) thereby cancelling the profits that would otherwise have arisen to the transferor.¹⁵⁶

4.2 Discussion of Estimated Costs

Our estimates of the tax costs associated with the various stock reliefs are shown in Table 4.1 and indicate that the relief per case was relatively small at around €713 and overall are likely to cost the Exchequer less than €6m per annum. A detailed description of the derivation of the tax cost is provided in the note to the table. Of interest is the low tax cost of the stock relief measure for young trained farmers.

Table 4.1: Agri-tax Measures –Estimates of Tax Cost from Revenue Commissioners Data – Stock Relief	
	Estimate of Tax Cost - € Million
2012	All Claimants
25% General Stock Relief on Income Tax	4.80
100% Stock Relief on Income Tax for Certain Young Trained Farmers	0.90
Relief for Stock Transfer due to discontinued Farming Trade	N/A
Source: Indecon Analysis of Data from the Revenue Commissioners Note: Data available from 2012. Assumed relief data only applies to farmers and therefore same figures for farmers as for all claimants. No Revenue data available for relief for stock transfer due to discontinued farm trading. This relief on income tax allows a special method of valuing a farm's trading stock which is transferred to another farmer by a farmer who is ceasing farming. The parties to the transfer have the option of electing to have the trading stock transferred at its book value (instead of at market value which would be the normal valuation used) thereby cancelling the profits that would otherwise have arisen to the transferor.	

¹⁵⁶ Descriptions of the various agri-tax measures available in Ireland are for the most part taken from the department of Agriculture, Food and Marine and the Department of Finance / Revenue Commissioners.

4.3 Identification of Potential Benefits

As part of our analysis of the potential benefits of various income tax measures available to the farming sector, we consider the views of agriculture consultants and the tax advisers on whether stock relief on income tax and relief for stock transfer have an impact on various performance indicators. Almost all of the agricultural consultants and tax consultants surveyed were of the opinion that the impact of stock relief on land mobility, attraction of new entrants and transfers within families is positive. See Table 4.2 below.

Table 4.2: Impact of Stock Relief on Land Mobility, Encouraging and Attracting New Entrants and Earlier Lifetime Success / Transfer within Families					
	Very Significant Positive Impact	Significant Positive Impact	Significant Negative Impact	Very Significant Negative Impact	No Impact
Views of Agricultural Consultants	52.4%	44.4%	1.6%	0.0%	1.6%
Views of Tax Advisers	34.0%	54.0%	0.0%	0.0%	12.0%
Source: Indecon Survey of Agricultural Consultants/Advisers					

The potential of stock relief to impact on alternative farming methods, smart farming and environmental sustainability is suggested from the results in Table 4.3. The majority of agricultural consultants (79%) and tax advisers (68%) reported that the stock relief has a positive impact on these measures. However, a number of tax advisers (30%) and some agricultural advisers (15.5%) reported that they felt stock relief has no impact on these objectives. While young farmers may be more open to alternative farming methods Indecon would be inclined to agree with the 30% of tax advisers who did not think that stock relief would have any impact on these objectives.

Table 4.3: Impact of Stock Relief on Alternative Farming Methods, Smart Farming and Environmental Sustainability					
	Very Significant Positive Impact	Significant Positive Impact	Significant Negative Impact	Very Significant Negative Impact	No Impact
Views of Agricultural Consultants	17.2%	62.1%	1.7%	3.4%	15.5%
Views of Tax Advisers	18.0%	50.0%	2.0%	0.0%	30.0%
Source: Indecon Survey of Agricultural Consultants/Advisers					

All of the agricultural advisers surveyed reported that stock relief has a very significant or significant positive impact on increasing productivity, output and investment in the farming sector. The majority but not all (90%) of the tax advisers were of the same view. Indecon's view is that the impact of the stock relief is likely to be primarily seen in terms of increased output.

Table 4.4: Impact of Stock Relief on Increasing Productivity, Output and Investment					
	Very Significant Positive Impact	Significant Positive Impact	Significant Negative Impact	Very Significant Negative Impact	No Impact
Views of Agricultural Consultants	62.7%	37.3%	0.0%	0.0%	0.0%
Views of Tax Advisers	41.2%	49.0%	2.0%	0.0%	7.8%
Source: Indecon Survey of Agricultural Consultants/Advisers					

Some participants in the Indecon survey indicated the sector would benefit from an extension of the limit of stock relief for young trained farmers as reflected in the comment below.

“Stock Relief Cap of €70K for Young Trained Farmers should be removed to reflect the growing demand for larger farming operation in order for farms to be viable.”

The rationale for the 50% stock relief on Income Tax for Registered Farm Partnerships was seen by some respondents to Indecon’s research as being important to the context of an overall strategy to encourage land mobility. For example, one respondent suggested that:

“The focus should not only encourage outright farm transfer to the next generation but the partnership structure needs to be supported as a stepping stone to farm transfer. Partnership reliefs need to be expanded so as the productivity of farms is maintained during the transfer phase and also the psychological and welfare needs of both successors and retired farmers are respected.”

The Stock Relief has the benefit of assisting investment in stock which impacts on higher levels of output. These potential benefits from the Stock Reliefs have to be considered in the context of the exchequer and wider economic costs involved.

5 Review of Retirement Relief from Capital Gains Tax

5.1 Description of Reliefs

Retirement Relief from Capital Gains Tax (CGT) is available where an individual, who is at least 55 years of age¹⁵⁷ disposes, by way of sale or gift, of the whole or part of his/her qualifying assets. Although the relief is commonly known as “retirement relief” a claimant does not have to retire in order to qualify.

Qualifying Assets relevant to the farming sector are as follows:

- ☐ The chargeable business asset of the individual which he/she has owned for at least 10 years up to the disposal date and throughout;
- ☐ Single Farm Payment Entitlements where they are disposed of at the same time and to the same person as land, to the extent that the land would support a claim to payment in respect of those payment entitlements;
- ☐ Land leased under the Scheme of Early Retirement from Farming, where for a period of not less than 10 years prior to the land being leased it was owned by the individual claiming relief and used by him or her for the purposes of farming throughout that period;
- ☐ Land which was let during the five-year period prior to its disposal under a compulsory purchase order for the purpose of road construction and certain related activities but, prior to its first letting, was farmed for 10 years by the person making the disposal;
- ☐ Land which was let at any time during the 15 years before disposal but, prior to its first letting, was farmed for 10 years by the individual making the disposal and the disposal is to a child;
- ☐ Land which was leased out on a long-term basis (for a minimum of five years) but, prior to its first letting, was farmed for 10 years by the owner and the disposal is to a person other than a child – this is a new provision introduced in Budget 2014; and,
- ☐ The amount of retirement relief from CGT available is dependent on whether qualifying assets transferred are parent-to-child transfers or transfers other than to a child.

Retirement Relief from CGT – Parent to child transfers

Full relief may be claimed of the whole or part of qualifying assets transferred from an individual aged 55-65 to his/her child. Full relief may be claimed in respect of the consideration for the disposal of qualifying assets worth up to a limit of €3 million in the case of individuals aged 66 years or more with effect from 1 January 2014. Where the consideration exceeds €3 million, relief will be given in respect of the CGT chargeable on any gain accruing on the disposal by individuals aged 66 or more as if the consideration for the disposal had been €3 million.¹⁵⁸

¹⁵⁷ With some exceptions such as chronic ill health.

¹⁵⁸ For parent to child transfer a child can include a child of a deceased child. Foster child or nephew/niece transfers may also qualify in certain circumstances provided further specific qualifying criteria are met.

Retirement Relief from CGT – Transfers other than to a child

From 1 January 2014 where the disposal consideration does not exceed €750,000, relief from CGT is given in respect of the full amount of tax chargeable on the disposal in the case of an individual aged 55 – 65 years. The amount of full relief for individuals aged 66 years or more has been reduced from €750,000 to €500,000. This was introduced in Budget 2012, but a lead in period was flagged to allow for an orderly transition. Where the consideration exceeds the thresholds set out, marginal relief applies so as to limit the amount of tax chargeable to 50% of the difference between the amount of the disposal consideration and €750,000/€500,000 thresholds.¹⁵⁹

5.2 Discussion of Estimated Costs

In the table below, we show the tax cost of retirement reliefs¹⁶⁰ from Capital Gains Tax.

Unlike some of the tax cost estimates which have been presented previously and were based directly on Revenue data, Indecon had to estimate the tax costs of these reliefs. These estimates were in turn based on data from the Revenue Commissioners considering the value relevant to retirement reliefs. In Table 5.1, we show our estimates of the likely tax cost of the retirement relief claimed by farmers which in 2011 was at €18.31 million. This table also provides a detailed description on how we have estimated the tax cost of this relief.

Table 5.1: Agri-tax Measures – Estimates of Tax Cost for – Retirement Relief from Capital Gains Tax	
	Available Estimate of Tax Cost (Revenue Data) - € Million
Retirement Relief from CGT – Parent to child transfers	
	Farmers
2008	15.62
2009	27.03
2010	11.45
2011	18.31
2012	10.17
Source: Indecon Analysis of Data from the Revenue Commissioners	
Note: Assume 'Consideration Value' is equivalent to gross sale value as if sold on open market. Estimated hectares based on gross sale value/average € per hectare in each period. Land prices – € per hectare (based on Irish Farmers Journal surveys). Estimates of Base Cost assume land was originally acquired pre-1974, with a nominal value in 1974 of €2,000/hectare. An Indexation relief multiplier of 7.528 is also applied. This approach follows methodology applied in respect of estimation of chargeable gain for Farm Restructuring Relief, based on inputs from DAFM. Chargeable Gain = Net Sale Value less Estimated Base Cost. Estimated Tax Value/Cost of Relief based on applying following average annual Capital Gains Tax Rates.	

¹⁵⁹ Descriptions of the various agri-tax measures available in Ireland are for the most part taken from the department of Agriculture, Food and Marine and the Department of Finance / Revenue Commissioners.

¹⁶⁰ Although called retirement reliefs, the farmer does not actually have to fully retire to avail of this relief.

There are two types of ‘retirement relief’ that we have estimated the tax cost for. We showed the tax cost of retirement reliefs where the asset is transferred to a child in the table above. In Table 5.2, we show our estimates of the tax cost of retirement reliefs where the transfer of assets occurs to someone other than a child. The tax costs of retirement relief from capital gains to transfers to farmers other than a child are estimated to have cost €5.07 million in 2012.

Table 5.2: Agri-tax Measures –Estimates of Tax Cost from Revenue Commissioners Data – Retirement Relief from Capital Gains Tax (Continued)	
	Available Estimate of Tax Cost (Revenue Data) - € Million
Retirement Relief from CGT – Transfers other than to a child	
	Farmers
2008	13.67
2009	7.31
2010	4.57
2011	3.53
2012	5.07
Source: Indecon Analysis of Data from the Revenue Commissioners	
Note: The tax costs are estimated based on the same approach as per the previous table.	

5.3 Identification of Potential Benefits

It is also useful to consider the potential benefit of retirement relief from capital gains tax with regard to increasing the levels of productivity and output in the Irish agricultural sector. Similar to our analysis of the benefits of capital allowance, we asked respondents to the Indecon survey to compare the existing scenario where retirement relief on capital gains tax is available to the Irish farming sector with the counterfactual where the tax reliefs do not exist, taking account of deadweight displacement. The majority (75%) of agricultural consultants made the judgement that the annual impact of every €1m in retirement relief from capital gains tax is in excess of €1m.

Table 5.3: Agricultural Consultants Estimates of Annual Impact in Agricultural Output for Every €1m in Retirement Relief from Capital Gains Tax	
Annual output would increase by more than €3m	14.1%
Annual output would increase by circa €2-3m	29.7%
Annual output would increase by €1m - €2m	31.3%
Annual output would increase by €0.5m - €1m	14.1%
Annual output would increase by less than €0.5m	4.7%
Other Impact / no impact on agricultural output	6.3%
Source: Indecon Survey of Agricultural Consultants/Advisers	

Using the same mid-points to calculate a weighted average of the results as outlined in Section 3.3 above, our analysis suggests an estimated annual impact of €1.82m in agricultural output per €1m in retirement relief from capital gains tax.

Table 5.4: Overall Agricultural Consultants Estimate of Impact on Agricultural Output for Every €1m in Retirement Relief from Capital Gains Tax	
Weighted Average for Agricultural Consultants	€1.82m
Source: Indecon Survey of Agricultural Consultants/Advisers	

Taking into consideration the weighted average of the results from the survey of tax advisers also, we arrive at an overall average annual estimate of €1.69m in additional agricultural output for every €1m in retirement relief from capital gains tax. In our cost-benefit analysis we use the overall weighted average of €1.76m.

Table 5.5: Overall Estimates of Impact on Agricultural Output for Every €1m in Retirement Relief from Capital Gains Tax		
Weighted Average from Tax Advisers	Weighted Average for Agricultural Consultants	Overall Average
€1.69m	€1.82m	€1.76m
Source: Indecon Survey of Agricultural Consultants/Advisers		

Other Benefits of Retirement Relief from Capital Gains Tax

The impact of retirement relief from capital gains tax on land mobility, attracting new entrants and transfers within families is for the most part significant and positive or very significant and positive for the Irish farming sector. See Table 5.6.

Table 5.6: Impact of Retirement Relief from Capital Gains Tax on Land Mobility, Encouraging and Attracting New Entrants and Earlier Lifetime Success/Transfer within Families					
	Very Significant Positive Impact	Significant Positive Impact	Significant Negative Impact	Very Significant Negative Impact	No Impact
Views of Agricultural Consultants	48.4%	48.4%	1.6%	0.0%	1.6%
Views of Tax Advisers	70.0%	28.0%	0.0%	0.0%	2.0%
Source: Indecon Survey of Agricultural Consultants/Advisers					

The survey results present opinions on the impact of retirement relief on alternative farming methods, smart farming and environmental sustainability. Although the majority of agricultural consultants and tax advisers reported that the tax incentive had a very significant or significant positive effect, some were of the opinion that this tax relief has no direct impact on farming methods.

Table 5.7: Impact of Retirement Relief from Capital Gains Tax on Alternative Farming Methods, Smart Farming and Environmental Sustainability

	Very Significant Positive Impact	Significant Positive Impact	Significant Negative Impact	Very Significant Negative Impact	No Impact
Views of Agricultural Consultants	19.0%	60.3%	3.4%	0.0%	17.2%
Views of Tax Advisers	28.0%	44.0%	0.0%	0.0%	28.0%
Source: Indecon Survey of Agricultural Consultants/Advisers					

Of particular interest concerning the possible benefits of retirement relief from capital gains tax is the impact on increasing productivity, output and investment. The majority of both the agricultural consultants (98%) and the tax advisers (80%) felt that the impact of retirement relief from capital gains tax is positive and either significant or very significant. This is in turn related to whether the transfer of farms to a younger generation may impact on output and productivity. While many older farmers have expertise and experience which is of real value in most walks of life, particularly where significant manual work may be required, there can be an impact on productivity after a certain age. The impact of retirement and land transfers on productivity and output will of course vary significantly by individuals. However, it is interesting that most of those surveyed felt the retirement reliefs would be a significant positive impact on productivity, output and investment. New empirical work undertaken by Indecon based on an econometric investigation of the impact of age on output presented later in this report is consistent with these views.

Table 5.8: Impact of Retirement Relief from Capital Gains Tax on Increasing Productivity, Output and Investment

	Very Significant Positive Impact	Significant Positive Impact	Significant Negative Impact	Very Significant Negative Impact	No Impact
Views of Agricultural Consultants	37.9%	60.3%	1.7%	0.0%	0.0%
Views of Tax Advisers	52.0%	32.0%	0.0%	0.0%	16.0%
Source: Indecon Survey of Agricultural Consultants/Advisers					

The capital gains tax, among other measures which are related to assets were mentioned in our survey research as effective measures to support land mobility and the sustainability of the sector.

“Tax reliefs on farm assets are crucial to the sustainability of Irish Farmers and the positive impact they have on Ireland economically, environmentally and socially cannot be underestimated. The CAT, CGT & Stamp Duty reliefs need to work to help protect farm assets as these assets are merely the tools of viable and sustainable Farming in Ireland. These reliefs need to be maintained and enhanced to preserve the viability of a farm post transfer.”

The Retirement Relief from CGT if targeted could result in facilitating access to land by younger farmers with quantified benefits in terms of productivity and output. However these benefits will only be realised if Retirement Relief from CGT results in a transfer of land to active farmers.

6 Review of Capital Acquisition Tax Measure

6.1 Description of Reliefs

The following are the capital acquisitions tax measures available to the farming sector in Ireland:

- ☐ Agriculture Relief from Capital Acquisition Tax;
- ☐ Capital Gains Tax/Capital Acquisition Tax “same event” relief; and,
- ☐ Lower interest rate on instalment payments for Capital Acquisition Tax due on gifts/inheritances of agricultural property.

Agricultural Relief from Capital Acquisition Tax

This relief operates by reducing the market value of “agricultural property”¹⁶¹ by 90%, so that gift or inheritance tax is calculated on an amount - known as the “agricultural value” – which is substantially less than the market value. To qualify for agricultural relief, the person receiving the gift or inheritance must be a “farmer”¹⁶² at the valuation date. If a farmhouse on its own is transferred to a farmer it will not qualify for agricultural relief.

Agricultural relief is clawed back where the agricultural property is disposed of or compulsorily acquired within six years of the gift or inheritance and the proceeds are not reinvested in other agricultural property within one year of the sale or within six years of the compulsory purchase. Relief can also be clawed back if the land is disposed of in whole or in part by the owner or successor within six years after the date of inheritance and ending ten years after that date. Relief can also be withdrawn if a residency requirement is not met.

If agricultural property fails to qualify for Agricultural Relief from CAT, it may instead qualify for Business Relief from CAT, provided it satisfies the requirements for that relief. Business Relief operates by reducing the market value of “relevant business property” by 90% for CAT purposes.

Capital Gains Tax/Capital Acquisition Tax “same event” relief

If CGT and CAT is payable on the same event (for example, a gift of land by a parent to a child) any CGT paid by the parent can be used by the child as a credit against her/his CAT liability. It is possible for CAT to be paid in instalments in certain circumstances. This option is available where a beneficiary takes an absolute interest in immovable property and/or a limited interest in any property, whether moveable or immovable. It is also available where a beneficiary takes a gift or inheritance of agricultural property and/or relevant business property which is movable property, e.g., livestock, machinery, stock. The interest rate is 0.0219% per day or part of day from 1 July 2009. Where the property taken is (moveable or immovable) agricultural property the rate at which interest is payable by instalments on the tax is reduced to a daily rate of 75% of the normal daily rate.¹⁶³

¹⁶¹ “Agricultural property” means lands in a Member State of the European Union, buildings, crops, trees, farm machinery, livestock and Single Payment Entitlements.

¹⁶² An individual in respect of whom at least 80% of his/her assets, after taking a gift or inheritance, consist of agricultural property on the valuation date of the gift or the inheritance.

¹⁶³ Descriptions of the various agri-tax measures available in Ireland are for the most part taken from the department of Agriculture, Food and Marine and the Department of Finance / Revenue Commissioners.

6.2 Discussion of Estimated Costs

A summary of the estimated tax cost attributable to agricultural relief from Capital Acquisition Tax (CAT) is shown in Table 6.1. Annual exchequer costs of capital acquisitions tax relief is estimated at €73m in 2013. This shows that this is one of the most costly of the agri-tax reliefs and the annual costs are many multiples of the cost of measures to directly support young farmers or to promote land leasing or farm restricting. Indecon however recognises that where acquisition is by active farmers, agricultural relief from capital acquisitions tax can assist young farmers but we are concerned that some of the costs relate to those acquiring land but not actively farming.

Table 6.1: Agri-tax Measures –Estimates of Tax Cost from Revenue Commissioners Data – Capital Acquisition Tax Measures	
	Available Estimate of Tax Cost (Revenue Data) - € Million
Agriculture Relief from Capital Acquisition Tax	Farmers
2009	110
2010	59
2011	60
2012	77
2013	73
Capital Gains Tax /Capital Acquisition Tax “same event” relief	N/A
Lower interest rate on instalment payments for Capital Acquisition Tax due on gifts/inheritances of agricultural property	N/A
CAT Business relief	N/A
Source: Indecon Analysis of Data from the Revenue Commissioners.	
Costings for CAT Agricultural are estimated. Assumed figures relate to claims made by farmers.	

6.3 Identification of Potential Benefits

In an effort to determine the potential impact of the capital acquisitions tax measures on output and other measures of activity in the agricultural sector, Indecon invited the agricultural consultants and tax advisers who participated in the survey to report their views. Over 73% of agricultural advisers reported that they estimate for every €1m in relief from capital acquisitions tax, agricultural output increased by over €1m and up to €3m or more. All of the respondents indicated that there was some degree of impact.

Table 6.2: Agricultural Consultants Estimates of Annual Impact in Agricultural Output for Every €1m in Agricultural Relief from Capital Acquisitions Tax	
Annual output would increase by more than €3m	28.1%
Annual output would increase by circa €2-3m	20.3%
Annual output would increase by €1m - €2m	25.0%
Annual output would increase by €0.5m - €1m	17.2%
Annual output would increase by less than €0.5m	9.4%
Other Impact / no impact on agricultural output	0.0%
Source: Indecon Survey of Agricultural Consultants/Advisers	

Based on the judgement of the agricultural consultants, Indecon's estimate of the weighted average annual increase in agricultural output for every €1m in relief from capital acquisitions tax is in excess of €2m. This estimate was arrived at using the midpoints of the output categories above.

Table 6.3: Overall Agricultural Consultants Estimate of Impact on Agricultural Output for Every €1m in Agricultural Relief from Capital Acquisitions Tax	
Weighted Average for Agricultural Consultants	€2.02m
Source: Indecon Survey of Agricultural Consultants/Advisers	

Inputs from the tax advisers who responded to the Indecon survey revealed a slightly lower overall weighted average impact of €1.71m in agricultural output for every €1m in relief from capital acquisitions tax. Combining the estimates of both groups of respondents, Indecon estimates an overall annual weighted average output of €1.88m per €1m in relief.

Table 6.4: Overall Estimates of Impact on Agricultural Output for Every €1m in Agricultural Relief from Capital Acquisitions Tax		
Weighted Average from Tax Advisers	Weighted Average for Agricultural Consultants	Overall Average
€1.71m	€2.02m	€1.88m
Source: Indecon Survey of Agricultural Consultants/Advisers		

Other Benefits of Agricultural Relief from Capital Acquisitions Tax

When asked to indicate their views on the wider socio-economic benefits or drawbacks of agricultural relief from capital acquisitions tax, the agricultural consultants placed particularly high emphasis on the impact that the relief has on the maintenance of family farms. Over 74% of the agricultural consultants said the relief has a very significant positive impact on maintenance of family farms with a further 22.7% indicating that the impact is significant. The majority of the agricultural consultants indicated that the impact of the relief on sustaining rural communities, land mobility/new entrants and earlier lifetime succession is very significant and positive or significant and positive.

Table 6.5: Agricultural Consultants' Views on the Potential Wider Socio-economic Impacts of Agricultural Relief from Capital Acquisition Taxes					
	Very Significant Positive Impact	Significant Positive Impact	Significant Negative Impact	Very Significant Negative Impact	No Impact
Maintenance of Family Farms	74.2%	22.7%	1.5%	1.5%	0.0%
Sustaining Rural Communities	49.3%	47.8%	0.0%	1.5%	1.5%
Land mobility/New Entrants	49.3%	44.8%	3.0%	1.5%	1.5%
Earlier Lifetime Succession	49.3%	43.3%	3.0%	1.5%	3.0%
Source: Indecon Survey of Agricultural Consultants/Advisers					

Similar to that of the agricultural consultant's views above, the majority of the tax consultants were of the opinion that the impact agricultural relief from capital acquisitions tax is very significant and positive or significant and positive in relation to the various socioeconomic indicators listed in Table 6.6 below. However, a small number of tax advisers (12.7%) indicate that the impact of the relief on land mobility/new entrants is negative.

Table 6.6: Agricultural Tax Advisors/Consultants' Views on the Potential Wider Socio-economic Impacts of Agricultural Relief from Capital Acquisition Taxes					
	Very Significant Positive Impact	Significant Positive Impact	Significant Negative Impact	Very Significant Negative Impact	No Impact
Maintenance of Family Farms	64.9%	31.6%	0.0%	1.8%	1.8%
Sustaining Rural Communities	61.8%	29.1%	0.0%	0.0%	9.1%
Land mobility/New Entrants	43.6%	32.7%	12.7%	1.8%	9.1%
Earlier Lifetime Succession	52.7%	34.5%	3.6%	1.8%	7.3%
Source: Indecon Survey of Agricultural Consultants/Advisers					

In order to further investigate the potential impact of relief from capital acquisitions tax, both agricultural consultants and tax advisers were asked to indicate their views on the likely outcome of a land transfer to non-active owners due to capital acquisitions tax relief. Table 6.7 shows that, for the most part, the agricultural consultants who responded to the survey suggested that if the land was transferred to non-active owners who are not directly engaged in farming, the land still would be used for agricultural production. The majority (95%) indicated it was very likely or likely that the land would be leased via conacre, and separately 88% made the judgement that it is very likely or likely the land would be leased to other farmers. Few indicated that it was likely that the land would be left unused but some indicate it would be likely the land would be sold for farm use or non-farming use after six years.

Table 6.7: Agricultural Consultant's Views on the Likelihood of Various Outcomes as a Result of Land Transferred to Non-active Owners who Are not Directly Engaged in Farming				
	Very Likely	Likely	Unlikely	Very Unlikely
Land rented on short-term basis via Conacre	37.5%	57.8%	3.1%	1.6%
Land leased to other farmers	31.8%	56.1%	12.1%	0.0%
Land left unused	6.2%	6.2%	38.5%	49.2%
Land sold for farm use after six years	9.2%	33.8%	47.7%	9.2%
Land sold for non-farming use after six years	3.1%	17.2%	43.8%	35.9%
Source: Indecon Survey of Agricultural Consultants/Advisers				
Note: Assuming the farm is transferred to an active farmer				

The opinions of the tax advisers were similar but a greater proportion believed the land would be left unused (20%) or would be sold for non-farming use (29%). Indecon's assessment based on the evidence of the percentage of land leased vis-a-vis rented on a short-term basis via conacre is that there is much greater potential for land to be either unused or rented on a short-term basis if those acquiring land are not active farmers. This is considered to be the strategic interest of the agriculture sector and the fact that this practice may unintentionally be incentivised by the tax system is of concern.

Table 6.8: Likelihood of Various Outcomes as a Result of Land Transferred to Non-active Owners who Are not Directly Engaged in Farming

	Very Likely	Likely	Unlikely	Very Unlikely
Land rented on short-term basis via Conacre	34.5%	45.5%	14.5%	5.5%
Land leased to other farmers	35.7%	53.6%	7.1%	3.6%
Land left unused	1.8%	18.2%	36.4%	43.6%
Land sold for farm use after six years	12.5%	46.4%	30.4%	10.7%
Land sold for non-farming use after six years	10.9%	18.2%	47.3%	23.6%
Source: Indecon Survey of Tax Consultants/Advisers				
Note: Assuming the farm is transferred to an active farmer				

When asked to indicate their views on the impact of capital acquisitions tax relief on land mobility, attracting new entrants and earlier lifetime succession, almost all of the agricultural consultants (96.8%) and tax advisers (96.1%) indicated that the impact was very significant and positive or significant and positive.

Table 6.9: Impact of Capital Acquisitions on Land Mobility, Encouraging and Attracting New Entrants and Earlier Lifetime Succession/Transfer within Families

	Very Significant Positive Impact	Significant Positive Impact	Significant Negative Impact	Very Significant Negative Impact	No Impact
Views of Agricultural Consultants	49.2%	47.6%	0.0%	0.0%	3.2%
Views of Tax Advisers	56.9%	39.2%	0.0%	0.0%	3.9%
Source: Indecon Survey of Agricultural Consultants/Advisers					

The majority of respondents indicated a positive impact of capital acquisitions tax relief on farming methods, smart farming and environmental sustainability. However, a number of respondents (19% of agricultural consultants and 26% of tax advisers) indicated that the relief had no impact on these activities.

Table 6.10: Impact of Capital Acquisitions on Alternative Farming Methods, Smart Farming and Environmental Sustainability

	Very Significant Positive Impact	Significant Positive Impact	Significant Negative Impact	Very Significant Negative Impact	No Impact
Views of Agricultural Consultants	20.7%	56.9%	1.7%	1.7%	19.0%
Views of Tax Advisers	22.0%	52.0%	0.0%	0.0%	26.0%
Source: Indecon Survey of Agricultural Consultants/Advisers					

Of particular interest is that the majority of the agricultural consultants were of the opinion that the capital acquisitions tax relief has a positive impact on output and investment. Although many of the tax advisers also indicated a positive impact, some of these respondents (15.7%) believe there is no impact.

Table 6.11: Impact of Capital Acquisitions on Increasing Productivity, Output and Investment

	Very Significant Positive Impact	Significant Positive Impact	Significant Negative Impact	Very Significant Negative Impact	No Impact
Views of Agricultural Consultants	41.4%	53.4%	1.7%	0.0%	3.4%
Views of Tax Advisers	43.1%	41.2%	0.0%	0.0%	15.7%
Source: Indecon Survey of Agricultural Consultants/Advisers					

Respondents from the Indecon survey of agricultural consultants and tax advisers highlighted the benefits of the capital acquisitions tax measure available to the farming sector.

“Tax reliefs such as agricultural and business property (CAT) and retirement relief (CGT) are critical as provide opportunities for advanced succession planning and with younger generations and improved farm education greater scope for economic growth (through farm diversification and links to food science and technology.”

Indecon would agree with this view but only in cases where the land is actively farmed.

7 Review of Stamp Duty Measures

7.1 Description of Reliefs

The following stamp duty tax measures are available to the farming sector in Ireland:

- ☐ Stamp Duty Consanguinity Relief on Non-Residential Transfers;
- ☐ Stamp Duty Exemption on Transfers of Land to Young Trained Farmers;
- ☐ Stamp Duty Exemption for Certain Family Transfers;
- ☐ Stamp Duty Relief for Commercial Woodlands; and,
- ☐ Stamp Duty Exemption on Single Farm Payment Entitlements.

Stamp Duty Consanguinity Relief on Non-Residential Transfers

A lower stamp duty rate of 2% on the consideration value for instruments relating to non-residential property¹⁶⁴ was introduced in 2012. Consanguinity relief provides for a 1% rate applicable to transfers to certain close relations, such as father/son or uncle/nephew for a three-year period until 31 December 2014. Thereafter transfers of all non-residential properties including farm transfers will be stamped at the full rate of 2%. Consanguinity relief is not available on leases or on transactions involving cousins and/or in-laws.

Stamp Duty Exemption on Transfers of Land to Young Trained Farmers

This relief provides for a full exemption on stamp duty on transfers of farm land to certain young trained farmers. The transfer can be by gift or sale. To qualify the farmer must be less than 35 years of age on the date of execution of the deed of transfer and must of have attained a minimum agricultural education.¹⁶⁵

There are a number of conditions are follows:

- ☐ The young farmer must have attained the necessary FETAC qualifications;
- ☐ The young farmer must for a period of five years spend not less than 50% of his/her working time farming the land;
- ☐ The young farmer must retain the ownership of the land. The exemption granted will be clawed back if the land is disposed of within a five-year period and is not replaced within one year of disposal; and
- ☐ Transfers by lease do not qualify for the stamp duty exemption.

The purpose of this exemption is to encourage the transfer of farmland to a new generation for farmers with relevant qualifications.¹⁶⁶ This exemption is due to expire on 31 December 2015, having been extended for a three-year period in Budget 2012.

¹⁶⁴ Including agricultural land leases, sales and gifts.

¹⁶⁵ Standard which is set out on a list of qualifications in Schedule 2B of the Stamp Duties Consolidation Act 1999.

¹⁶⁶ Leaflet SD2B 2014, Department of Finance / Revenue Commissioners.

Some respondents to the Indecon research highlighted the drawbacks of this measure:

“The condition for exemption to stamp duty where the successor is required to spend not less than 50% of his/her working time farming the land prohibits land being transferred as many sons/daughters etc. who inherit land are in full time employment and would not be able to spend 50% of their working time farming the land.”

While Indecon accepts this, we believe the focus should be on incentivising land transfer to those who are in a position to actively farm the land.

Stamp Duty Exemption for Certain Family Transfers

Since 2 April 2007, an exemption from stamp duty on certain transfers of farmland from a child to a parent is available in the context of certain family arrangements, which are also applicable to retirement relief from capital gains tax. The stamp duty exemption arises where the family arrangement is in the nature of an exchange or a part exchange involving the transfer of farmland by the child to the parent who is availing of the retirement relief from capital gains tax.

Stamp Duty Relief for Commercial Woodlands

A partial relief from stamp duty is available in respect of certain instruments relating to the sale or lease of land on which “trees” are growing. The partial relief will not be taken into account if:

- ☐ The trees are being managed on a commercial basis with a view to making a profit;
- ☐ The trees are growing on a substantial part of the land; or,
- ☐ This exemption is also applicable to gifts.

Stamp Duty Exemption on Single Farm Payment Entitlements

Stamp duty is not chargeable on an instrument for the sale, transfer or lease of an EU Single Farm Payment entitlement. Where an instrument consists of both a payment entitlement and other chargeable property, the consideration should be apportioned between the payment entitlement and the other property contained in the instrument. Only that part of the consideration which relates to property, which is not a payment entitlement, will be chargeable to stamp duty.¹⁶⁷

7.2 Discussion of Estimated Costs

The estimated costs of stamp duty agri-tax reliefs are presented in Table 7.1. The combined costs of stamp duty reliefs in 2013 amounted to €5.86m. This is a very significant decline from the costs of these exemptions and reflects the decline in overall stamp duty rates which applied in previous years. For example, in 2009 the stamp duty exemption on the transfer of land to young trained farmers cost the Exchequer €39m in that year.

¹⁶⁷ Descriptions of the various agri-tax measures available in Ireland are for the most part taken from the department of Agriculture, Food and Marine and the Department of Finance/Revenue Commissioners.

Table 7.1: Agri-tax Measures –Estimates of Tax Cost – Stamp Duty Measures	
	Available Estimate of Tax Cost (Revenue Data) - € Million
	Farmers
Stamp Duty Consanguinity Relief on Non-Residential Transfers	
2012	3.70
2013	2.00
Stamp Duty Exemption on Transfers of Land to Young Trained Farmers	
2009	39.00
2010	21.80
2011	13.30
2012	7.91
2013	3.78
Stamp Duty Exemption for Certain Family Transfers	
2010	0.14
2011	0.30
2012	0.10
2013	0.08
Source: Indecon Analysis of Data from the Revenue Commissioners.	

The final stamp duty measure that we consider is in relation to stamp duty relief for commercial woodlands. A summary of the annual tax cost since 2010 for this measure is shown in Table 7.2. The annual tax cost for this measure has remained quite consistent in recent years and it is estimated that the tax cost was €8.4 million in 2013. In addition, there are exchequer costs from the stamp duty reliefs on commercial woodlands which in 2013 amounted to €8.4m.

Table 7.2: Agri-tax Measures –Estimates of Tax Cost of Woodlands Stamp Duty Measures	
	Available Estimate of Tax Cost (Revenue Data) - € Million
	Farmers**
Stamp Duty Relief for Commercial Woodlands	
2010	7.5
2011	10
2012	8.9
2013	8.4
Stamp Duty Exemption on Single Farm Payment Entitlements	
	N/A
Source: Indecon Analysis of Data from the Revenue Commissioners.	
Note: Stamp duty return is not required to be filed in relation to the exemption on single farm payment entitlements and therefore there is no data on cases and costs for this relief. **It should be noted that although the vast majority are likely to be farmers, it is possible that the figure include non-farmer land owners who purchase commercial forestry.	

7.3 Identification of Potential Benefits

Stamp duty relief available to the agricultural sector is considered to have a very significant or significant positive impact on land mobility, attracting new entrants and earlier lifetime succession within the Irish agricultural sector. This is suggested by the evidence from the survey of agricultural consultants and tax advisers in Table 7.3 below.

Table 7.3: Impact of Stamp Duty on Land Mobility, Encouraging and Attracting New Entrants and Earlier Lifetime Success / transfer within Families					
	Very Significant Positive Impact	Significant Positive Impact	Significant Negative Impact	Very Significant Negative Impact	No Impact
Views of Agricultural Consultants	50.8%	47.6%	0.0%	0.0%	1.6%
Views of Tax Advisers	37.3%	56.9%	0.0%	0.0%	5.9%
Source: Indecon Survey of Agricultural Consultants/Advisers					

Some of the views of the agricultural consultants and tax advisers indicated that there may be no impact of stamp duty relief on farming methods and environmental sustainability (21.1% and 25% respectively). However, a greater majority indicated that the impact is significant and positive. See Table 7.4 below.

Table 7.4: Impact of Stamp Duty on Alternative Farming Methods, Smart Farming and Environmental Sustainability					
	Very Significant Positive Impact	Significant Positive Impact	Significant Negative Impact	Very Significant Negative Impact	No Impact
Views of Agricultural Consultants	24.6%	50.9%	1.8%	1.8%	21.1%
Views of Tax Advisers	19.6%	54.9%	0.0%	0.0%	25.5%
Source: Indecon Survey of Agricultural Consultants/Advisers					

The potential of stamp duty relief to impact positively on output and investment in the agricultural sector is of particular importance and among the respondent's to the survey the majority indicated that the impact is significant and positive to a lesser or greater degree. However, it is worth noting that over 20% of tax advisers made the judgement that there is no impact of stamp duty relief on output and investment in the sector.

Table 7.5: Impact of Stamp Duty on Increasing Productivity, Output and Investment					
	Very Significant Positive Impact	Significant Positive Impact	Significant Negative Impact	Very Significant Negative Impact	No Impact
Views of Agricultural Consultants	43.9%	50.9%	0.0%	0.0%	5.3%
Views of Tax Advisers	36.7%	42.9%	0.0%	0.0%	20.4%
Source: Indecon Survey of Agricultural Consultants/Advisers					

Indecon's analysis suggests that while stamp duty or other reliefs encourage land mobility to younger active farmers it is likely to impact on output levels in the sector.

8 Review of Income Averaging

8.1 Description of Reliefs

Income averaging provides farmers with an option of adding farming profits for the current and previous two years of assessment together and dividing by three in order to arrive at an average income for tax purposes.¹⁶⁸ Effectively, one third of the profit for the three years is charged for a year. Conditions include the following:

- ☐ The individual must be at least three years farming before he/she is eligible to join the income averaging system;
- ☐ A farmer is obliged to remain in the system for a minimum of three years once they have entered;
- ☐ If a farmer reverts to the normal annual basis of assessment, the two years of assessment immediately before the final year of averaging are reviewed to ensure that the amount charged for each of those two years is not less than the amount charged for the final year of averaging; and,
- ☐ Farmers who, or whose spouses or civil partners carry on another trade or profession or who are directors of companies which carry on a trade or profession cannot elect for income averaging.

Those farmers who are not eligible for income averaging include:¹⁶⁹

- ☐ A farmer who carries on another trade or profession;
- ☐ A farmer who is a director of a company that carries on a trade or profession and who is either the beneficial owner of or able to control more than 25% of the ordinary share capital of the company;
- ☐ A farmer whose spouse/civil partner (living with them) carries on another trade or profession;
- ☐ A farmer whose spouse/civil partner (living with them) is a director of a company that carries on a trade or profession and is either the beneficial owner of or able to control more than 25% of the ordinary share capital of the company; and,
- ☐ A farmer who is in receipt of income from an employment or whose spouse/civil partner is in receipt of income from an employment is not debarred from opting for Income Averaging.

8.2 Discussion of Estimated Costs

Income Averaging

There is no data available on the cost of income averaging for the agriculture sector in Ireland. However, we have used indicative estimates based on a number of sources. In particular, we have examined the indicative cost of income averaging based on data which have shown the variability in farmers' incomes.

Under the regulations, to qualify for income averaging farmers must remain in income averaging for the next two years (three years in total) regardless of their income changes. Typically, the exchequer cost of such a measure will be small as the loss in tax revenue in the first year will be somewhat clawed back by increase tax revenue in years two and three.

However, there are cases where there could be significant tax costs to the exchequer. In some cases where the farmer is likely to expand and thus increase output, income averaging could be a logical

¹⁶⁸ Descriptions of the various agri-tax measures available in Ireland are for the most part taken from the department of Agriculture, Food and Marine and the Department of Finance / Revenue Commissioners.

¹⁶⁹ Section 657 of the Taxes Consolidation Act 1997. Accessed at: <http://www.irishstatutebook.ie/pdf/1997/en.act.1997.0039.pdf>.

decision for the farmer as they will be able to pay taxation based on a smaller level of farm output. In this case, there may be exchequer costs of income averaging. However, it must be noted that other tax measures such as capital allowances may impact on this. An important issue is the year in which the farmer first decides to income average. This is shown in the table below (see Table 8.1). In this analysis, we assume that only farmers who earn more than €50,000 opt into income averaging. The largest absolute monetary benefits accrue to the larger farmers and there may be little benefit to farmers who earn around €30,000 of income averaging although they can of course reduce their tax burden slightly in some years. From our research it is clear that this tool has been somewhat successful in overcoming income volatility. As discussed previously, there is no official data from Revenue on the tax cost or the take-up rates of income averaging, but we assume a figure of €5.63m per annum based on 2010 estimates. It is however possible that the costs could be higher depending on the levels of uptake and on whether income average enables farmers to avoid hitting marginal income tax bands. This therefore requires ongoing assessment.

Table 8.1: Estimate of Exchequer Tax Cost of Income Averaging (We		
	2009	
Net Exchequer Costs	€1.08 million	
Note: We assume that only farmers with income greater than €50,000 choose income averaging. We include the first year of income averaging.		
Source: Indecon analysis		

8.3 Identification of Potential Benefits

It is not possible to quantify the benefits of income averaging but these are likely to be related to the social benefits of reduced income volatility. Our survey investigated the judgements of the agricultural consultants and tax advisers on the potential impact of income averaging on various indicators of activity levels in the Irish agricultural sector. Overall the proportion of respondents who indicated that this income tax measure has a positive impact on various activities was lower than that of the other tax measures investigated.

Just over 58% of agricultural tax consultants agreed that income averaging has a positive impact to some degree on attracting new entrants to the sector, land mobility and earlier lifetime succession while 35.5% indicated there is no impact. Finally, 38% of tax advisers also indicated there is no impact while the remainder said the impact is positive.

Table 8.2: Impact of Income Averaging on Land Mobility, Encouraging and Attracting New Entrants and Earlier Lifetime Success/transfer within Families					
	Very Significant Positive Impact	Significant Positive Impact	Significant Negative Impact	Very Significant Negative Impact	No Impact
Views of Agricultural Consultants	8.1%	50.0%	6.5%	0.0%	35.5%
Views of Tax Advisers	16.0%	46.0%	0.0%	0.0%	38.0%
Source: Indecon Survey of Agricultural Consultants/Advisers					

Mixed judgements were reported among the respondents to the Indecon survey in relation to the impact of income averaging on alternative farming methods and environmental sustainability.

Table 8.3: Impact of Income Averaging on Alternative Farming Methods, Smart Farming and Environmental Sustainability

	Very Significant Positive Impact	Significant Positive Impact	Significant Negative Impact	Very Significant Negative Impact	No Impact
Views of Agricultural Consultants	6.8%	49.2%	3.4%	0.0%	40.7%
Views of Tax Advisers	10.0%	44.0%	0.0%	0.0%	46.0%
Source: Indecon Survey of Agricultural Consultants/Advisers					

A slightly greater proportion of agricultural consultants and tax advisers (77.6% and 62% respectively) agreed that the impact of income averaging has positive impact on productivity, output and investment.

Table 8.4: Impact of Income Averaging on Increasing Productivity, Output and Investment

	Very Significant Positive Impact	Significant Positive Impact	Significant Negative Impact	Very Significant Negative Impact	No Impact
Views of Agricultural Consultants	31.0%	46.6%	1.7%	0.0%	20.7%
Views of Tax Advisers	26.0%	36.0%	0.0%	0.0%	38.0%
Source: Indecon Survey of Agricultural Consultants/Advisers					

According to the judgements of the respondents to the Indecon survey of agricultural consultants and tax advisers, there is scope for improvement on the current income averaging scheme in order to encourage farmers to put aside profits in a particularly successful year in order to buffer for less productive years.

“A new measure to allow farmers to deposit surplus profit in a good year and draw it out and incur income tax on it in a bad year would benefit farmers from a cash flow and volatility perspective.”

“Schemes to encourage farmers to save profits for their retirement should be considered.”

Indecon accepts that income volatility is a particular challenge in the agriculture sector and assisting farms to manage this has social benefits and could assist cash flow in family farms. However the impact on agricultural output may be more indirect.

9 Review of Other Agri-tax Measures

9.1 Description of Reliefs

Exemption of Certain Income from Leasing of Farm Land

This relief was designed to encourage longer term leases of farm land. The lease must have a minimum definite term of five years or more to qualify for relief. An eligible individual is exempt from income tax on progressively increasing amounts linked to lease duration as follows:

- ☐ 5 – 7 year leases up to €12,000 per annum
- ☐ 7 – 10 years leases up to €15,000 per annum
- ☐ Over 10 years leases up to €20,000 per annum

The lease must be for a definite term of five years or more. A qualifying lessor must be 40 years of age or over or permanently incapacitated by mental or physical infirmity from carrying on the trade of farming. The lessor must not have leased the land after 30 of January 1985 from a connected person on favourable terms.¹⁷⁰ For land jointly owned, each individual is entitled to a separate maximum reduction of the appropriate amounts listed above against their respective share of the rent from a qualifying lease. A qualifying lessee is an individual who is not connected with the lessor. Effectively this means that a lessor is not entitled to relief where the land is let to family members or family members of their spouse or civil partner. Companies are not a qualifying lessee for the relief.

Since 1 January 2005, lease income can include income from land and standard Single Farm Payment entitlements¹⁷¹ thus leasing land, the landowner/lessor may negotiate a value into the lease in return for also leasing out the existing entitlements to the farmer/lessee. Where a lessor may have lost land in the past, through for example planting forestry or losing a conacre arrangement, the lessor may have stacked or consolidated these entitlements on their herd number which in effect meant they ended up with a higher unit value per entitlement. It is not open in these instances for the landowner/lessor to then avail of this tax exemption by leasing out such consolidated entitlements on a long-term basis.

Profits from Occupation of Woodlands

Income from woodlands managed on a commercial basis and with a view to the realisation of profits is tax exempt. However from 31 December 2006 this income has been subject to the high earners restrictions limits. This was updated in Budget 2010 when modifications were introduced on the limitations on amount of certain reliefs, including the woodlands exemption. These changes have effect from assessment year 2010 onwards.

¹⁷⁰Section 664 TCA 1997, Department of Finance / Revenue Commissioners.

¹⁷¹ Entitlements are attached to the Herd Number not the land.

Capital Gains Tax Relief for Woodlands

The capital gains tax relief for woodlands applies where woodlands are being disposed of. Profits/gains from the commercial occupation of woodlands in the State are exempt from income tax and corporation tax. For chargeable periods commencing on or after 1 January 2004 details of all such profits, gains and losses must be included in the annual return of income to the Revenue Commissioners. The normal rules relating to the keeping of records and the making available of those records for inspection by the Revenue also apply.

Capital Gains Tax Relief on Farm Restructuring

In 2013 a capital gains tax relief for farm restructuring was introduced. It provides for a rollover relief for farm restructuring and parcel swaps with certain conditions to ensure a more efficient farm holding arises. To be eligible for the relief, the sale and purchase of qualifying land must occur within 24 months of each other with the initial sale or purchase of qualifying land taking place in the period 1 January 2013 – 31 December 2015.

Relief for Increase in Carbon Tax on Farm Diesel

An income tax deduction is allowed for computing the profits of a farming trade to offset the increased costs of green (agricultural) diesel used in that trade which are attributable to the increase in the rate of carbon tax from 1 May 2012.

Agricultural diesel used by a farmer in the course of a farming trade is a deductible cost as it is a legitimate business expense. As carbon tax is included in the cost of that diesel, a farmer obtains a deduction for the amount of the carbon tax incurred on the purchase of farm diesel. In addition to the deduction for the cost of farm diesel, farmers are entitled to a double deduction for the increased carbon tax they incur on farm diesel purchased after 1 May 2012.¹⁷² While carbon tax reliefs are not aligned with environmental sustainability objectives they are available in some competitor countries.

Capital Gains Tax Relief for Transfer of a Site from Parent to Child

This is an exemption from capital gains tax for the disposal of a site from a parent to a child where the transfer is to enable the child construct a principal private residence on the site. The market value of the site must not exceed €500,000. The area of the site¹⁷³ must not exceed 0.4 Ha or one acre. If the child subsequently disposes of the site without having occupied a principal private residence on the site for at least three years, then the capital gain which would have accrued to the parent on the initial transfer will accrue to the child in addition to his/her own gain. However, a gain will not accrue to the child where he or she transfers an interest in the site to a spouse or civil partner. This measure is available to both farmers and non-farmers.

¹⁷² Descriptions of the various agri-tax measures available in Ireland are for the most part taken from the department of Agriculture, Food and Marine and the Department of Finance/Revenue Commissioners.

¹⁷³ Exclusive of the area on which the house is to be built.

Income Averaging for Compulsory Disposal of Livestock

Two specific types of relief are available in respect of profits arising from the disposal of livestock due to statutory disease eradication measures. These measures are income averaging and stock relief. Under the income averaging provisions for compulsory disposal of livestock the farmer has two options. These are:

- ☐ Profits excluded from taxable income in the assessment year in which the disposal arises and to have the profits taxed in four equal instalments in each of the four following assessment years; or,
- ☐ Profit treated as arising in equal instalments in the assessment year in which the disposal actually arose, and the following three assessment years.

Stock Relief for Compulsory Disposal of Livestock

This relief is also specific to profits arising from the disposal of livestock due to statutory disease eradication measures. Where the receipts from the disposal of livestock are reinvested in livestock, the farmer may elect to claim stock relief equal to the difference between the amount of compensation received and the opening stock value of the stock disposed of. This figure is called the “excess”. There is a four-year reinvestment period and provided the full proceeds of the compulsory disposal, i.e., compensation and sales proceeds are reinvested within the four years then 100% of the “excess” may be claimed by way of stock relief. Where the full proceeds are not reinvested the stock relief is then reduced proportionately.

Lower Interest Rate on Instalment Payments for Capital Acquisition Tax due on Gifts/Inheritances of Agricultural Property

It is possible for CAT to be paid in instalments in certain circumstances. This option is available under the following circumstances:

- ☐ A beneficiary takes an absolute interest in immovable property and/or a limited interest in any property, whether moveable or immovable.
- ☐ A beneficiary takes a gift or inheritance of agricultural property and/or relevant business property which is movable property (e.g. livestock, machinery, stock).

The interest rate is 0.0219% per day or part of day from 1 July 2009. Where the property taken is (moveable or immovable) agricultural property the rate at which interest is payable by instalments on the tax is reduced to a daily rate of 75% of the normal daily rate.

9.2 Discussion of Estimated Costs

The overall costs of other tax measures reviewed excluding the cost of profits from woodlands is relatively low and in 2012 was estimated to be of the order of €8.9m. The estimated costs of these agri-tax measures are shown in Table 9.1 and indicate that the tax costs of these measures are quite small. The low level of uptake on CGT farm restructuring relief may in part reflect the fact that detailed guidelines were only published in May 2013; but, given the low level of agri-land sales in Ireland and the restrictions implicit in the relief, we believe the exchequer costs are likely to remain small.

Table 9.1: Agri-tax Measures –Estimates of Tax Cost of Other Agri-tax Measures Excluding Profits from Woodlands		
	Available Estimate of Tax Cost (Revenue Data) - € Million	
	All Claimants	Farmers
Relief for Increase in Carbon Tax on Farm Diesel - 2013	N/A	3.4
Exemption of Certain Income from Leasing of Farm Land		
2009	4.00	4.00
2010	5.00	5.00
2011	5.00	5.00
2012	5.20	5.20
Lower Interest Rate on Instalment Payments for Capital Acquisition Tax due on Gifts/Inheritances of Agricultural Property	N/A	N/A
Capital Gains Tax Measures		
Capital Gains Tax Relief on Farm Restructuring - 2013	0.15	0.15
Capital Gains Tax Relief for Transfer of a Site from Parent to Child		
2008	1.65	0.90
2009	0.78	0.44
2010	0.42	0.28
2011	0.29	0.16
2012	0.26	0.12
Special Treatment of Profits from Compulsory Disposal of Livestock		
Income Averaging for Compulsory Disposal of Livestock	N/A	N/A
Stock Relief for Compulsory Disposal of Livestock	N/A	N/A
Source: Indecon Analysis of Data from the Revenue Commissioners.		
Note: Estimate of full-year cost for relief on carbon tax increase on farm diesel based on a presentation by Eric Gargan, Department of Finance in May 2012. No revenue data available on profits from occupation of woodlands. No revenue data available for averaging of compulsory disposal of livestock and stock relief for compulsory disposal of livestock. It must be noted that any land owner can avail of the land leasing tax exemption and this may include non-farmers and former farmers.		

Finally, we consider the tax cost of relief on profits from occupation of woodlands in Table 9.2. It appears that the number of farmers who have availed of this measure has grown consistently in recent years from 1,999 in 2008 to 5,091 in 2012.

Table 9.2: Agri-tax Measures –Estimates of Tax Cost of Woodlands Reliefs				
	Number of Cases		Available Estimate of Tax Cost (Revenue Data) - € Million	
	All Claimants	Farmers	All Claimants	Farmers
Profits from Occupation of Woodlands				
2008	2,492	1,999	13.6	7.80
2009	3,570	3,035	14.4	9.80
2010	4,361	3,683	14.9	11.80
2011	5,449	4,695	20.8	14.10
2012	N/A	5,091	N/A	14.60
Source: Indecon Analysis of Data from the Revenue Commissioners.				
Note: Figures relate to income tax relief on profits and gains associated with woodlands, which are not separately identifiable.				

9.3 Identification of Potential Benefits

Exemptions of Income from Leasing of Farm

Exemptions of income from leasing of farm land has a potentially significant and positive impact on land mobility, attracting new entrants and earlier lifetime succession, according to the majority of respondents to the Indecon survey of agricultural consultants. See Table 9.3.

Indecon considers the land leasing agri-tax measures to be one of the reliefs most aligned with the strategic objectives of enabling greater access to land for new entrants. However because of a range of factors the uptake had been very low and ways to encourage greater leasing should be a priority.

Table 9.3: Impact of Exemptions of Income from Leasing of Farm Land on Land Mobility, Encouraging and Attracting New Entrants and Earlier Lifetime Success / Transfer within Families					
	Very Significant Positive Impact	Significant Positive Impact	Significant Negative Impact	Very Significant Negative Impact	No Impact
Views of Agricultural Consultants	51.6%	43.5%	1.6%	0.0%	3.2%
Views of Tax Advisers	51.0%	37.3%	2.0%	2.0%	7.8%
Source: Indecon Survey of Agricultural Consultants/Advisers					

The results in Table 9.4 suggest a smaller proportion of respondents believe this same tax measure has an impact on alternative farming methods and environmental sustainability.

Table 9.4: Impact of Exemption of Income from Leasing of Farm Land on Alternative Farming Methods, Smart Farming and Environmental Sustainability					
	Very Significant Positive Impact	Significant Positive Impact	Significant Negative Impact	Very Significant Negative Impact	No Impact
Views of Agricultural Consultants	34.5%	44.8%	3.4%	0.0%	17.2%
Views of Tax Advisers	28.0%	42.0%	0.0%	2.0%	28.0%
Source: Indecon Survey of Agricultural Consultants/Advisers					

The majority of agricultural consultants reported the judgement that this tax measure has a positive impact on productivity levels and investment in the agricultural sector while some of the tax advisers (20%) indicated that there is no impact of this measure on the performance of the sector.

Table 9.5: Impact of Exemption of Income from Leasing of Farm Land on Increasing Productivity, Output and Investment					
	Very Significant Positive Impact	Significant Positive Impact	Significant Negative Impact	Very Significant Negative Impact	No Impact
Views of Agricultural Consultants	56.9%	37.9%	1.7%	0.0%	3.4%
Views of Tax Advisers	46.0%	30.0%	4.0%	0.0%	20.0%
Source: Indecon Survey of Agricultural Consultants/Advisers					

Woodlands Relief

A large proportion of respondents believe there is no impact on land mobility, attracting new entrants and earlier lifetime succession/transfer within families in relation to the woodlands relief tax measure. Nonetheless, 32% of agricultural consultants and 65% of tax advisers reported that the impact is positive.

Table 9.6: Impact of Woodlands Reliefs on Land Mobility, Encouraging and Attracting New Entrants and Earlier Lifetime Succession/Transfer within Families					
	Very Significant Positive Impact	Significant Positive Impact	Significant Negative Impact	Very Significant Negative Impact	No Impact
Views of Agricultural Consultants	11.7%	20.0%	11.7%	6.7%	50.0%
Views of Tax Advisers	17.6%	47.1%	2.0%	2.0%	31.4%
Source: Indecon Survey of Agricultural Consultants/Advisers					

A greater proportion of respondents indicated that there is a potentially positive impact of this tax measure on alternative farming methods and environmental sustainability, compared with that of the impact on new entrants and earlier lifetime succession.

Table 9.7: Impact of Woodlands Reliefs on Alternative Farming Methods, Smart Farming and Environmental Sustainability

	Very Significant Positive Impact	Significant Positive Impact	Significant Negative Impact	Very Significant Negative Impact	No Impact
Views of Agricultural Consultants	15.3%	49.2%	5.1%	1.7%	28.8%
Views of Tax Advisers	16.0%	62.0%	0.0%	0.0%	22.0%
Source: Indecon Survey of Agricultural Consultants/Advisers					

Just less than 44% of agricultural consultants indicated that woodlands relief has a positive impact on increasing productivity levels and investment in the agricultural sector while 72% of tax advisers indicated the same.

Table 9.8: Impact of Woodlands Reliefs on Increasing Productivity, Output and Investment

	Very Significant Positive Impact	Significant Positive Impact	Significant Negative Impact	Very Significant Negative Impact	No Impact
Views of Agricultural Consultants	10.5%	33.3%	14.0%	1.8%	40.4%
Views of Tax Advisers	30.0%	42.0%	4.0%	0.0%	24.0%
Source: Indecon Survey of Agricultural Consultants/Advisers					

Capital Gains Tax Relief on Farming Restructuring

The impact of capital gains tax relief available to the agricultural sector is reported to have a significant and positive impact on the same measures mentioned above, according to the respondents to the survey. Indecon believes that farm restructuring incentives are important in promoting efficiency.

Table 9.9: Impact of Capital Gains Tax Relief on Farming Restructuring on Land Mobility, Encouraging and Attracting New Entrants and Earlier Lifetime Success / Transfer within Families

	Very Significant Positive Impact	Significant Positive Impact	Significant Negative Impact	Very Significant Negative Impact	No Impact
Views of Agricultural Consultants	42.9%	54.0%	0.0%	0.0%	3.2%
Views of Tax Advisers	60.0%	34.0%	2.0%	0.0%	4.0%
Source: Indecon Survey of Agricultural Consultants/Advisers					

Similarly, respondents indicated that the impact of the same tax measure on alternative farming methods and environmental sustainability is significant and positive.

Table 9.10: Impact of Capital Gains Tax Relief on Farming Restructuring on Alternative Farming Methods, Smart Farming and Environmental Sustainability					
	Very Significant Positive Impact	Significant Positive Impact	Significant Negative Impact	Very Significant Negative Impact	No Impact
Views of Agricultural Consultants	19.0%	65.5%	0.0%	1.7%	13.8%
Views of Tax Advisers	29.4%	51.0%	0.0%	0.0%	19.6%
Source: Indecon Survey of Agricultural Consultants/Advisers					

Most notably, 98% of the agricultural consultants agreed that relief from capital gains tax has a very significant or significant positive impact on the agricultural sector in relation to increasing productivity and investment. The majority of tax advisors also agreed but some (11.8%) reported that there was no impact.

Table 9.11: Impact of Capital Gains Tax Relief on Farming Restructuring on Increasing Productivity, Output and Investment					
	Very Significant Positive Impact	Significant Positive Impact	Significant Negative Impact	Very Significant Negative Impact	No Impact
Views of Agricultural Consultants	49.1%	49.1%	1.8%	0.0%	0.0%
Views of Tax Advisers	47.1%	39.2%	2.0%	0.0%	11.8%
Source: Indecon Survey of Agricultural Consultants/Advisers					

10 Econometric & Other Measures of Benefits of Agri-tax Measures

10.1 Overview of Econometric Approach

An established methodology for measuring the impact of tax on policy goals, such as productivity, output, investment, and employment is the approach as developed by Dale W. Jorgenson and numerous co-authors and contributors, including Solow, Griliches, Hall, Christensen and Lau. The framework and methodology provide a unified approach and way of thinking about, and thus modelling, producer behaviour in general, and the impacts of taxation. The approach was applied to the US Agricultural Sector to calculate aggregate TFP rates by Jorgenson and Gollop (1992)¹⁷⁴ and state-specific TFP rates by Ball et. al. (1999).¹⁷⁵

The most basic model is the production function approach.

At the aggregate national level, the production function is:

$$Y = F(L, K, T)$$

Where:

Y is output

L is labour input

K is capital input

T is a technology index or time.

At the sectoral level, such as the farm sector, we must allow for intermediate inputs or materials.

$$y = f(l, k, m, T)$$

y, is now gross sectoral output (of the farm sector).

The model can be specified as an income and/or growth accounting relationship, or relationships between variables can be estimated using econometric techniques.

The dual or 'cost function' approach can also be applied, and this approach is generally used when scale or scope economies are assumed or estimated.

In the paper by Ball et al, Swinand (1998)¹⁷⁶ as part of a research programme for USDA (Gollop and Swinand 1997)¹⁷⁷ developed the national equivalent of the Gollop-Jorgensen labour input data for the State-specific accounts of the US Farm Sector.

¹⁷⁴ Jorgenson, Dale W. and Frank M. Gollop, *American Journal of Agricultural Economics*, Vol. 74, No. 3 (Aug., 1992), pp. 745-750

¹⁷⁵ V. Eldon Ball & Frank M. Gollop & Alison Kelly-Hawke & Gregory P. Swinand, 1999. "Patterns of State Productivity Growth in the U.S. Farm Sector: Linking State and Aggregate Models," *American Journal of Agricultural Economics*, vol. 81(1), pages 164-179.

¹⁷⁶ Swinand, Gregory P., PhD These, Boston College, Boston Massachusetts.

¹⁷⁷ USDA Symposium on State and Aggregate Productivity Growth Accounting, Washington DC. (1997)

With micro-data, the econometric approach can be utilised. The method measures the different impacts of inputs, after specifying a functional form. A common form is the so-called Cobb-Douglas form (which may impose constant returns to scale, if the sum of the slope coefficients is equal to 1, although this can be relaxed).

$$\ln y = \alpha + \beta_1 \ln l_1 + \gamma_1 \ln k_1 + \gamma_2 \ln k_2 + \delta_1 \ln M_1 + \theta t$$

Where here we have specified labour, which could be labour hours worked by farmers; and two different types of capital, k, where land is k_1 and buildings (and other capital inputs) are represented by k_2 ; material inputs (M) are materials used in the production process (such as feed).

The elasticity estimates can be easily shown from the regression outputs of the above equation as the coefficients on the various production inputs.

The specification of various measures such as labour productivity can be calculated directly from the parameter estimates above. Under certain assumptions, such as constant returns, and an alternative error term, labour productivity could be the dependent variable; rearranging the above would give:

$$\ln \left(\frac{y}{l_i} \right) = a + \Delta_i + b_1 \ln \left(\frac{k_1}{l_i} \right) + b_2 \ln \left(\frac{k_2}{l_i} \right) + \delta_1 \ln \left(\frac{M_1}{l_i} \right) + \vartheta t$$

It is also possible to use a translog functional form which includes second order terms and allows non-linearity of impact by input – in this way, interactions between inputs such as capital and labour are included and additionally the impact of input variables is allowed to change as the magnitude of the input changes. This latter effect is derived by including a squared term for each of the input variables. The mathematical representation of the translog model is shown in the equation below:

$$\begin{aligned} \ln y = & \alpha + \beta_1 \ln l_1 + \gamma_1 \ln k_1 + \gamma_2 \ln k_2 + \delta_1 \ln M_1 + \theta_1 t + \frac{\gamma_3}{2} \ln K_1^2 + \frac{\gamma_4}{2} \ln K_2^2 + \frac{\beta_2}{2} \ln L^2 + \\ & \frac{\delta_2}{2} \ln M^2 + \frac{\theta_2}{2} t^2 + \gamma_5 \ln K_1 \ln L + \gamma_6 \ln K_2 \ln L + \delta_3 \ln K_1 \ln M + \delta_4 \ln K_2 \ln M + \theta_3 \ln K_1 t + \\ & \theta_4 \ln K_2 t + \delta_5 \ln L \ln M + \theta_5 \ln L t + \theta_6 \ln M t + \gamma_7 \ln K_1 \ln K_2 \end{aligned}$$

To compute the various elasticity estimates using the translog model requires some simple manipulation of the regression coefficients. For one of the capital variables (e.g. land), the derivation of the elasticity is shown in the equation below.

$$E_{k_1} = \frac{\partial \ln Y}{\partial \ln K_1} = \gamma_1 + \gamma_2 \ln K_1 + \gamma_5 \ln L + \delta_3 \ln M + \gamma_7 \ln K_2 + \theta_3 t$$

This can be applied to any of the other key input variables. In a model with more explanatory variables, the impact can be examined based on the coefficient of the explanatory variable.

The data that we use to estimate potential benefits is the National Farm Survey that is collected annually by Teagasc.¹⁷⁸ As part of this study, Indecon have analysed micro-data which tracks the same farm over time. This allows for more robust econometric modelling. A panel data econometric approach was used to examine the statistical relationship between agricultural output and the various inputs. Panel data models have the useful property of tracking the same farms over time and this feature allows accounting for any farm-specific factors which may influence various outcomes.

¹⁷⁸ See <http://www.teagasc.ie/nfs/FilterResults.aspx>

Because of this panel property, the dataset¹⁷⁹ is much more useful than a cross-sectional time-series dataset, where a random and usually nationally representative sample is taken every year. With this type of data, special or unique characteristics of the firm would not be tracked over time, so the power of the panel dataset is that researchers are able to control for these unique characteristics. The unique characteristics of farms are often called “unobserved heterogeneity”, and panel data estimation techniques are applied to take account of this. However, it must be noted that a number of time varying characteristics will not be taken into account. For example, one farm may change its staff during the time period and this will not be picked up over the time period. However, if a farm has a very effective staff (responsible for around 10% of value added) who stays on the farm over time, this effect will be accounted for using panel data methods. This assumes that staff performance is consistent over the time period.

A fixed-effects (‘FE’) estimator should be used whenever one is only interested in analysing the impact of variables that vary over time. The logic behind the random effects (‘RE’) model compared with the fixed effects model is that the variation across entities is assumed to be random and uncorrelated with the various independent variables included in the model. In models where one believes, a priori, that differences in different farms are likely to influence the dependent variable, then it is preferable to use a random effects estimator. Using a random effects estimator¹⁸⁰ allows one to include time invariant variables and we can examine their likely impact on agricultural output. In the fixed effects model, these time invariant variables are accounted for in the intercept term. In the context of our modelling framework, this is particularly important for our modelling of age and farm type.

10.2 Capital Investment and Output

We use this production function model (as described in section 10.1) to estimate the impact of capital investment on agricultural output. Thus, we estimate an elasticity of output with respect to capital investment. In other words, we examine how much agricultural output changes relative to changes in capital investment, i.e., capital elasticity of output. We also examine the impact of capital investment on productivity. These key outcomes are important in establishing the broad rationale for the agri-tax reliefs that aim to increase capital investment.

The regression results of the translog model are shown in Figure 10.1 and indicate a statistically significant result between capital investment and agricultural output. It must be remembered the capital elasticity of output is no longer just the coefficient on capital and needs to be transformed as per the previous equation. Applying this equation to the regression results of the random effects¹⁸¹ model gives us a capital elasticity of output at the means of the variables of 0.205. It is possible to estimate the capital elasticities at different levels of the input variables.

¹⁷⁹ It must be noted that this dataset is not a balanced panel

¹⁸⁰ Typically, the decision to choose a fixed effects or random effects estimator is based on the results of a Hausman test

¹⁸¹ We also estimated a fixed effects model and found a capital elasticity of around 0.092

Figure 10.1: Econometric results - Impact of Capital input on output (Translog model)						
Random-effects GLS regression			Number of obs		= 5726	
Group variable: farm_idx			Number of groups		= 1479	
R-sq: within = 0.2169			Obs per group: min =		1	
between = 0.9337			avg =		3.9	
overall = 0.9171			max =		5	
corr(u_i, X) = 0 (assumed)			Wald chi2(23)		= 21219.07	
			Prob > chi2		= 0.0000	
lnq_farm	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
lnlab	-.3661927	.1139571	-3.21	0.001	-.5895444	-.142841
lnlab_2	.0140551	.0140924	1.00	0.319	-.0135655	.0416757
lnsize	.9363953	.1155266	8.11	0.000	.7099674	1.162823
lnsize_2	-.0997451	.0223335	-4.47	0.000	-.143518	-.0559722
lnc_farm	-.4288638	.0665476	-6.44	0.000	-.5592947	-.2984329
lnc_farm_2	.0950058	.0085124	11.16	0.000	.0783219	.1116898
t	.1055691	.0204497	5.16	0.000	.0654885	.1456497
t_2	-.0215255	.0027993	-7.69	0.000	-.027012	-.0160389
d_o70	-.0570463	.0163725	-3.48	0.000	-.0891358	-.0249569
lnc_size	-.0748544	.0146749	-5.10	0.000	-.1036167	-.0460921
lnc_labhrs	.0172823	.0012969	13.33	0.000	.0147404	.0198241
lnkap	-.1719336	.0686638	-2.50	0.012	-.3065121	-.0373551
lnkap_2	.0209044	.0071456	2.93	0.003	.0068993	.0349094
lnlab_kap	.0595327	.0123292	4.83	0.000	.0353678	.0836976
lnkap_t	-.0076736	.0016708	-4.59	0.000	-.0109483	-.0043989
lnkap_size	.0408435	.0138143	2.96	0.003	.013768	.0679191
lnlab_size	-.0675306	.0224973	-3.00	0.003	-.1116244	-.0234368
Note: We also include variables for the different farm types.						
Source: Indecon analysis						

A summary of the various output elasticities are shown in Table 10.1 and indicate that increasing the level of capital input increases the agricultural output of the farm.¹⁸²

This is relevant as any agri-tax measures such as capital allowances which result in increased investment are likely to have national benefits in terms of increased agricultural output and employment. These benefits need then to be compared against the exchequer and wider economic costs of the allowances.

The results vary depending on the choice of econometric specification but all results are statistically significant and indicate a positive relationship between investment and increased output. The results indicate that for a 10% increase in capital inputs, annual agricultural output is likely to increase by between 1.6% and 4.2%. Our preferred specification is the translog model which captures second order and combined impacts of the input variables and indicates that for a 10% increase in capital inputs, agricultural output is likely to increase by around 2% but we accept that the impacts may be higher or lower.

¹⁸² The regression estimates and the derivation of the output elasticities are provided in an annex.

Table 10.1: Summary of Capital Elasticity of Output	
Econometric Model	Capital Elasticity of Output
Cobb-Douglas Production Function	0.423
Translog Production Function	0.205
Olley-Pakes Production Function	0.162
Note: These output elasticities refer to the % change in output as a result of a % in capital investment	
Source: Indecon analysis	

A key potential benefit of any relief is its impact on productivity. This is especially true for interventions that aim to increase the capital stock of an enterprise. This has benefits for the overall economy and helps to increase the long-term sustainability of the enterprise. Labour productivity can be modelled using a production function approach where all inputs are divided by labour cost.¹⁸³ As we have farm level micro-data, we can estimate this production relationship using panel data methods.¹⁸⁴

The econometric results of the Cobb-Douglas specification are shown in Figure 10.2 and indicate that capital investment has a positive impact on labour productivity. It is important to note that these productivity benefits may have lasting impacts and these impacts may differ significantly by farm type. When we control for the different type of farm, the results remain very similar to the ones shown in the table.

Figure 10.2: Econometric results - Impact of Capital input on output (Cobb-Douglas)						
Random-effects GLS regression			Number of obs	=	8755	
Group variable: farm_idx			Number of groups	=	1680	
R-sq: within	=	0.4352	Obs per group: min	=	1	
between	=	0.8535	avg	=	5.2	
overall	=	0.8187	max	=	8	
corr(u_i, X) = 0 (assumed)			Wald chi2(5)	=	14672.40	
			Prob > chi2	=	0.0000	
lnq_farm_lab	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
lnkap_lab	.1664204	.0081139	20.51	0.000	.1505173	.1823234
lnsize_lab	.3624068	.009942	36.45	0.000	.3429208	.3818929
lnc_farm_lab	.4091062	.0076286	53.63	0.000	.3941544	.4240581
t	-.0091722	.0010273	-8.93	0.000	-.0111857	-.0071586
d_o65	-.0717289	.0104194	-6.88	0.000	-.0921505	-.0513073
_cons	3.733759	.0711598	52.47	0.000	3.594289	3.87323
Source: Indecon analysis						

¹⁸³ This imposes constant returns on the production function model.

¹⁸⁴ The typical panel data models that are estimated are a fixed effects model or a random effects model.

10.3 Stock and Output

A number of the agri-tax measures are designed to incentivise increased investment in stock levels and of economic importance is the likely impact of this on agricultural output. It is an empirical question regarding the relationship between stock and key outcomes such as output and productivity. We treat stock relief in a very similar fashion as capital allowances. Essentially, both reliefs enable a farmer to increase productive assets (whether it is buildings or livestock). Thus, the benefits of increasing the level of stock will be observed through increased output and improved productivity.

It is clear that increasing the number of livestock on a farm should lead to an increase in the output. However, it is an empirical question as to how large this impact is. It may be the case that increasing the size of the herd will not increase output proportionally as there are other constraints that limit the possibility to increase production. A summary of our estimated relationships between increased stock and output (i.e. stock elasticity) are shown in Table 10.2 and indicate that a 10% increase in the size of the stock leads to a 2-4% increase in output. Again, it must be noted that these benefits are estimated as annual benefits and it is likely that these benefits will continue in subsequent years.¹⁸⁵

Figure 10.3: Econometric results - Impact of stock input on output (Translog)

Random-effects GLS regression			Number of obs = 5505			
Group variable: farm_idx			Number of groups = 1421			
R-sq: within = 0.2299			Obs per group: min = 1			
between = 0.9366			avg = 3.9			
overall = 0.9205			max = 5			
			Wald chi2(28) = 21685.49			
corr(u_i, X) = 0 (assumed)			Prob > chi2 = 0.0000			
lnq_farm	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
lnlab	-.0636938	.1332466	-0.48	0.633	-.3248525	.1974648
lnlab_2	.0291423	.0145172	2.01	0.045	.0006892	.0575954
lnsize	1.223781	.0933461	13.11	0.000	1.040826	1.406736
lnsize_2	-.0826385	.0212906	-3.88	0.000	-.1243673	-.0409097
lnc_farm	-.1738109	.0833456	-2.09	0.037	-.3371652	-.0104565
lnc_farm_2	.1508869	.0158225	9.54	0.000	.1198754	.1818984
t	.0462906	.0228807	2.02	0.043	.0014452	.091136
t_2	-.0215751	.0028346	-7.61	0.000	-.0271308	-.0160195
d_o65	-.0285068	.0124081	-2.30	0.022	-.0528263	-.0041873
lnc_size	-.0692211	.0120217	-5.76	0.000	-.0927833	-.0456589
lnc_labhrs	.0149643	.0014782	10.12	0.000	.0120672	.0178615
lnkap_lesslstock	-.0014362	.0609244	-0.02	0.981	-.1208459	.1179735
lnkaplesslstock_2	.0006226	.0052363	0.12	0.905	-.0096403	.0108855
lnlab_kaplesslstock	.0190287	.0097039	1.96	0.050	9.46e-06	.038048
lnlstock	-.7050119	.1193321	-5.91	0.000	-.9388985	-.4711253
lnlstock_2	.1599006	.0148417	10.77	0.000	.1308114	.1889898
lnlab_lstock	-.0069767	.014098	-0.49	0.621	-.0346082	.0206548
lnlstock_t	-.0026554	.0029573	-0.90	0.369	-.0084515	.0031408
lnkaplesslstock_t	.000277	.0020477	0.14	0.892	-.0037363	.0042904
lnkaplesslstock_l~k	.0041565	.0088543	0.47	0.639	-.0131977	.0215107
lnkaplessstock_c	.0027977	.0075287	0.37	0.710	-.0119582	.0175536
lnlstock_c	-.0823991	.0137045	-6.01	0.000	-.1092594	-.0555388

Source: Indecon analysis

¹⁸⁵ A fixed effects estimator for the translog model indicated an estimate of around 0.09 which indicated that for a 10% increase in the size of the stock indicates an increase in production of around 1%.

It is also important to understand the initial relationship between stock relief and stock investment. Our econometric analysis cannot directly estimate this as we do not have data for our sample on whether farmers received a stock relief. In our econometric analysis we consider the impact of the investment in stock levels and thus only consider the impact of different levels of stock on output and productivity.

Table 10.2: Summary of Stock Elasticity of Output	
Econometric Model	Stock Elasticity of Output
Cobb-Douglas Production Function	0.207
Translog Production Function	0.233
Olley-Pakes Production Function	0.435
Source: Indecon analysis	
Note: These output elasticities refer to the % change in output as a result of a % in livestock.	

It is also important to consider how stock impacts on overall levels of productivity. Different farming types are likely to have very different labour and capital productivity levels. As noted previously, we have treated stock relief in a very similar fashion as capital allowances and thus, we can examine the productivity impacts of increasing stock size.

Figure 10.4: Econometric results - Impact of Stock investment on productivity						
Random-effects GLS regression			Number of obs	=	8524	
Group variable: farm_idx			Number of groups	=	1636	
R-sq: within	=	0.4513	Obs per group: min	=	1	
between	=	0.8383	avg	=	5.2	
overall	=	0.8111	max	=	8	
corr(u_i, X) = 0 (assumed)			Wald chi2(5)	=	13905.00	
			Prob > chi2	=	0.0000	
lnq_farm_lab	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
lnlstock_lab	.2177183	.009586	22.71	0.000	.19893	.2365065
lnsize_lab	.3335417	.0103945	32.09	0.000	.3131688	.3539145
lnc_farm_lab	.3840942	.0080985	47.43	0.000	.3682215	.3999669
t	-.0069459	.0010263	-6.77	0.000	-.0089574	-.0049343
d_o65	-.0714952	.0104949	-6.81	0.000	-.0920647	-.0509256
_cons	3.648702	.0725418	50.30	0.000	3.506522	3.790881
Source: Indecon analysis						

The econometric results indicate that increasing the size of the stock has a positive and statistically significant impact on labour productivity. Indecon tested the robustness of this model by including a number of other variables such as type of farm and whether the land is rented. These other models do not have any material impact on the findings shown in the figure above.

10.4 Levels of Training and Output

Some of the agri-tax measures are designed to facilitate the transfer of land to trained farmers. It is therefore useful to examine whether training has an impact on farmer productivity. We find significant positive results of training. The regression indicates that a trained farmer has on average 12% higher levels of output compared with an untrained farmer. These regressions control for other variables that may lead to differences in the outcomes of the different groups.

10.5 Farm Size and Output

Some of the agri-tax measures such as land consolidation reliefs may be seen in terms of impact on average farm size. The impact of farm size on output and productivity can be modelling using a production function approach where farm size is one of the inputs in the model. The main result of some of the agri-tax reliefs is likely to be in terms of increased availability of land. This may lead to a reduction in the average age of farmers and a change in the average farm size. In this section, we will model the impact of farm size on agricultural output and labour productivity. The results of our analysis are presented in Figure 10.5.

Figure 10.5: Econometric results - Impact of land inputs on output (Translog model)						
Random-effects GLS regression			Number of obs		= 5726	
Group variable: farm_idx			Number of groups		= 1479	
R-sq: within = 0.2169			Obs per group: min =		1	
between = 0.9337			avg =		3.9	
overall = 0.9171			max =		5	
corr(u_i, X) = 0 (assumed)			Wald chi2(23)		= 21219.07	
			Prob > chi2		= 0.0000	
lnq_farm	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
lnlab	-.3661927	.1139571	-3.21	0.001	-.5895444	-.142841
lnlab_2	.0140551	.0140924	1.00	0.319	-.0135655	.0416757
lnsize	.9363953	.1155266	8.11	0.000	.7099674	1.162823
lnsize_2	-.0997451	.0223335	-4.47	0.000	-.143518	-.0559722
lnc_farm	-.4288638	.0665476	-6.44	0.000	-.5592947	-.2984329
lnc_farm_2	.0950058	.0085124	11.16	0.000	.0783219	.1116898
t	.1055691	.0204497	5.16	0.000	.0654885	.1456497
t_2	-.0215255	.0027993	-7.69	0.000	-.027012	-.0160389
d_o70	-.0570463	.0163725	-3.48	0.000	-.0891358	-.0249569
lnc_size	-.0748544	.0146749	-5.10	0.000	-.1036167	-.0460921
lnc_labhrs	.0172823	.0012969	13.33	0.000	.0147404	.0198241
lnkap	-.1719336	.0686638	-2.50	0.012	-.3065121	-.0373551
lnkap_2	.0209044	.0071456	2.93	0.003	.0068993	.0349094
lnlab_kap	.0595327	.0123292	4.83	0.000	.0353678	.0836976
lnkap_t	-.0076736	.0016708	-4.59	0.000	-.0109483	-.0043989
lnkap_size	.0408435	.0138143	2.96	0.003	.013768	.0679191
lnlab_size	-.0675306	.0224973	-3.00	0.003	-.1116244	-.0234368

Note: We also include variables for the different farm types.
Source: Indecon analysis

It is somewhat unclear, *a priori*, how these reliefs which explicitly deal with land transfer will impact on farm size. It can be argued that they could either reduce or increase the average farm size. Our estimated output elasticities with respect to size are shown in Table 10.3 and as previously indicate a statistically significant relationship between size and agricultural output (as expected). The results of the various econometric specifications indicate that for a 10% increase in the size of the average farm, annual agricultural is likely to increase by between 2.8 and 3.7%. This finding would appear to indicate that policies aimed at increasing farm size would be positive in terms of agricultural output. However, this does not consider that farmland is somewhat fixed in supply. Thus, to increase the size of one person's farm, we have to reduce the size of someone else's. Thus, the net impact of this positive land input elasticity of output is not clear.

Table 10.3: Summary of Land Input Elasticity of output	
Econometric Model	Output Elasticity
Cobb-Douglas Production Function	0.37
Translog Production Function	0.28
Olley-Pakes Production Function	0.30
Note: These output elasticities refer to the % change in output as a result of a % in farm size	
Source: Indecon analysis	

To consider the net impact of increasing farm size, we must estimate the elasticity of output with respect to farm size for a number of different farm sizes. The results of our translog model are shown in Table 10.4 and for the Cobb-Douglas model in Table 10.5. These tables show how the output elasticity changes as the size of the farm increases. For example, it is estimated that farms which are in the 75th percentile in terms of size have an output elasticity of 0.188 which is lower than the average output elasticity.

Table 10.4: Summary of Land Size Elasticities w.r.t Output at different farm sizes							
Translog Model		@mean	@p5	@p10	@p25	@p50	@p75
Random effects	farm size elasticity	0.285	0.520	0.463	0.369	0.288	0.188
Source: Indecon analysis							

Using the Cobb-Douglas model, we find the opposite pattern with the output elasticity increasing as farm size increases. Farms in the 5th percentile are found to have significantly lower output elasticities (0.298) compared with the largest farms (0.478).

Table 10.5: Summary of Land Size Elasticities w.r.t Output at different farm sizes							
Cobb-Douglas Model		@mean	@p5	@p10	@p25	@p50	@p75
Random effects	farm size elasticity	0.429	0.298	0.329	0.383	0.429	0.478
Source: Indecon analysis							

We examine the econometric results of the impact of farm size on agricultural output. It must be remembered that farmland is quasi-fixed in the short term¹⁸⁶ and thus if we were to increase the average size of certain types of farms by a certain percentage, then we would have to decrease other groups of farmers by the same amount. The results of our first scenario are shown in Table 10.6 which estimates the impact (in terms of net agricultural output) of increasing the size of the average small farm and decreasing the size of the large farms by 10%. Our analysis finds that under such a scenario, the overall net impact would be marginally negative, i.e., overall agricultural output would decline. Table 10.6 shows the impact of reducing the largest farms (75th percentile) by 10% which means reducing their size by seven hectares. This is then given to small farms which increases their size by the same seven hectares. Under such a scenario, small farmers would see their farm size increase by 37% (to 25 hectares). As the output elasticities were found to be positive for these small farmers, agricultural output does increase if these farmers have access to more land. It is estimated that output would increase by 18% if the size increased. However, when the output loss due to the smaller farm size for larger farmers is considered, the net impact is negative. We also attempt to estimate the likely overall impact on output by assuming that 5% of farms would be impacted by such a scenario. Overall, the result is negative but is not overly significant in the context of the overall size of the industry.

Table 10.6: Scenario 1 - 10% decrease in large farms, 37% increase smallest farms						
	decrease median large farm (75th pct.)	Increase small farm (10th pct.)	output % increase		€ Value output	if 5% of farms impacted above and below median €
hectares	-7	7	-2.6%	Value Δ	-3,112	-21,754,326
%	-10.0%	37.2%	17.9%	Value Δ	2,840	19,854,303
				Net Value Δ	- 272	- 1,900,022
Source: Indecon analysis						

It also important to consider the opposite scenario where the size of large farms increases and small farms decrease. This analysis is presented in Table 10.7 and indicates that some forms of farm consolidation could have a positive net effect on the level of overall agriculture production.

Table 10.7: Scenario 2 - 10% decrease in small farms, 3% increase large farms						
	Decrease median small farm (10th pct.)	Increase large farm (75th pct.)	output % increase		€ Value output	if 5% of farms impacted above and below median €
hectares	-2	2	-4.8%	Value Δ	-764	-5,342,228
%	-10.0%	2.7%	0.7%	Value Δ	837	5,853,470
				Net Value Δ	73	511,242
Source: Indecon analysis						

We also consider the impact of farm size on productivity. The same specification is used as our analysis of the productivity impacts of capital investment. The econometric results are shown in

¹⁸⁶ We note that farmland may in certain circumstances become development land and this reduces the supply of agricultural land.

Figure 10.6 and indicate that farm size has a positive and statistically significant relationship with labour productivity. As with our previous analysis, this analysis accounts for other factors such as material inputs, labour and farm type.

Figure 10.6: Econometric results - Impact of Farm size on productivity						
Random-effects GLS regression			Number of obs		= 8755	
Group variable: farm_idx			Number of groups		= 1680	
R-sq: within = 0.4352			Obs per group: min =		1	
between = 0.8535			avg =		5.2	
overall = 0.8187			max =		8	
corr(u_i, X) = 0 (assumed)			Wald chi2(5)		= 14672.40	
			Prob > chi2		= 0.0000	
lnq_farm_lab	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
lnkap_lab	.1664204	.0081139	20.51	0.000	.1505173	.1823234
lnsize_lab	.3624068	.009942	36.45	0.000	.3429208	.3818929
lnc_farm_lab	.4091062	.0076286	53.63	0.000	.3941544	.4240581
t	-.0091722	.0010273	-8.93	0.000	-.0111857	-.0071586
d_o65	-.0717289	.0104194	-6.88	0.000	-.0921505	-.0513073
_cons	3.733759	.0711598	52.47	0.000	3.594289	3.87323
Source: Indecon analysis						

10.6 Farmer Age and Output

It is important to firstly consider the likely benefits of a retirement relief or other measures which reduce average age of farmers. A potential benefit that we can estimate econometrically is the impact of age on output and productivity. It is important that this age variable is examined in categorical rather than continuous fashion. It is quite possible that our econometric models could indicate that as age increases, productivity (or output) increases. However, this may simply be picking up that farmers aged between 40 and 60 are more productive than farmers younger than forty. Thus, the key consideration in our econometric modelling is the impact of retirement age relative to the other age groups.

We use a production function approach to examine the impact of age (post-65) on the key agricultural outcomes. A full production function model is estimated and the summary results on the variable for being over 65 are shown in Table 10.8. These results from the different econometric specifications are all statistically significant and indicate that relative to all farmers under 65; older farmers have lower levels of output. These lower output estimates account for the other differences that may influence farm output such as labour inputs.

Table 10.8: Percentage Estimates of relationship between Output and being over 65	
Econometric Model	% estimate
Cobb-Douglas Production Function	-4.6%

Translog Production Function	-4.0%
Olley-Pakes Production Function	-7.1%
Source: Indecon analysis	

Thus, it appears that the econometric estimates are clear that reducing the number of farmers who are over 65 would increase overall agriculture output by between 4.0% and 7.1%.

Our regression analysis also indicated that the variable for being over 65 has a negative effect on labour productivity. Again, our analysis is clear and indicates that our age variable (for a farmer over 65) is negative and statistically significant. The results are displayed in Figure 10.7 and indicate that farmers over 65 have lower levels of labour productivity. This analysis controls for other factors such as capital investment and farm size. When we account for type of farming, the magnitude of the coefficient on the age variable drops slightly from 7% to 4.6% (Cobb-Douglas), and from 5.4% to 4% using translog, but it remains negative and statistically significant. The analysis presented below is based on a random effects panel data estimator and we can also estimate a fixed effects model. This fixed effects model is broadly similar to the random effects model. The coefficient on the variable for age is again negative and statistically significant and -5% in magnitude.

Figure 10.7: Econometric results - Impact of Age on productivity

Random-effects GLS regression						
Group variable: farm_idx			Number of obs	=	8755	
			Number of groups	=	1680	
R-sq: within	=	0.4352	Obs per group: min	=	1	
between	=	0.8535	avg	=	5.2	
overall	=	0.8187	max	=	8	
			Wald chi2(5)	=	14672.40	
corr(u_i, X)	=	0 (assumed)	Prob > chi2	=	0.0000	
lnq_farm_lab	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
lnkap_lab	.1664204	.0081139	20.51	0.000	.1505173	.1823234
lnsize_lab	.3624068	.009942	36.45	0.000	.3429208	.3818929
lnc_farm_lab	.4091062	.0076286	53.63	0.000	.3941544	.4240581
t	-.0091722	.0010273	-8.93	0.000	-.0111857	-.0071586
d_o65	-.0717289	.0104194	-6.88	0.000	-.0921505	-.0513073
_cons	3.733759	.0711598	52.47	0.000	3.594289	3.87323
Source: Indecon analysis						

Overall, our results are consistent across a number of different econometric specifications and indicate that farmers who are over 65 have lower levels of output and productivity than younger farmers. This has obvious policy implications which are discussed in this report.

It is possible to analyse the likely quantified impacts of the previous econometric analysis using information data on the current composition of the farming population in Ireland at present. As indicated previously, there is a large share of Irish farmers that are over age 65 (see Table 10.9) and our econometric analysis indicates that this may have implications for the level of agricultural output in Ireland. It was also found to have significant implications for labour productivity.

Table 10.9: Summary of Age Profile of Farmers, 2012		
	Unweighted	Weighted
Under 35	2.8%	2.8%
35-49	25.9%	23.2%
50-60	36.9%	37.4%
60-64	11.7%	10.8%
65+	22.7%	25.8%
Source: National Farm Survey		

10.7 Conclusions

Our econometric analysis has examined the potential impacts of a number of various factors on agricultural output and on productivity and efficiency in the sector. The results show a positive relationship between investment and output and between increased stock levels and output. Our findings also suggest that land consolidation measures if they result in a reduction in small sized farms can have beneficial impacts on agricultural output.

Of significance also is the finding that farmers aged 65 or over, other things being equal do not have the same levels of productivity as younger farmers. These results validate some of the earlier findings which suggested a similar direction of impacts.

11 Evaluation of Cost and Benefits of Agricultural Taxation Incentives

11.1 Introduction

In this section, we outline our evaluation of the overall cost-benefit model that is used to assess the various agri-tax measures. This section also presents the various assumptions used in this model and shows the various outcomes of the reliefs. This CBA approach is consistent with Department of Finance and Department of Public Expenditure guidelines on assumptions for cost-benefit appraisal. It is also consistent with prior work undertaken by Indecon for the Department of Finance,¹⁸⁷ although it is tailored to the particular features of the agricultural sector taking account the limitations of data availability. It is also important to establish a clear comparable methodology which can be used to analyse the effectiveness of each of the different agri-tax measures. While the analysis is aligned with best practice given data availability we would stress that there are significant limitations in the estimates particularly concerning the quantification of benefits and further research in this area is required.

11.2 Overview of Key Assumptions used

The key assumptions used in the CBA model are shown in Table 11.1 and these have been updated to reflect the most recent guidance on CBA appraisal and data availability.

The Indecon CBA model is based on rigorous estimation of the costs of the various measures. It also considers more indicative estimates of the potential benefits of the reliefs in terms of the impact on increased incremental agricultural output.

We, however, note that there are also increased economic costs of increased output particularly in terms of environmental costs and these are taken into account in the modelling. We also weigh any such benefits against the exchequer costs involved.

Table 11.1: Key Assumptions used in CBA model	
Share of Output – Wages***	33%
Share of Output – Expenditures****	58%
Agriculture Multiplier (Output)*	1.73
Shadow Price of Labour***	80%
Discount rate***	5%
Tax Rate – Wages*	35%
VAT rate*	10%
Lambda – Technical assumption to account for immigration and increased labour market participation**	55%
Shadow Price of Public Funds (SPPF)***	130%
Shadow Price of Carbon Emissions (€/t)**	€39/tonne
Admin Costs*	5%
Note: Estimates of benefits are adjusted for deadweight Source: Indecon*, DoF**, DPER***, National Farm Survey****.	

Time Period

¹⁸⁷ Indecon (2013) Ex Ante Evaluation of the Living City Initiative for Urban Regeneration Available on Department of Finance website

We use a time period of one year to assess the annual costs and benefits of each relief. It is possible that the benefits could last longer than one year for any given annual cost. However, we believe this is a prudent approach and note on the cost side we include only exchequer costs and wider environmental costs and do not include any private costs which may be involved. We believe that these two factors may provide a counter balance but recommend additional work in this area. A number of assumptions used may have the impact of reducing the net benefits compared to the actual outcomes. However, given the exclusion of private sector costs and the uncertainty re the benefit estimates we believe this approach is prudent.

Discount rate

A real discount rate of 5% is used as per DPER recommendation. This replaces the previous guidance of a 4% rate. As noted previously, we have used a very short time period and thus the importance of the choice of discount rate is negligible.

Shadow Cost of Public Funds

An issue in cost-benefit appraisals is whether to adjust the exchequer costs to take account of the possibility of wider impacts on the economy of distortionary taxation. Such economic impacts could arise as a result of distortionary taxation.

In our analysis we have used a 130% factor to represent the shadow price of public funds. This factor attempts to estimate the economic impact, if any, of any distortions due to sub-optimal taxation. The 130% assumption is in line with DPER recommendations. It must also be noted that this parameter should also be applied to additional tax revenues that are generated as a result of the relief. Indecon, however, notes that there are significant divergences between economists on the merits of using 130% shadow price for public funds and there is a case for assuming 100%. However, as these are current official guidelines we use these in our base case.

Shadow Price of Labour

Another key assumption involves the opportunity cost of labour. The current DPER guidance recommends a value between 80-100%. We use the 80% parameter in our estimates but there may be merit in using a lower shadow price of labour as this may more accurately reflect current levels of unemployment in the farming sector. Unemployment in the farming sector is closely related to regional disparities in the labour market. In some rural places, farming may be the only employment prospect and thus, there is an argument for applying a lower shadow price in labour in these circumstances.

Multiplier estimates

We use Type 1 output multipliers to capture the indirect benefits of increased output in the agriculture sector. These figures are taken from Indecon's input-output model of the Irish economy using CSO data. Our estimate of the output Type 1 multiplier is 1.73

Relief deadweight

Deadweight measures the extent to which the behaviour change would have occurred without policy intervention. In our survey analysis, we have developed estimates taking account of deadweight and displacement.

CO₂e emissions and environmental impacts

Increased agricultural output is likely to lead to increases in environment emissions. These may be related to the methane produced by cattle and the negative increased environmental impact associated with increased production. Our approach is based on linking output and emissions.¹⁸⁸ Using the detailed macro-economic agriculture model FAPRI estimates have been computed to project levels of agricultural output and the associated levels of emissions.¹⁸⁹ The latest estimates of gross output and the related CO₂-equivalent (CO₂e) emissions from the FAPRI model are shown in Table 11.2.

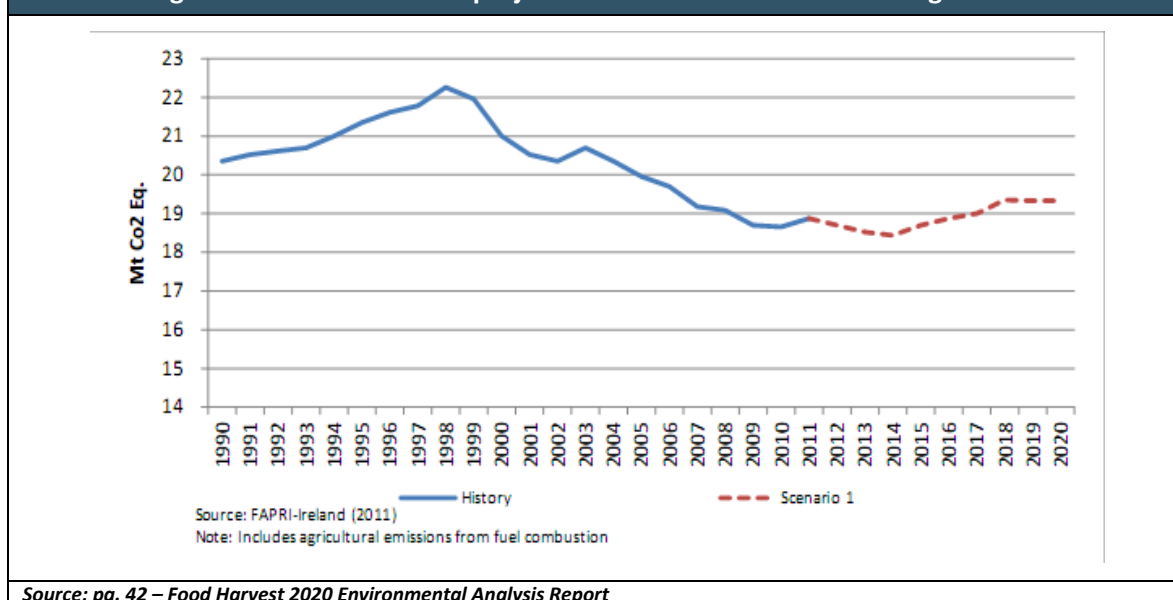
Table 11.2: Analysis of Environment Cost of Agriculture production					
	2010	2013	2014	2015	2020
Estimate of Gross Output (€m)	5,689	6,731	6,643	6,677	7,312
Estimate of CO ₂ e emissions (Mt)	18.767	20.549	19.736	19.290	20.236
Estimate CO ₂ e per unit of Gross Output	0.00330	0.00305	0.00297	0.00289	0.00277
Economic Cost of Agriculture Production (€m) using DoF 2015 guidance value (€39/t)	731.93	801.42	769.70	752.29	789.20
Economic Cost of Agriculture Production (€m) using current carbon tax rate (€20/t)	375.35	410.99	394.72	385.79	404.72
Note: We have used Food Harvest 2020 Scenario from 2012 report Source: Teagasc					

¹⁸⁸ Donnellan T and Hanrahan K (2013) Greenhouse Gas Emissions by Irish Agriculture: Consequences arising from the Food Harvest Targets, Agricultural Economics Department, Teagasc Available at <http://www.tnet.teagasc.ie/fapri/downloads/pubs2013/ghgprojections2012.pdf>.

¹⁸⁹ We are only interested in Carbon Dioxide Equivalent (CO₂e) emissions which are a combination of all the different environment emissions produced but converted into a common framework.

It must be noted that significant improvement is projected in the environmental intensity of agriculture production. It is projected that this intensity will decrease by over 16% by 2020 compared with the 2010 estimate. We have also reviewed the Environmental Analysis report that was compiled to assess the impact of the Harvest 2020 objectives.¹⁹⁰ The baseline scenario of this report shows that GHG emissions will lower between 2010 and 2015 but will begin to rise again after 2015. It is projected that GHG emissions will be around 19.4 Mt CO₂e by 2020.¹⁹¹ This rise is attributable to the significant increase in agriculture production in these years. However, it must be noted that the trend in the environmental intensity of agriculture is declining over time and the increase in agricultural production is achieved at a lower environment cost per unit than in 2010.

Figure 11.1: Historical and projected GHG emissions from Irish Agriculture



Source: pg. 42 – Food Harvest 2020 Environmental Analysis Report

We use the standard DoF guidance¹⁹² on computing the economic cost of carbon emissions. We convert the various emissions into CO₂-equivalent (CO₂e) values so that we can apply the recommended monetary value. These guidelines also recommend using the outputs from the FAPRI model in estimating the economic cost of agriculture production. A step-by-step derivation of how we convert environmental emissions into economic costs is shown in Table 11.3. Our analysis is based on the relationship between projected gross output and emissions in 2015. We note that this relationship is likely to improve by 2020, in other words the environmental costs of incremental output may decline. It is important to consider this relationship in the context of the overall agricultural projections shown previously in Table 11.2 which projects that in 2015, agriculture production in Ireland will be around €6,677 million and the associated level of CO₂e emission will be around 19.29 million tonnes. Thus, to produce €1 of agricultural output, 0.00289 tonnes of CO₂e are created.

An illustrative example of the application of the economic costs which would arise every €1 million increase in agricultural output is presented in Table 11.3.

¹⁹⁰ Food Harvest 2020 Environmental Analysis Report January 2014 Philip Farrelly & Co. Available at <http://www.agriculture.gov.ie/media/migration/ruralenvironment/climatechange/FoodHarvest2020EnvironmentalAnalysisFINAL050214.pdf>

¹⁹¹ See pg. 42

¹⁹² Department of Finance (2009) Guidelines for including CO₂e emissions in project appraisal Available at [http://www.per.gov.ie/wp-content/uploads/Guidelines-for-including-CO₂e-emissions1.pdf](http://www.per.gov.ie/wp-content/uploads/Guidelines-for-including-CO2e-emissions1.pdf).

Table 11.3: Application of Indecon method of computing economic cost of Agriculture emissions		
	2015 assumption of emission to output	2020 assumption of emission to output
(A) Estimate of Increase in incremental Gross Output (€m)	€1m	€1m
(B) Estimate of CO ₂ e per unit of Gross Output	0.00289	0.00277
(C) Estimate of CO ₂ e emissions (t) (A*B)	2,890	2,770
(D) Economic Cost of Agriculture Production emissions(€m) using DoF 2015 guidance value (€39/t) (C*€39)	€0.113m	€0.108m
(E) Economic Cost of Agriculture Production emissions(€m) using current carbon tax rate (€20/t) (C*€20)	€0.058m	€0.055m
*The estimate of incremental gross output is an illustrative example to show the link between incremental output and cost of environmental emissions. Source: Indecon analysis, Teagasc projections		

As shown in the table above, the economic cost of environmental is linked to the economic pricing of CO₂e emissions. The most recent published guidelines from the Department of Finance are shown in Table 11.4 and were published in 2009. It must also be noted that the current carbon tax rate is €20/tonne and was previously €15/tonne prior to May of 2014.

Table 11.4: Department of Finance Recommended Pricing of CO ₂ e Emissions (€/tonne)	
2009	13.24
2010	13.91
2011	14.61
2012	15.59
2013	16.76
2014	17.93
2015 and onwards	39.00
Source: Department of Finance (2009)	

We also note that some of the reliefs may have positive environmental impacts. For example, the woodlands relief is likely to increase forestation which has a positive environmental impact. For reliefs that increase capital investment, it may be the case that investment leads to the replacement of older more inefficient machinery and buildings. This could lead to lower energy consumption which has positive environmental benefits. For the capital allowances, we assume that these allowances lead to a reduction in expenditures of fuel and energy. We estimate that fuel and energy

use account for around 12%¹⁹³ of expenditures and that these investments allow the farmer to reduce consumption by 10%, thus results in a monetary saving.

Technical assumption to account for immigration and increased labour market participation

One assumption that is used in our CBA model is an assumption to account for the percentage of employment that the relief induces either by immigration or increasing the labour force. In the absence of the relief, the employment level would be lower and these foreign employees would either not enter the Irish labour market. Similarly, possible employees would remain outside of the labour force in the absence of the employment created by agriculture. This may be due to geographical remoteness and subsequent lack of perceived employment opportunities. We use an estimate of 55% for this parameter as per previous analysis¹⁹⁴ on this parameter.

Agriculture Specific assumptions

We have estimated a number of parameters that are directly related to the benefits of reliefs for agriculture sector using the most recent full National Farm Survey.¹⁹⁵ The key parameters that we need to estimate are the share of output that is attributable to wages and the share of output that is accounted for by expenditures. Using the most recent NFS, we estimate that wages represent, on average, around 33% of output. Expenditure represents around 58% of output.

Administration costs

We have assumed that there are costs associated with the administration of each relief. We have assumed that this represents 5% of the total tax foregone. This administration cost is included in our estimates of gross economic costs.

11.3 Description of the CBA Model

The benefit side of the CBA model follows three different phases and we will outline the components of each of these phases below.¹⁹⁶ The overall phased approach can be summarised as follows:

- ☐ Phase 1: Economic value of direct and indirect wage bill
- ☐ Phase 2: Economic value of the tax receipts
- ☐ Phase 3: Combination of Wage and tax benefits

The key benefits that we include are:

- ☐ Direct Wage Bill (essentially farm profits)
- ☐ Indirect Wage Bill
- ☐ Tax Bill on Wage bill

¹⁹³ Based on the National Farm Survey 2012

¹⁹⁴ Murphy, A, Walsh, B, Barry, F (2003) The economic appraisal system for projects seeking support from the industrial development agencies, Forfás

¹⁹⁵ Teagasc (2013) National Farm Survey 2012

¹⁹⁶ This approach is consistent with the approach adopted by the Department of Finance used to examine the economic benefit of film tax reliefs.

- ❑ Tax Bill on Indirect wage

The economic costs that we include are:

- ❑ Tax Cost (tax foregone)
- ❑ Administration cost of the reliefs
- ❑ Adjustment for shadow price of public funds
- ❑ Economic value of the environmental impact of increased agriculture output

Thus, the benefit side of our CBA framework will isolate the three components of output (wages, expenditures, taxes). The CBA framework consists of three phases and this are outlined below.

Firstly, we analyse the scheme in terms of its impact on wage bills. This consists of:

1. The direct wage bill of people employed in the sector
2. The indirect wage bill of people employed in the sector

The direct wage bill is based on the likely wages earned as a result of the increase in output. We use data from the national farm survey to isolate the wage impact of output increases. The indirect wage bill is based on the expenditures on materials used in the production process. Only the indirect (multiplier benefits) of the expenditures are included in the indirect wage estimates. These two estimates are added and are then shadow priced. The various components and the adjustments made to these components are shown in Table 11.5.

Table 11.5: Components of Phase 1 of the CBA model	
Variable	Description and calculation
Direct Wage Bill	This is simply the total output multiplied by the percentage of output attributable to wages.
Shadow Price of Labour Adjustment	This is an adjustment to account for the opportunity cost of labour which indicates the percentage of this wage bill that may have accrued regardless of the relief.
Expenditure on inputs	This is total output multiplied by the average percentage of output that is attributable to expenditures on inputs.
Indirect Wage Bill	The indirect wage bill is computed based on the multiplier impact of expenditures in the agriculture sector
Shadow Price of Labour Adjustment on Indirect Wage Bill	An adjustment is made to the indirect wage benefits of the relief
Net Benefit from Wages	The net benefit from wages is simply the sum of the shadow priced adjusted direct wage bill and the shadow price adjusted indirect wage bill.
Source: Indecon	

The second phase of the modelling approach is to analyse the tax receipts attributable to the relief. These tax benefits include:¹⁹⁷

1. Taxes on direct wages
2. Social Welfare savings
3. Tax on indirect wages

¹⁹⁷ Department of Finance (2012) "Economic Impact Assessment of Section 481 Film Relief" Available at http://www.finance.gov.ie/sites/default/files/2012-12-04_film-relief_economic-impact-assessment_final-report_final.pdf

4. VAT
5. Adjustment for Shadow price of public funds.

The components of this approach are described in Table 11.6.

Table 11.6: Components of Phase 2 of the CBA model	
Variable	Description and calculation
Taxes on Direct Wages	This is simply the direct wage bill multiplied by the effective tax rate
Social Welfare savings	This is amount of social welfare payments that are saved as a result of the relief
Taxes on Indirect Wages	This relates to the indirect wage bill multiplied by the effective tax rate
Shadow Cost of Labour	This refers to the adjustment to reflect the opportunity cost of labour
Adjustment to account for increased labour force	This is a positive adjustment to the benefits side as offsets the opportunity cost of labour as it accounts for new entrants into the labour market
VAT	This is the amount of VAT that is collected based on farm expenditures
Adjustment for shadow price of public funds	The relief is likely to generate tax revenue which would have had to have been generated by alternative means which creates a distortion in the economy. Thus, the tax revenue generated is multiplied by this positive shadow price of public goods figure.
Net Tax benefits	This is the sum of the shadow priced adjusted direct and indirect tax receipts plus VAT plus adjustments for increased labour market participation and public funds
Source: Indecon	

In Phase 3, we combine these benefits and adjust for shadow costs as if appropriate. The various components of this phase are shown in Table 11.7.

Table 11.7: Components of Phase 3 of the CBA model	
Variable	Description and calculation
Direct Wage Bill after Shadow Price adjustment	This is the sum of the adjusted direct wage benefits which were explained in Table 11.5.
Indirect Wage Bill after Shadow Price adjustment	This refers to the shadow price adjustment value of the indirect wage bill that was described in Table 11.5.
Taxation Benefits	This is the sum of the various tax benefits which were listed in Table 11.6
Total Net benefits	This is the sum of the three different benefits
Source: Indecon	

11.4 Capital Allowances

In this section, we evaluate the impact of the capital allowances within a cost-benefit framework. As noted previously, the benefit side of our model is driven by indicative estimates of the incremental level of output that each agri-tax measure supports, but we note that further work on the quantification of all the estimates of the benefits is required and this may lead to revisions in these estimates.

Our estimates of this incremental level of output are based on new survey research and our new econometric evidence. Our survey evidence indicates that for every €1 million in capital allowances, the level of gross agricultural output increases by around €1.74-€2.04 million. In our analysis we use a weighted average figure of €1.90m. This level is below that suggested by our econometric modelling but we note that the econometric modelling does not take account of deadweight and is dependent on specific assumptions concerning the response of investors to the tax reliefs, so we believe the approach used is appropriate. A summary of the economic benefits are shown in Table 11.8 and shows how the initial increase in the incremental level of gross output is distributed into different economic benefits. It must also be noted that the estimate of the incremental increase in gross output should be considered against a do-nothing scenario. Without capital investment, it is likely that gross agricultural output would decrease.

Table 11.8: Summary of Economic Benefits of Capital Allowances	
	€ million
Incremental Increase in Gross Output	€1044.55
Direct Wage Bill	€346.5
Shadow price of labour adjustment	€277.2
Wage Bill after shadow price adjustment	€69.3
Indirect Wage Bill	€442.58
Shadow price adjustment	€354.06
Indirect Wage Bill after shadow price adjustment	€88.52
Tax Benefits	€265.22
Other Economic Benefits	€7.24
Total Benefits	€430.27
Source: Indecon analysis	

Our cost-benefit model indicates that for an incremental €1044 million increase in output, the total net benefits to the economy would be around €430 million. It must be noted that this model uses conservative assumptions regarding the shadow price of labour which may be conceivably lower in rural areas where fewer alternative employment opportunities exist.

The benefits are driven by the level of relief uptake which is computed based on the tax cost. It is always a key issue to identify the appropriate cost and benefits in the analysis of tax reliefs or other measures. In our CBA modelling, we include only one year's benefit but also only include the tax cost in one year and not private sector costs. This reflects the uncertainty in the total investment cost and also the uncertainty in how long the benefits are likely to last. We however use a conservative assumption that the benefit do not continue in subsequent years. The derivation of the tax cost of the capital allowances was described in Table 3.1. In terms of economic cost, it is important to consider costs aside from the tax costs. We estimate that there is likely to be an administration cost associated with the running of the capital allowance and we estimate that this is around €9.6 million.

Our CBA model is based on analysing the benefits and costs of increased agricultural output. However, there are also likely to be environment costs associated with increasing agricultural production. We apply the methodology described previously to derive the economic cost of increased environmental emissions of agriculture. These estimates are then linked to the increase in agricultural output associated with the capital allowances. The various economic costs associated with capital allowances are shown in Table 11.9.

Table 11.9: Estimate of Total Costs – Capital Allowances based on survey results	
	€ million
Tax Cost	192.00
Other Economic Costs	127.29
Shadow Price of Public Funds Adj.	60.48
Total Economic Costs	379.77
Source: Indecon analysis	

These benefits and costs are combined in Table 11.10 and indicate the capital allowances lead to a small positive economic benefit. Our analysis indicates that for every €1 in economic costs, there are €1.13 in estimated economic benefits.

Table 11.10: Summary of CBA results for Capital Allowances based on survey results	
Total Benefits	€430.27 M
Total Costs	€379.77 M
Total Net Benefits	€50.51 M
Benefit-Cost Ratio	1.13
Source: Indecon analysis	

Our overall economic costs include environmental costs which are directly related to increased agricultural output. It is possible that some of the capital allowances claimed might not relate to farm related activity. As our analysis is based increased output, the impact of a lower level of capital allowances will not change the benefit-cost ratio.

We also model a number of different assumptions on environmental and other costs including alternative lower estimates of emissions, in terms of the value of carbon emissions.

In identifying any costs, it is important to note that these vary by year and thus while we use 2011 for the capital allowances and these may be an overestimate for the reason referred to above, they are much lower than the levels that occurred in previous years and so in our judgement are a reasonable basis to assess costs and benefits of the capital allowance type reliefs.

Sensitivity analysis on capital allowance estimates

A sensitivity analysis on the key assumptions is shown in Table 11.11 and highlights a number of the points made earlier. As discussed previously, the level of the tax cost does not change the relationship between the costs and the benefits of the capital cost reliefs. Thus, it is important to consider this relationship in the examination of the allowances rather than the overall levels of economic benefits and costs.

In the table below, we also show the impact of using a different assumption relating to the price of carbon. We apply the current carbon tax rate in Ireland (€20/t) and this improves the benefit-cost ratio from 1.13 to 1.33.

Table 11.11: Sensitivity of CBA results for Capital Allowances based on survey results			
	Base case	Base case but using tax cost of €96m	Base case but using a €20/t social price of CO ₂
Total Benefits	€430.27 M	€215.14 M	€430.27 M
Total Costs	€379.77 M	€189.88 M	€322.43 M
Total Net Benefits	€50.51 M	€25.25 M	€107.84 M
Benefit-Cost Ratio	1.13	1.13	1.33
Source: Indecon analysis			

We also consider the capital allowances based on results from our econometric analysis. The same CBA model is estimated based on the level of incremental output associated with capital investment. We use the capital elasticity of output using the translog model (see Table 10.1). One key assumption of this analysis is how much a capital allowance increases capital investment. Our survey research explicitly accounted for this question but our econometric analysis cannot explicitly account for this. Thus, we make an assumption that for every €1 of capital allowances, there is €10 in capital investment. Based on this estimate of capital investment, we use our capital elasticity of output estimates to estimate the level of increased agricultural output due to increased capital inputs. The benefits of the CBA model using this econometric based approach are shown in Table 11.12.

Table 11.12: Summary of Economic Benefits of Capital Allowances – based on application of econometric analysis

	€ million
Direct Wage Bill	€371.22
Shadow price of labour adjustment	€296.98
Wage Bill after shadow price adjustment	€74.24
Indirect Wage Bill	€474.16
Shadow price adjustment	€379.32
Indirect Wage Bill after shadow price adjustment	€94.83
Overall Tax Benefits	€284.14
Environmental Benefits	€7.76
Total Benefits	€460.97
Source: Indecon analysis	

The overall results of applying the econometric analysis described previously in Section 10.2 are shown in Table 11.13 and also indicate positive economic benefits associated with agricultural capital allowances and these benefits are higher than using the survey based approach.

Table 11.13: Summary of CBA results for Capital Allowances based on application of econometric results

Total Benefits	€460.97 M
Total Costs	€388.16 M
Total Net Benefits	€72.81 M
Benefit-Cost Ratio	1.19
Source: Indecon analysis	

11.5 Stock Relief

Again, the main focus of the benefit side of our CBA framework revolves around the incremental agricultural output attributable to the stock relief. This is based on our econometric analysis¹⁹⁸ as described in Section 10.3. In this analysis we treat stock relief in a very similar fashion to our treatment of capital allowances. The breakdown of economic benefits is summarised in Table 11.14.

¹⁹⁸ We use the results based on the translog model

Table 11.14: Summary of Economic Benefits of Stock Relief – based on econometric analysis

	€ million
Direct Wage Bill	€17.78
Shadow price of labour adjustment	€14.22
Wage Bill after shadow price adjustment	€3.56
Indirect Wage Bill	€22.71
Shadow price adjustment	€18.16
Indirect Wage Bill after shadow price adjustment	€4.54
Overall Tax Benefits	€13.61
Total Benefits	€21.7
Source: Indecon analysis	

There are also likely to be costs associated with stock relief and these are summarised in Table 11.15. Again, our approach to estimating environmental costs is based on the link between increased output and emissions. The tax cost of the two stock reliefs is quite small. However, it must be noted that the environmental cost of this particular relief could be higher as it focuses on stock which are one of the main contributors to environmental emissions.

Table 11.15: Estimate of Total Costs – Stock Relief

	€ million
Tax Cost	5.75
Other Economic Costs	6.33
Shadow Price of Public Funds Adj.	1.81
Total Economic Costs	13.89
Source: Indecon analysis	

The overall analysis indicates the investment in stock has a positive impact on the economy and for every €1 in economic costs, €1.56 in economic benefits are achieved.

Table 11.16: Summary of CBA results – Stock Relief based on application of econometric analysis

	€ million
Total Benefits	€21.7 M
Total Costs	€13.89 M
Total Net Benefits	€7.82 M
Benefit-Cost Ratio	1.56
Source: Indecon analysis	

11.6 Retirement Relief from Capital Gains Tax

Our econometric analysis indicates that agricultural output is likely to increase if farmers over 65 are replaced by younger farmers. Our survey indicates that for every €1 million in retirement reliefs from capital gains, agricultural output is likely to increase by €1.76 million. This estimate is used within our CBA framework described previously.

Revenue data indicates that there were 613 cases that availed of this measure in 2012 and we use this as the basis for estimation of tax cost. This tax cost is then divided by the tax rate to give us a measure comparable to our survey question. The economic benefits of this relief are shown in Table 11.17 and indicate that in 2012 they led to an incremental €36.2 million increase in economic benefits. It must also be noted that this assumes that all land that is transferred is actively farmed. Where this is not the case the net benefits will be less than estimated. This highlights the need to ensure all tax reliefs incentivise active farming and the productive use of land.

Table 11.17: Summary of Economic Benefits of Retirement Relief	
	€ million
Direct Wage Bill	€29.66
Shadow price of labour adjustment	€23.73
Wage Bill after shadow price adjustment	€5.93
Indirect Wage Bill	€37.89
Shadow price adjustment	€30.31
Indirect Wage Bill after shadow price adjustment	€7.58
Overall Tax Benefits	€22.7
Total Benefits	€36.21
Source: Indecon analysis	

The summary of all the economic costs are shown in Table 11.18 and indicates that to achieve €36.21 million in net economic benefits requires economic costs of around €30.88m. As with our general CBA framework, environmental costs are directly proportional to the level of agricultural output.

Table 11.18: Estimate of Total Costs – Retirement Relief	
	€ million
Tax Cost	15.24
Other Economic Costs	10.84
Shadow Price of Public Funds Adj.	4.80
Total Economic Costs	30.88
Source: Indecon analysis	

Using the outputs from our survey analysis, we estimate a benefit-cost ratio (BCR) of 1.17 for the retirement reliefs. This implies that for every €1 in economic costs due to the retirement relief, it leads to €1.17 in additional economic benefit to the economy. We estimate that retirement reliefs in 2012 led to around €5.34 million in net economic benefits to the Irish economy (see Table 11.19).

Table 11.19: Summary of CBA results for Retirement Relief	
	€ million

Total Benefits	€36.21
Total Costs	€30.88
Total Net Benefits	€5.34
Benefit-Cost Ratio	1.17
Source: Indecon analysis	

Impact of Retirement Reliefs based on econometric evidence

It is also possible to examine the evidence of how the desired outcome of the retirement reliefs impacts on agricultural output. Using our various econometric models specified previously, we have estimated the percentage output difference associated with farmers over 65 and all other farmers. The analysis indicated that farmers over 65 typically produced lower levels of output in the range of 4-7%. It must also be noted that this analysis accounted for the different inputs that were used in the production process. Thus, for example, if farmers who were over 65 worked fewer hours than the average, then the actual percentage difference in the levels of output produced may be actually higher than estimates shown previously. It also shows the benefit of reforming the social welfare system so that older farmers are not still dependent on their farming income during retirement age.

11.7 Agriculture Relief from Capital Acquisitions tax

We also consider the net economic benefits of tax relief relating to agricultural relief from capital acquisition tax. Our survey research indicated for every €1 million in this relief, output is likely to increase by around €1.88 million. We can estimate the associated level of increased agricultural output by using this evidence and multiplying it by the level of tax relief in 2012. A summary of the economic benefits are shown in Table 11.20 and this table shows how this increase in output leads to different economic benefits to the economy.

Table 11.20: Summary of Economic Benefits – Capital Acquisition Tax Relief based on survey research	
	€ million
Direct Wage Bill	€160.01
Shadow price of labour adjustment	€128.
Wage Bill after shadow price adjustment	€32.
Indirect Wage Bill	€204.37
Shadow price adjustment	€163.5
Indirect Wage Bill after shadow price adjustment	€40.87
Overall Tax Benefits	€122.47
Total Benefits	€195.35
Source: Indecon analysis	

The various economic costs associated with the existence of the agricultural relief on capital acquisition tax are shown in Table 11.21 and are computed in the same way as the previous reliefs. As noted previously, it is important to consider the methodology used to compute this tax costs.

This is somewhat different as they are based on asset values. The methodology used to establish these tax costs is described in section 6.2.

Table 11.21: Estimate of Total Costs – Capital Acquisition Tax Relief	
	€ million
Tax Cost	€77.00
Other Economic Costs	€58.20
Shadow Price of Public Funds Adj.	€24.25
Total Economic Costs	€159.45
Source: Indecon analysis	

These costs and benefits are summarised in Table 11.22 and indicate a small net economic benefits associated with this relief.

Table 11.22: Summary of CBA results – Capital Acquisition Tax Relief based on survey results	
Total Benefits	€195.35 M
Total Costs	€159.45 M
Total Net Benefits	€35.9 M
Benefit-Cost Ratio	1.23
Source: Indecon analysis	

11.8 Stamp Duty

As shown in Section 7, the tax cost of the various stamp duty measures is likely to be very small excluding the woodlands relief.

In 2012, we estimate that the total tax cost of the five stamp duty measures including the woodlands reliefs was around €21 million. It must also be noted that the level of tax cost may differ significantly by year and it is important to consider this in the overall interpretation of the cost of the reliefs.

11.9 Overall Analysis of Costs and Benefits

It is also important to consider the overall impact of the various agri-tax measures and this can be done based on previous quantified analysis. While Indecon believes that there is a rigorous basis for the quantified costs for most of the measures there is greater uncertainty re the measurement of benefits.

Our analysis however uses a range of approaches to measure the benefits and where alternative estimates exist we have tended to use the lower estimate due to the uncertainty of the quantification.

11.9.1 CBA analysis of the three main Agri-tax Measures

We combine the results from the three main agri-tax reliefs that have been quantified previously in this section. These three measures (Capital Allowances, Retirement Relief and Agricultural Relief on CAT) form the vast majority of the tax cost associated with the agri-tax measures. A summary of the

aggregated benefits of these three measures is shown in Table 11.23 and indicate that these three main measures lead to economic benefits of around €662 million to the Irish economy which must be then compared to the costs involved.

Table 11.23: Summary of Economic Benefits – 3 Main Agri-tax Measures based on survey research	
	€ million
Direct Wage Bill	€536.16
Shadow price of labour adjustment	€428.93
Wage Bill after shadow price adjustment	€107.23
Indirect Wage Bill	€684.84
Shadow price adjustment	€547.87
Indirect Wage Bill after shadow price adjustment	€136.97
Overall Tax Benefits	€410.4
Environmental Benefit	€7.24
Total Benefits	€661.84
Source: Indecon analysis	

As our CBA model is driven by the levels of incremental output that the various agri-tax measures support, it is important that we consider the various economic costs that this output leads to. The main costs that we have considered are tax costs, the administration costs associated with monitoring and running the schemes and the significant environmental cost of increased agricultural production.

Table 11.24: Estimate of Total Economic Costs - 3 Main Agri-tax Measures	
	€ million
Tax Cost	€284.24
Total Economic Costs	€557.28
Source: Indecon analysis	

Finally, we present the overall costs and benefits of the three main measures in Table 11.25 and this indicates that for every €1 in economic costs associated with the main agri-tax measures, around €1.16 in economic benefits is created in the Irish economy.

Table 11.25: Summary of CBA results - 3 Main Agri-tax Measures based on survey research	
	€ million
Total Benefits	€661.84
Total Costs	€570.09
Total Net Benefits	€91.75
Benefit-Cost Ratio	1.16
Source: Indecon analysis	

11.9.2 CBA analysis of All Agri-tax Measures

We also examine the likely costs and benefits of all the agri-tax measures based on available tax cost data. We compute the total tax cost of all agri-tax measures relative to the three main measures and increase the incremental output of the main measures by this proportion. We estimate that the total tax cost of all the agri-tax measures is around €340 million in 2012 which compares to the total tax cost of the three largest measures of €284 million (or 84% of the total tax cost). We follow our CBA framework described previously and estimate the level of incremental agricultural output that all the agri-tax measures are likely to support and this is around €1.9 billion which is around 27% of all agricultural output in Ireland in 2012. This output figure is then broken down into its likely different economic benefits as described previously in section 11.3.

Table 11.26: Summary of Economic Benefits – All Agri-tax Measures based on survey research	
	€ million
Direct Wage Bill	€640.77
Shadow price of labour adjustment	€512.62
Wage Bill after shadow price adjustment	€128.15
Indirect Wage Bill	€818.46
Shadow price adjustment	€654.76
Indirect Wage Bill after shadow price adjustment	€163.69
Overall Tax Benefits	€490.47
Environmental Benefits	€7.24
Total Benefits	€789.55
Source: Indecon analysis	

We estimate the costs in a similar way as per our estimate of the overall level of economic benefits. However, it must be noted that the total tax cost is based on the estimated overall tax cost of the various agri-tax measures. The total economic cost of the agri-tax measures is shown in Table 11.27 and it is important to note that these tax costs may fluctuate on year-to-year basis.

Table 11.27: Estimate of Total Economic Costs - All Agri-tax Measures	
	€ million
Tax Cost	€339.70
Total Economic Costs	€681.32
Source: Indecon analysis	

Our estimates suggest that in aggregate the agri-tax reliefs have a small positive net economic benefit to the Irish economy. A key challenge for the sector and policymakers is whether a better targeting of the reliefs could enhance the net benefit to cost ratio.

Table 11.28: Summary of CBA results - All Agri-tax Measures based on survey research	
	€ million
Total Benefits	€789.55
Total Costs	€681.32
Total Net Benefits	€108.23
Benefit-Cost Ratio	1.16
Source: Indecon analysis	

12 Recommendations

In this chapter we outline our recommendations for changes in agri-taxation in Ireland. Our recommendations are designed to realise the potential of the sector as Indecon recognises the importance of the Irish agricultural sector to the Irish economy. This was effectively summarised by the Irish Farmers Association in their input to this review where they noted that:

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

A similar point was made by ICMSA where they noted that:

“The importance of the agri-sector to export driven growth and the need for a targeted tax policy to facilitate further growth and development in the agri-sector cannot be understated.”

Before we outline our recommendations it is important to highlight that being part of the EU requires that any measures which are introduced are consistent with EU State Aid guidelines. All of the recommendations are inevitably subject to State Aid compliance. Our analysis has focused firstly on the substantive policy issues and the challenges which the sector faces and any measures which we believe would assist in meeting these challenges have been carefully considered. However, it is essential to ensure that any measures proposed meet State Aid compliance.

The State Aid Guidelines for the Agriculture sector states that *“despite that general prohibition State Aid may be necessary to address market failures so as to ensure a well-functioning and equitable economy. Therefore the Treaty (on the Functioning of the European Union) leaves room for the granting of State Aid in respect of several policy objectives.”*

The guidelines further note that *“the Commission may consider compatible with the internal market State aid to promote the economic development of the agriculture and forestry sector, and in rural areas, provided that it does not adversely affect trading conditions.”*

The use of State Aid by a member state may in certain circumstances be justified if it is in line with the objectives of the CAP, and in particular, the underlying objectives of the CAP reform towards 2020, but further conditions are required. It is also essential that any measures proposed do not breach of common market rules on production support. A specific prohibition is identified in the guidelines that where restrictions have been placed *“on production or limitations on EU support at the level of individual undertakings, holdings or processing plants, no investment which would increase production beyond those restrictions or limitations may receive State aid support.”*

This suggests there is a list of measures which are State Aid compatible. It is, however, also necessary to find a provision within the Guidelines for State aid in the agricultural and forestry sectors (GL) or the Agricultural Block Exemption Regulation (ABER) that will specifically allow for the payment of State Aid.

In considering the issue of State Aids we also examined a number of specific proposals made during the consultation process. Two of these in our opinion raise potential State Aid issues, namely a proposal for a deposit based scheme to address income volatility in the wider agricultural sector and a very interesting submission by Beet Ireland to the Department of Finance on Potential Relief

Available to Sugar Beet Growers in Acquisition of Sugar Beet Contracts. Given the constraints on the exchequer finances the costs and benefits of these proposals would require careful consideration in the event that they were deemed feasible with the context of compatibility of State Aids. However, our opinion is that there would be significant doubt that such proposals would meet State Aid rules but this is something which the Department of Agricultural, Food and Marine could consider further with the European Commission if deemed appropriate and if these measures were seen as a priority in resource allocations.

On the State Aid compatibility of any specific taxation measures to cope with income volatility, Indecon notes that there is no apparent scope in the new ABER or GL for such a mechanism. There is a risk management provisions in the ABER and the GL but these do not cover income volatility. Instead they are primarily limited to compensating for damage from adverse climatic events or animal/plant disease. There are two other possibilities in relation to the State Aid capability of such measures. Firstly, if the tax mechanism is applied to all sectors of the economy it is regarded therefore as a general tax measure to which State Aid rules may not be applicable. But this would mean introducing such a mechanism for all SMEs and micro-enterprises. The other possibility is to make a special case under point 30 of the guidelines. The new Rural Development Regulation makes provision for an income stabilisation tool. In Indecon's view, however, the type of income stabilisation tool used in New Zealand and Australia would in our opinion be very unlikely to be acceptable.

Our view on the deposit based scheme such as existing in New Zealand and Australia is that in its general form would be likely to be in breach of EU State Aid Rules unless it was provided to all sectors or unless a very targeted scheme was considered which related to a specific approach to risk management. In this context we note that the French Government have in place a very carefully designed risk management deposit scheme which benefits the agricultural sector and this in our view merits further attention.

On the proposals from Beet Ireland, Indecon would be very supportive of the objectives of redeveloping a sustainable sugar industry for Ireland if permitted with the context of EU rules and if a viable business plan was developed. A comprehensive examination of this is outside the scope of the study but in terms of the specific proposal made we note there are no similar measures in existing tax code and capital allowances are generally granted in respect of fixed assets. We note, however, that there is a scheme for tax relief for purchase of a milk quota but we understand that the allowances are not accelerated capital allowances but are granted on a straight line basis over a seven year period.

A summary of our recommendations is outlined in the table overleaf and discussed in subsequent paragraphs. We note that any changes proposed can only be implemented if deemed to be consistent with State Aid provisions. We would also point out that there are strict limits on what national governments can implement and State Aid rulings are binding. Indecon would also note that a number of issues may require detailed evaluation before Government decides to implement these or other recommendations and this may impact on the timescales for implementation.

Table 12.1: Summary of Recommendations

Overall Strategy Recommendations (1) Implement Better Alignment of Tax Reliefs and Strategic Objectives <u>Timescale:</u> Ongoing (2) Enhance Measurement of Costs and Benefits of Tax Reliefs <u>Timescale:</u> Ongoing and on a 3 yearly basis (3) Government should establish Implementation Group to Drive Reforms <u>Timescale:</u> End 2014
Recommendations to Facilitate Land Mobility and Access to Agricultural Land (4) Restrict Agricultural Relief for CAT to ensure productive use of agricultural land <u>Timescale:</u> Budget 2015/2016 (5) Retention of 90% Agricultural Relief where Transfer of Farms is to Active Farmers <u>Timescale:</u> Ongoing (6) Income Received from Leasing to be Exempt from Calculations of Certain State Payments <u>Timescale:</u> 2016 – 2018 (7) Undertake Fundamental Review of Integration of Social Welfare Provisions and Agricultural Tax Reliefs <u>Timescale:</u> 2015 – 2017 (8) Consider Taxation of Non-use of Agricultural Land <u>Timescale:</u> 2015 – 2017 (9) Double Levels of Income Tax Relief on Land Leasing <u>Timescale:</u> Budget 2015/2016 (10) Remove Stamp Duty on Agricultural Leasing <u>Timescale:</u> Budget 2015/2016 (11) Permit Option for Farmers to Lease Land to Limited Companies <u>Timescale:</u> Budget 2015/2016 (12) Remove 40 Age Threshold for Leasing Relief <u>Timescale:</u> Budget 2015/2016 (13) Short-Term renting must be structured as formal Leases to be Eligible as Business Expenses <u>Timescale:</u> Budget 2015/2016 (14) Introduce Measures to Significantly Alter Relative Attractiveness of Conacre <u>Timescale:</u> 2015 – 2018 (15) Amendment of Leasing Restriction on Capital Gains Retirement Relief <u>Timescale:</u> Budget 2016
Recommendations to Facilitate Access by New Entrants and Support Young Farmers (16) Permit Income Averaging from On-farm Diversification for Young Farmers <u>Timescale:</u> Budget 2015/2016 (17) Temporary Revise Eligibility Criteria for Retirement Relief from CGT for Non-Child Transfers <u>Timescale:</u> Budget 2015/2016 (18) Evaluate a Phased Transfer Partnership Model <u>Timescale:</u> Budget 2016 (19) Accelerated Capital Allowances for Young Farmers in first 5 years of Business <u>Timescale:</u> Budget 2016 (20) Retention of Stamp Duty Consanguinity Relief for Non-Residential Transfers <u>Timescale:</u> Ongoing (21) Remove Any Unintended Technical Tax Barrier to Female Participation in Agriculture <u>Timescale:</u> Budget 2015/2016
Recommendations to Improve Farm Efficiency and Facilitate Farm Restructuring and Consolidation (22) Allow Whole Farm Replacement for CGT Relief on farm Restructuring <u>Timescale:</u> Budget 2015/2016 (23) Accelerated Capital Allowance for Investment in Farm Access and Infrastructural Works <u>Timescale:</u> Budget 2015/2016 (24) Retention of certain Reliefs for Farm Partnerships <u>Timescale:</u> until end 2016 (25) Permit CGT Relief on Land Parcels provided Reinvestment in Farms <u>Timescale:</u> Budget 2015/2016
Recommendations to Assist Agricultural Sector to Respond to Income Volatility (26) Increase Income Averaging Period from 3 – 5 Years <u>Timescale:</u> Budget 2015/2016 (27) Consider a Tax-Based-Risk Deposit Scheme as Implemented in France <u>Timescale:</u> Budget 2016 (28) Evaluate Pay and File Deadline for Self-Assessed Income Tax Return <u>Timescale:</u> Ongoing
Recommendations to Improve Environmental Sustainability of Irish Agriculture (29) Widen Scope of SEAI Investment in Energy Efficient Equipment <u>Timescale:</u> 2015 – 2016 (30) Consider Extending Extend Income Averaging to Forestry Clear-Felling Profit <u>Timescale:</u> 2015 – 2016

OVERALL STRATEGIC RECOMMENDATIONS

1. Implement Better Alignment of Tax Reliefs and Strategic Objectives

Our recommendations for specific changes in agri-taxation in Ireland are designed to realise the potential of the sector. We, however, as a general recommendation propose that the various tax resources which may be available to support the sector are reformed in a manner which maximises the cost effectiveness of the funds available by ensuring a better alignment with strategic objectives.

One of the key implications of our analysis in this report is that only a small percentage of the resources allocated to agri-taxation reliefs are directly focused on the key objectives of encouraging new entrants or facilitating the long-term leasing of land. While there are tax reliefs aimed at these objectives, most of the tax costs are utilised by other measures. Of more concern is that some of the agri-tax measures in their current form may have unintended consequences which are not aligned with the best interest of developing the sector. The most significant example of this is where capital acquisitions tax relief may apply to those acquiring land but who do not actively use it for agricultural purposes. This results in exchequer costs but is counter to the objective of encouraging the productive use of agricultural land.

The fact that the balance of exchequer costs relating to agri-tax reliefs may not in all cases be aligned with the current priorities for the sector is not surprising given that many of the measures have developed over time on a somewhat *ad hoc* basis. Decisions on agri-tax measures have also been decided without any detailed evaluation of the economic costs and benefits of specific measures. However, our analysis suggests similar issues apply in other EU Member States and a number of the agri-tax measures are available in competitor countries albeit often in form of general business reliefs. Indecon however believes that any measures within the agri-tax area should be continually examined from the perspective of the rationale for the incentives and what objectives they are attempting to achieve. Also important is the issue of how to prioritise the use of any tax reliefs which are available to assist the sector. Such a realignment is needed to realise the undoubted potential of the sector. This may require more fundamental reforms over time than the specific changes proposed in this report for short-term adjustments. In this context, we recommend a three-year review of the measures and ongoing focus on agri-tax incentives to ensure an alignment with five key strategic objectives as identified by Indecon for the sector outlined below:

- ☐ Facilitate Land Mobility and Access to Agricultural Land.
- ☐ Facilitate Access by New Entrants and Support Young Farmers.
- ☐ Improve Farm Efficiency and Facilitate Farm Restructuring.
- ☐ Assist Agricultural Sector to Respond to Income Volatility and Risk.
- ☐ Improve Environmental Sustainability of Irish Agriculture.

One further general comment is that the very large number of agri-tax measures which exists might suggest the merits of consolidation of some measures over time.

Land Mobility and Access to Agricultural Land

The potential of Irish agriculture will in Indecon's judgement only be unlocked if progressive farmers with ambition have access to agricultural land. The reality is that Irish farming is a profitable enterprise but given the price of agricultural land, if the land is to be purchased it represents a very low yielding investment. Decoupling land ownership from "the right to farm" is essential to realising the potential of the sector. This requires a more radical approach to land mobility than currently exists.

The importance of this issue was highlighted again and again in the consultation process for this review and was reflected in views by representative organisations, individual farmers and agricultural experts. For example, the Agricultural Science Association pointed out that they:

"...consider the issue of land mobility as one of the main structural issues which could be facilitated through enhancement of existing measures, recognising that there is a need for measures that encourage the transfer or management of land to progressive individuals."

The IFA in their inputs to our review referred to the need to "*drive structural improvements by incentivising land transfer (and) mobility*". The IFA also referred to the structural issue of "*low land mobility*".

A similar point was made by Macra na Feirme who pointed out that:

"Structural issues particularly around access to and use of land currently prove a constraint on increasing output."

Macra na Feirme also persuasively argued as part of their submission that:

"Access to land is one of the main structural barriers in Irish agriculture. Long-term leasing of land is unfortunately under-utilised at present."

ICOS highlighted the barriers caused by land immobility and in their submission they argued that:

"There is a general acceptance that land immobility poses one of the greatest threats to Ireland's ability to deliver on our production targets under Food Harvest 2020. There are ingrained social and historical factors at play in the reluctance by older landowners to quit farming and make their land available to younger, intensive farmers. There are factors such as pride, fear of losing control of the family farm, which need to be addressed by a concerted promotion effort by all the relevant stakeholders, including Revenue, which highlights clearly the existing measures and allowances which are available to landowners who may wish to step back from farming."

The ICMSA also noted in their submission that a:

"...major issue is in relation to structural matters namely the age profile of farmers, fragmentation and the price and availability of land"

The importance of land mobility was also highlighted by a wide range of other organisations. For example, the Society of Chartered Surveyors Ireland expressed the view that:

"A lack of mobility can prevent younger generations of farmers from gaining access to productive assets which could have an impact on meeting the Harvest 2020 targets. For example, according to Teagasc, in order to meet the increased output targets of 50% increases in milk production, 2,500 new farms will be needed which has implications for the land market."

Some illustrative examples of other comments made to the consultation process concerning the issue of access to land and barriers to land mobility are presented in the table overleaf.

Table 12.2: Illustrative Examples of Inputs During Consultation Concerning Issue of Access to Agricultural Land

“Ireland continues to have a remarkably low level of land mobility and current policies have been ineffective in improving it. The current focus of taxation policy is on ownership and favours transfers within families. The focus of taxation and related policies should shift away from ownership of land to the use of land. Land is the most valuable asset in rural areas and rural prosperity depends on its effective use. Taxation policy should shift towards ensuring better land use and landscape management.”

“Con-acre: the practice of renting land on annual basis is the enemy of the progressive farmer. It discourages farmers from investing in land to make it more productive and prevents it from being properly developed with paddocks and water lime and reseeding etc.”

“For a variety of reasons, land mobility in Ireland is such that only a very small proportion of the total land base of the country changes ownership on an annual basis and indeed, despite some existing tax policy stimulus, only a limited acreage is available for long-term secure rental. Access to land to accommodate growth in milk production is a particularly acute problem in areas where there is an existing high intensity of production – and will act as a real limiter of growth in these areas. This issue is compounded in certain regions by current/emerging environmental constraints which will have the associated impact of capping stocking rates – thereby limiting output for those milk suppliers who are not in a position to gain access to additional land.”

Source: Extracts from Submissions During Consultation Process

Encouraging greater long-term leasing is critically important in addressing some of the structural and demographic challenges facing the sector. For example, the benefits of encouraging greater long-term leasing include:

- Providing a route to eventual retirement for older farmers, assisting in generation renewal in the agri-food sector;
- Facilitating young farmers to gain access to land;
- Encouraging new entrants to the sector;
- Enhancing the certainty required to encourage lessees to invest and improve land and providing security of tenure and access to credit; and,
- Encourages progressive and competitive farmers to increase their farm holdings.

There is currently a long standing exemption on income tax for agricultural land owners who lease out their land on a long-term basis. The relief is designed to encourage longer term leases of land. There have been a number of modifications to this, and currently the lessor is exempt from income tax as follows:

- 5-7-year leases up to €12,000 per annum
- 7-10-year leases up to €15,000 per annum
- Over 10-year leases up to €20,000 per annum

Despite the fact that existing reliefs mean that income from leasing is a potentially attractive incentive the uptake to date has been relatively low.¹⁹⁹ At present nearly 41% of farms²⁰⁰ rent or lease in land from other land owners, but the majority of these cases are for short-term conacre lettings. This in part reflects cultural and other factors but there is a development to significantly change this position.

Given that Indecon considers that measures to facilitate land mobility is probably the most important policy priority for the sector, we have proposed 12 recommendations to support this objective.

While most of the recommendations to facilitate land mobility have been structured as additional incentives to encourage longer term leasing, these on their own will not be sufficient to achieve the requested shift and there is also a need to disincentivise the non-use or low productive use of agricultural land.

Facilitate Access by New Entrants and Support Young Farmers

The importance of facilitating access by new entrants to the agricultural sector and supporting young farmers in the early years of business is a key strategic challenge for Irish agriculture. Some examples of comments on these issues made as part of this review are outlined below. The importance of this is highlighted by the new econometric evidence completed by Indecon for this study which quantifies the impact of age on agricultural productivity.

Table 12.3: Illustrative Examples of Inputs During Consultation Concerning New Entrants and Young Farmers

“The fact that Ireland has a large number of well-trained young people leaving comprehensive agricultural education programmes each year is a huge advantage to the future of the industry. However, providing these people with the opportunity to apply their expertise and knowledge is the challenge. Access to land and capital are the keys to unlocking this potential and making smart farming a reality in Ireland.”

“There is a major problem in Ireland that over 25% of all land is held by people over 65. Much of this is under-utilised and the economy is losing out as a result. Many of these older farmers have no incentive to lease their land as they have the single farm payment, pension, savings, Area based payment and maybe Repts. They are afraid to lease as they might lose these payments, which is a legitimate concern but it is bad for the economy and for farming. Some countries have made it impossible to receive the pension and SFP at the same time. If the farmer wants to receive the pension and the payments to which he is entitled, he has to enter into a lease or some other type of an agreement with a younger or more active farmer. I think we should make this the rule too if we are serious about making land more mobile. But it is important to remember there are no losers and it would be a win-win.”

“There is no shortage of well-trained young people who wish to enter farming. However, it is the absence of clearly defined pathways into farming that is the problem for young farmers, except where they are fortunate enough to be born onto viable large farms with parents who are prepared to take them into the business.”

Source: Extracts from Submissions During Consultation Process

¹⁹⁹ In the 2012 tax year there were only circa 3,600 claimants of income tax relief under the long term leasing tax exemption for land owners.

²⁰⁰ Analysis of 131,647 applicants to D/AFM’s 2012 Single Payment Scheme show 53,726 applicants (40.8%) had recorded some land either rented in or leased in.

Improve Farm Efficiency and Facilitate Farm Restructuring and Consolidation

The importance of farm efficiency and facilitating investment and farm restructuring was highlighted by many contributions to the consultation process.

For example, the IFA noted that:

“Taxation measures that encourage on-farm investment.....will provide major benefits for the overall economy, through increased output and earnings, employment and export growth.”

The IFA also highlighted that among the important structural deficits that are impacting on competitiveness include:

- “Small farm size – 42% of farms are less than 20 ha
- Farm Fragmentation – 47% of all farms are fragmented into three or more parcels”.

Indecon’s new econometric research has also demonstrated the benefits of reducing the number of very small unviable farms by consolidation into larger units.

Assist Agricultural Sector to Respond to Income Volatility

One of the issues consistently highlighted in our consultations was the problems caused by the particularly marked levels of income volatility in the agricultural sector. Some examples of comments are outlined below. While measures to reduce income volatility are important for social reasons the impact on increased output may be more indirect.

Table 12.4: Illustrative Examples of Inputs During Consultation Concerning Income Volatility

“Income volatility is an inherent feature of agricultural production.....there is a growing need for income smoothing tools which address the cash flow pressures being faced by farmers.

Source: Extracts from Submissions During Consultation Process

Improve Environment Sustainability of Irish Agriculture

Environmental sustainability is an important challenge for Irish agriculture and one which has economic implications. In 2011, agriculture contributed 30% of all green-house gas emissions and 40% of non-ETS gases, although emissions have been declining since 2005. The key pressures identified are methane gases from livestock and emissions from fertiliser. Agriculture accounts for 98% of ammonia emissions in Ireland and have remained unchanged since 1990. However, keeping emissions below the ceiling may prove challenging in the context of the targets set out for Food Harvest 2020. We therefore support measures which would enhance environmental sustainability.

2. Enhance Measurement of Costs and Benefits of Tax Reliefs

In this review we have documented for the first time the Exchequer and wider economic costs of many of the agri-tax measures and the costs are very significant. It is essential that policymakers continually evaluate such costs as without this policymakers do not have adequate basis for resource decisions. In this context we commend recent initiatives by the Revenue Commissioners/Department of Finance to track the costs of selected measures but further work on costs is needed. Indecon, however, also accepts that the measurement of benefits must also be considered as if only the costs are measured there is a danger that we could be in the position of knowing the costs but having no insights into whether the value of benefits are commensurate with the costs. Without this, policy decisions are very unlikely to be appropriate. We therefore recommend increased resources to measure the benefits of both costs and benefits. Because of the information gaps at the start of this assignment there were no quantified estimates of any of the benefits of the agri-tax measures and limited information on costs. Within the scope of this project we have made major progress in considering the costs of all of the main measures with the valuable assistance of the Revenue Commissioners and the Department of Agriculture, Food and the Marine and the Department of Finance. However, further refinement of information systems to measure costs on an ongoing basis is required. On the benefits side we have for the first time attempted some quantification of the benefits using evidence from survey research and from econometric modelling. We, however, note the significant limitations of what has been possible on this aspect and ongoing investment by policymakers to precisely measure the benefits is essential to ensuring value for money and to improving resource decisions for this very important sector. A programme to allocate additional research resources to commission an investigation of the benefits of specific measures is recommended and would be likely to represent exceptionally high value for money and would assist in enhancing the effectiveness of scarce public exchequer resources.

Finally, on the cost side we note that the estimated latest annual costs which we utilise may not be representative of future costs as this will be dependent on economic performance of the sector and the level of expenditure in areas which would give rise to tax reliefs. To respond to this we have attempted to examine the benefits for each €1m of tax allowances on agri-tax measures so that assuming this relationship does not vary, the cost and benefits should rise or fall proportionately.

Overall, our analysis suggests that the economic costs of agri-tax reliefs are marginally less than the economic benefits. This is an important finding but is qualified by the uncertainty regarding the estimated benefits and some of the cost estimates. We also believe our analysis suggests the potential to increase the benefit-cost ratio in a way which enhances the return on scarce exchequer resources. This has been reflected in our detailed measure specific recommendations. We also recommend that any of the proposed changes should only be for a defined period of a maximum of three years unless otherwise specified. Measures should then be subject to independent cost-benefit review. As a medium-term strategy we would also encourage the sector and policymakers to consider the abolition or restriction of any measures which are not seen as having a high cost-benefit ratio and to use these resources to support other measures.

While policymakers or industry representatives might be reluctant to propose any changes which restrict or remove reliefs which already exist, such an approach would represent a lost opportunity to most effectively use whatsoever resources are available to support the sector. It would be naive to assume that in any period exchequer supports are unlimited and therefore resource allocation decisions are inevitable. If there is an unwillingness of the sector to remove or to restrict measures which have a lower benefit-cost ratio this would act as a barrier to introducing new measures which may be required.

3. Government Should Establish Implementation Group to Drive Reforms

While many of the proposed recommendations can be implemented as part of the annual budgetary processes, Indecon believes there is merit in the Government establishing an implementation group to drive the recommendations identified. The group could also advise on detailed implementation or administrative issues involved in certain cases.

Indecon's recommendations on individual agri-tax measures which are outlined in this report are not designed to restrict assistance to the sector but are focused on maximising the impact of any agri-tax reliefs which are provided. We are of course conscious of the very significant constraints on exchequer resources at this time. However, as the public finances improve there may be scope for even more significant initiatives to achieve certain objectives for the agri-food sector including measures to accelerate land mobility. We would, over time, support such targeted new measures in certain areas if analysis is available to suggest they have a high benefit-cost ratio and this could be considered by the implementation group.

RECOMMENDATIONS TO FACILITATE LAND MOBILITY

4. Restrict Agricultural Relief for CAT to Ensure Productive use of Agricultural Land

At present, individuals are entitled to certain agricultural reliefs from capital acquisitions taxes based on a definition of farmers related to asset value. This facilitates a percentage of individuals acquiring such land to be exempt from capital acquisitions tax even if they do not actively farm the land or lease the land to farmers who would actively farm the land. One of the most insightful commentators on Irish agriculture who made a detailed submission to the consultation process noted, "There is little incentive to transfer land to a successor who will actively engage in farming the land." Indeed, the current agricultural relief from CAT is structured in a way in which non-farming acquirers who are interested in subsequently selling the land have a tax based incentive not to sell the land for a period of six years. This provides an incentive for non-use or low productive use of agricultural land and we believe is an unintended and inappropriate consequence of the tax measure.

Indecon therefore recommends that agricultural relief from CAT is restricted to active farmers. We believe active farmers for this purpose should be defined as acquirers who have farming qualifications or those acquiring the land who lease the land on a long-term basis for agricultural use. We also, however, recognise that there may be some individuals who acquire the land and who are interested in engaging full time in agriculture but who for various reasons do not hold agricultural qualifications. We believe it would be inappropriate if such individuals were prevented from availing of the tax reliefs because of their lack of agricultural qualifications. We therefore recommend that individuals should be eligible for the reliefs providing they are full-time employed in agriculture for at least six years post the acquisition. Indecon also considered whether restriction should be similar to young trained farmer restrictions but on balance we believe that these exceptions proposed are more appropriate with the specific objectives of facilitating transfer of land to active farmers.

5. Retention of 90% Agricultural Relief where Transfer of Farms is to Active Farmers

In the IFA 2015 Budget Submission entitled Addressing the Challenges to Deliver Growth in Farming, they proposed the retention of 90% agriculture relief in order to support the transfer of viable family farms. Indecon believes this has validity and we recommend its retention but only in cases where the farm is transferred to an active farmer or where the land is leased. This is consistent with our recommendation on restricting agriculture relief to active farmers.

6. Income Received from Leasing by Farmers to be Exempt from Calculations of Certain State Payments

As part of initiatives to significantly enhance land mobility and to facilitate younger entrants, Indecon recommends that income received from leasing of land entered into by farmers aged 65 or younger should be exempt from calculation of certain state payments. This could include eligibility from medical cards, nursing home entitlements and other state payments. Careful evaluation of how to design such incentives is required and will require evaluation by the Department of Social Protection, the Department of Health and Children and the Department of Finance.

7. Undertake Fundamental Review of Integration of Social Welfare Provisions and Agricultural Tax Reliefs

This may be somewhat outside scope of the review's Terms of Reference but as it is such an important area it warrants highlighting. Because of the size of land holdings in Ireland or other factors farmers may need social welfare income supports to support their farms and families in order to survive. However, in some cases where farms are a viable size the interaction of agri-tax reliefs and social welfare provisions in areas such as old age pension supports may unintentionally encourage farmers to postpone the transfer or leasing of land to more productive farmers. In some countries certain social welfare supports are only provided where the farm has been transferred. Indecon understands that farmers in France (as in Germany and Austria) must choose between the State pension and direct payments when they reach retirement age, i.e., they cannot collect both. In France, a farmer does not automatically receive a state pension at 65. This only applies when the farmer officially retires. At that point, they stop receiving direct aid as they are no longer farming. There is an exception whereby farmers that retire can retain a portion of their land and can continue to receive payment entitlements on this land along with the state pension.

Given the importance of facilitating younger farmers to access land in order to enhance the output and efficiency of farms, we recommend a fundamental examination of the integration of the impact of social welfare provisions and agricultural tax reliefs. A joint review by Department of Finance/Department of Agriculture, Food and Marine and Department of Social Protection is recommended and the focus of this review should be on how to ensure the interactions of agri-tax and the social welfare provisions supports land mobility. This may for example provide that farmers who are not actively farming will continue to be entitled to social welfare provisions but if they choose to leave land underused then they will not subsequently be entitled to certain agri-tax reliefs. This review should take account of any entitlement arising from self-employed PRSI contributions.

8. Consider Taxation of Non-use of Agricultural Land

The non-use of agricultural land hinders the development of the sector and prevents Irish agriculture realising its output and employment potential. This also acts as a constraint on the expansion of the agri-food processing sector. Given the high levels of unemployment in Ireland such an outcome should be disincentivised. Indecon believes there is therefore a strong economic case for the taxation of the non-use of agricultural land. This concept is similar to the idea of the taxation of derelict sites. Indecon accepts that detailed evaluation of how to design such a measure is needed. There may also be other ways of implementing this such as local authority levies on non-use but in general we believe a tax based measure is likely to be more effective. The best way to achieve this should be addressed by the proposed Implementation Group.

9. Double Levels of Income Tax Relief on Land Leasing

In order to send a clear signal of the importance of long-term land leasing we recommend the doubling of the existing income tax reliefs on land leasing. While there may be a reluctance to increase reliefs by such a percentage, we believe this will be needed to support the objectives proposed. Both the sector and the banks have also indicated that younger and new entrant farmers require loan terms of upwards of 15 years in order to make re-payments affordable. The banks have advised that loan terms cannot exceed the land lease term and, as the length of leases tend to take their lead from the maximum income tax exemption available leases for longer than 10 years are not usual. Therefore it is proposed to introduce a fourth higher income tax exemption threshold for a longer-term lease periods of 15 or more years. Indecon also considered raising the minimum period to encourage longer leasing but on balance we do not believe it is the best option as there is a need for a radical change in attitudes to encourage all forms of land leasing.

10. Remove Stamp Duty on Agricultural Leases

Stamp duty is currently applicable on agricultural leases with a term of less than or equal to 35 years and a rate of 1% of the annual rent reserved is levied. As there is a key policy objective to encourage such leases we recommend subject to State Aid approval that agricultural leases should be exempt from such stamp duty. We note that conacre agreements are not subject to such stamp duty and residential leases for less than 35 years with an annual rent not exceeding €30,000 are currently exempt.

11. Permit Option for Farmers to Lease Land to Limited Companies

Most farms in Ireland are operated under sole trader business structures. This is in common with small businesses in other sectors and sole trader structures may remain as the best option for most farmers. However, for some family owned and other farms, limited companies have been established and this can be advantageous in selected targeted circumstances. There are of course significant issues for any farmer in deciding whether to incorporate or not and while farm profits in a company are subject to corporate tax if a farmer then wishes to obtain some of these profits in the form of dividends they are subject to additional taxation at personal tax rates. There are also different disclosure and other rules applying to limited companies and many farmers may choose not to structure their business in such a manner. However, for a number of farm businesses it may be appropriate. At present, the relief on lease income is not available where the land is leased to a farmer who is incorporated, i.e., it is only available where the land is leased to farmers who are taxed as individuals. This means that potential lessors are not inclined to engage in long-term lease arrangements with incorporated bodies.

This issue may be particularly significant in the dairy sector where longer-term certainty around land tenure is critical given the need to have suitable grazing land near the milking parlour and the need for high levels of investment. In some cases, usually for reasons of local geography, the only suitable farmer that is available to lease the land on a long-term basis is incorporated with the resultant effect that land remains rented out as conacre. Thus it is proposed to amend the eligibility requirements for the long-term leasing tax exemption to remove this distortion or bias and to include incorporated farmers as a qualifying lessee.

Indecon considered whether there are any significant implications of this for other economic sectors but as land leasing measures are already in place for non-incorporated farms we do not consider this as likely to be an issue. There may however be a need to ensure suitable anti-avoidance measures.

12. Remove 40 Age Threshold for Leasing Relief

Currently in order to qualify for leasing relief the lessor must be over 40 years of age or be permanently mentally or physically incapacitated. It is proposed to remove the reference to any age threshold for lessors. Indecon believes the 40 age threshold is not justified on economic or policy grounds and could act as a disincentive to leasing. In many instances persons have inherited farms and have little or no interest in active farming. In such cases they may either decide not to use the land for agricultural purposes or engage in short-term conacre letting of the holding. As this offers no security of tenure to the active farmers it is not aligned with agriculture policy objectives on land mobility. We therefore recommend the removal of the 40 age threshold for leasing relief. While this could have the impact of providing an ongoing tax relief, we believe it is justified in terms of the key policy objective of facilitating productive agri-land transfers and promoting long-term leasing. This and the other measures should be reviewed after three years.

13. Short-Term renting must be structured as formal Leases to be Eligible as Business Expenses

It is proposed that in order for a farmer to claim rental or lease costs as a deductible tax expense, it will only be allowed if a formal short-term lease has been used. This should be implemented through the self-assessment process with compliance checks in the normal way through Revenue audit. This will assist in removing an advantage of conacre over leasing.

14. Introduce Measures to Significantly Alter Relative Attractiveness of Conacre

In addition to the specific measures proposed to enhance the relative attractiveness of leasing we believe that there would be merit in the Government considering additional measures to significantly alter the relative attractiveness of conacre vis-a-vis long-term leases. This should be a priority area for examination by the proposed Implementation Group. It may necessitate a range of measures including taxation of conacre. For example, during the consultation process one submission noted the following:

“It is estimated that approx. 40,000 farmers rent land on conacre annually. This is approximately one third of Irish farmers. Conacre is the worst use of land for all concerned – the farmer won’t improve the land as they have to exit in eleven months, while the owner will see the land value deteriorate year on year. More stable collaboration (long-term leases, partnerships and share farming arrangements) deliver greater value. The tax review must seriously consider dis-incentivising conacre to make the alternatives more attractive. Young and progressive farmers are willing to invest and grow their farms, but this cannot happen on the back of conacre.”

15. Amendment of Leasing Restriction on Retirement Relief from Capital Gains Tax

Retirement Relief from CGT currently applies where an individual over 55 years disposes of some or all of his qualifying agricultural assets. Different relief thresholds apply where a person disposes of the business/farm to a person other than their child,²⁰¹ and where the business/farm disposal is to the person's child.²⁰² Currently retirement relief on CGT is restricted, in the case of land transfers to a person other than their child, to transferors who have farmed the land for the previous 10-year period prior to retirement or, arising from a change in Budget 2014, if a person leased their land out for five or more years in the period up to the disposal of land they can qualify for retirement relief from CGT if they also met the 10-year usage rule prior to the letting. The requirement for a 10 year usage provision in addition to any leasing period can act as a barrier to long-term leasing in certain cases and we believe it has no economic justification. We therefore recommend the amendment of this restriction so that any 10 year combination of either leasing or usage would result in qualification providing the lease period was a minimum of 5 years.

RECOMMENDATIONS TO FACILITATE ACCESS BY NEW ENTRANTS AND SUPPORT YOUNG FARMERS

16. Permit Income Averaging from on-farm Diversification for Young Farmers

A condition of income averaging is that it is not available to a farmer where they or their spouse is in receipt of income from another trade or profession. This discriminates against smaller family farm holders and young farmers who cannot derive a sufficient income from their farm and are either considering, or have already undertaken an on/off farm business diversification initiative. It is recommended that election to income averaging is made available to young farmers where either they or their spouse are in receipt of income from another trade or profession if this is based on farm diversification.

17. Temporary Revise Eligibility Criteria for Retirement Relief from CGT for Non-Child Transfers

It is proposed to broaden the eligibility requirements for retirement relief on Capital Gains Tax (CGT) in the case of land transfers to a person other than a child to include farmers who have rented out their land on a conacre or other short-term basis in the period up to the disposal of the land, as long as they farmed the land themselves for a 10-year period prior to the commencement of the conacre or short-term lease. Arising from a change in Budget 2014 if a person leased their land out for five or more years in the period up to the disposal of land they can qualify for retirement relief from CGT if they also met the 10-year usage rule prior to the letting. However there is a large bank of land nationally that cannot avail of this relief as traditionally conacre letting has been the preferred mode of rental; therefore this requirement is seen as an impediment to land mobility. However, in order to disincentivise conacre in the future, it is suggested that this requirement is introduced on a temporary basis for land owners, i.e., conacre and other short-term lettings up to end 2016 will be disregarded for the purposes of ascertaining eligibility for retirement relief. The 10-year usage requirement will continue to apply in order to qualify for the relief. Increases should also be

²⁰¹ Since 1 January 2014 the amount of full relief is €500,000 for those aged over 66 years of age but a higher €750,000 threshold relief level is available for those who dispose of property between 55 and 66 years of age.

²⁰² Since 1 January 2014 the amount of full relief is €3 million for those aged over 66 years of age, but an unlimited threshold level applies to those who transfer between 55 and 66 years of age.

considered to the levels of retirement relief provided. Indecon notes that the existing provisions are only in operation for a year but we believe this change would be appropriate.

18. Evaluate a Phased Transfer Partnership Model

There are a number of barriers to increasing the early lifetime transfers of family farms. One significant issue for farm families is the requirement for two generations to derive an income stream from the farm. In addition, where both parent and child are of working age, the full transfer of the family farm may be considered too abrupt a change.

Indecon believes there is merit in considering Phased Transfer Agreement (PTA) which would be a progression model in which there would be a defined, phased transfer of the family farm over a set time period. This would require an agreed transfer contract where both parent and child (favoured niece/nephew) would have a landlord/tenant relationship over the period of the phased and progressive transfer of assets. A maximum length of the agreement should be defined. The incentive to the parents (land owners) to enter into the contract is access to the existing tax relief on the lease income (connected persons are currently ineligible). A possible structure could provide for the phased transfer of the ownership of the assets and liabilities of the partnership including the land and buildings by aligning the lease period duration (up to ten years) with a phased transfer agreement.

Indecon accepts that how to design this relief to ensure it is effective and to reduce the likelihood of any tax abuses will require some detailed work on implementation. The issue of State Aid compliance also requires evaluation as well as anti-avoidance measures. However, we strongly support the evaluation by the Implementation Group of such a measure.

19. Accelerated Capital Allowances for Young Farmers in first 5 Years of Business

In general, Indecon supports the provision of capital allowances in a manner which structures allowances in line with expected depreciation or expected lifetime of assets involved. However, in order to assist young farmers in the early years of a business we recommend the introduction of capital allowances for young farmers in the first five years of business. The measure should apply to any investment by young farmers incurred over the next three years.

In particular, we recommend accelerated capital allowances for young farmers on buildings and equipment at least up to 50% in year one and the balance at 12.5% per annum over the next four years. This should only apply for the first five years of business and to be restricted to young farmers earning €50,000 or less per annum over the period. There may be merit in considering a cap to the order of €500,000 on the level of investment which would qualify in any year. We also note that this level is below the current wider accelerated capital allowances available in the UK and could be implemented as a measure to facilitate new entrants to support investment. This would require State Aid approval but given the very low percentage of young farmers in Ireland and the need to incentivise entry by such individuals we believe this is justified.

20. Retention of Stamp Duty Consanguinity Relief for Non-Residential Transfers

Consanguinity relief is a relief which halves the normal stamp duty rate on transfer of non-residential property between certain relatives. The relief is scheduled to cease after 31 December 2014. Indecon supports the retention of a more targeted version of this relief where it facilitates access of land to younger farmers. In particular, we recommend the retention of this relief where the transferee is 65 years or younger and where the transfer is to an active farmer.

21. Remove Any Unintended Technical Tax Barrier to Female Participation in Agriculture

Ireland has very low levels of female participation in the ownership of farms compared to other countries and this is not consistent with realising the potential of the sector. It is therefore important to remove any unintended technical tax barriers to female participation. This will also be likely to contribute to on-farm diversification. In other sectors the contribution of female entrepreneurs to employment and innovations have been very significant and any tax barriers which inhibit female participation should be removed.

One area which requires amendment is to allow sharing of ownership and usage between spouses in the context of retirement relief from CGT. For an individual to be eligible for Retirement relief from CGT they need to have owned and used as a chargeable business asset (such as a farm) for a period of not less than 10 years ending with the disposal. Where a farm is transferred on death from husband to wife, the period of ownership and usage of the farm by the husband is taken as a period of ownership by the wife. However, if a lifetime transfer of ownerships into joint names occurs, the period of usage by the husband does not count as a period of usage by the wife. Thus currently, lifetime transfers of holding from a single person's name into joint ownerships between spouses are discouraged as the receiving spouse will have to work with the asset for at least 10 years before he/she could avail of retirement relief. In order to remove this disincentive to female participation in agriculture, it is proposed that the same arrangements apply on lifetime transfer as on death. Anti-avoidance measures should be considered as necessary.

RECOMMENDATIONS TO IMPROVE FARM EFFICIENCY AND RESTRUCTURING

22. Allow Whole Farm Replacement for CGT Relief on Farm Restructuring

CGT relief for farm restructuring was introduced in Budget 2013 and provides for a rollover relief for farm restructuring and parcel swaps with certain conditions to ensure a more efficient farm holding. However, whole farm replacement is precluded from this relief, i.e., the disposal of an entire smaller or fragmented farm holding and replacement with a larger or more efficient farm holding. Achieving the targets in Food Harvest 2020 will require further consolidation of farms to increase efficiency, particularly in the dairy sector.

Stakeholder feedback on poor uptake to date on the relief (only six restructuring certs were issued by Teagasc in 2013) was that the inability to allow whole farm replacement was a major barrier to uptake to date on the measure. Given the very low level of private land sales, circa 0.5% of land is sold annually (a majority of which are executor sales); the level of tax foregone is likely to be minimal. Indeed it is felt that in the absence of a provision for CGT relief for whole farm replacement that strategic disposals of entire farm holdings are not occurring due primarily to long standing historic and cultural reasons that feed into an innate conservatism thinking around the disposal of family farms. Allied with this the current rate of 33% tax charged on the gains arising from a farm disposal mitigates any possibility of many farm consolidations occurring. Thus a targeted stimulus

to trigger increased farm consolidations and supply of land into the open market is proposed by allowing whole farm replacement be an eligible transaction for CGT relief on farm restructuring.

23. Accelerated Capital Allowance for Investment in Farm Access and Infrastructural Works

With the abolition of milk quotas in 2015, a grazing land platform within walking distance of the farmyard rather than quota will become the limiting factor in maximising a farm's production potential. The concern is the dairy farmers will delay investing in the upgrade of farm access and infrastructure elements in their expansion phase for cash flow reasons and fail to maximise their farm's productive potential in the short term. Therefore a time bound stimulus is proposed in order to incentivise farmers to undertake these types of investments. It is proposed that the farm access and infrastructural works that would qualify for this ACA would be restricted to only the following three types of investments: farm roadways, fencing and public road underpasses/overbridges. Indecon recommends that accelerated capital allowances for investment in farm access and infrastructure would be introduced for any investment in these areas made before the end of 2017. Specifically, we recommend that allowances can be used over a five-year period with 50% in Year 1 and 12.5% in each of the following four years. This recommendation is subject to securing State Aid approval by the EU Commission.

24. Retention of Certain Reliefs for Farm Partnerships

The removal of barriers and the provision of incentives/reliefs for farm partnerships is an issue which was highlighted during our consultation process. A number of specific measures have also been introduced to support milk production partnerships. Indecon believes that following the abolition of milk quotas in 2015 there is significant potential for the dairy industry to expand and that partnership incentives would facilitate this expansion. We therefore recommend the retention of CGT retirement relief for milk production partnership, and special income average provisions for milk production partnerships as well as existing enhanced stock relief for registered farm partnerships. We recommend that these be retained until 2017.

25. Permit CGT Relief on Land Parcels provided Reinvestment in Farms

Where farmers have the option to sell a less productive parcel of land in order to reinvest the proceeds into farm capital infrastructure, Indecon believes this would assist in enhancing efficiency. We therefore support the proposal to permit CGT relief on such sales. However this should only apply to cases where this results in more active land use for agricultural purposes and is designed to facilitate farm consolidation. As a result any land parcels sold for sites or for other non-agricultural purposes should be treated under the standard tax code.

RECOMMENDATION TO ASSIST AGRICULTURAL SECTOR TO RESPOND TO INCOME VOLATILITY

26. Increase Income Averaging Period from 3 – 5 Years

Increasing farm income volatility is predicted to become an even more prevalent feature of the agriculture sector as the EU payment support system through various Common Agricultural Policy reform rounds has evolved away from market-based interventions. Further flexibility is required in the tax system to reflect this new reality to allow farmers more scope to level out volatile incomes level over time; thus it is proposed that the income averaging period be increased from three to five years. However, the costs of this measure should be closely monitored as there is uncertainty regarding the level of take-up and exchequer costs of the existing measure.

27. Consider a Tax-Based-Risk Deposit Scheme as Implemented in France

An interesting tax-based-risk deposit scheme is available to farmers in France. This provides a tax break under certain conditions for bank deposits focused on addressing certain specified risks. This includes tax deduction which can be exercised as follows:

- (a) During each year, to acquire fodder to feed the farm animals in the six months which precede or follow the recognition of an agricultural disaster in the area or neighbouring areas;
- (b) For the payment of premiums and contributions for insurance against damaged goods or loss of business taken out by the farmer throughout the year;
- (c) For the payment of expenses resulting from a fire or damage to crops or loss of insured livestock within the deductible limit throughout the year;
- (d) For the payment of expenses resulting from an uninsured climactic, natural or health hazard recognised by a qualified administrative authority throughout the year; and,
- (e) In the case of economic hazard when the difference between the average value added from the three previous years and the value added of the year exceeds 10% of this average when carried out under comparable conditions. For the purposes of this assessment, the value added is defined as the difference between on the one hand, the value before taxes of sales, changes in inventory, capitalised production and allowances and operating subsidies and, on the other hand, the value before tax, deducting transfers of allocated operating expenses, the purchase cost of goods sold and intermediate consumption.

Indecon accepts that this is a change in the basis of assessment of taxable income but we believe it has merits as it is directly related to specific risks faced by the sector. However, administration costs should be compared against the likely levels of take-up.

28. Evaluate Pay Deadline for Self-Assessed Income Tax Return form Farming Sector

Future budgets are scheduled for an earlier date in mid-October and there is the possibility at some stage for a mid-summer payment tax date for self-assessed income. This raises potential cash flow problems for the sector and particularly for small farmers. This is accentuated by the fact that farming is a very seasonal business with much of income arising at specific times in the year. Indecon is supportive of overall national intervention of earlier filing dates as this would enhance macroeconomic and taxation planning. However, there is potential for filing and payment dates to

be at different periods. Permitting the agriculture sector to have different dates for tax payments than other sectors may, however, not be permitted under State Aid rules. We would recommend careful consideration of ways of ensuring that any changes in tax payment deadlines do not cause unintended consequences. One option in this regard would be to provide an exemption from earlier payment dates for all SMEs subject to an assessment of the costs involved. While this issue was not explicitly included in our terms of reference and may be deemed to be outside the scope of this study, it was raised during the consultation process and has impacts on managing income volatility.

RECOMMENDATIONS TO IMPROVE ENVIRONMENTAL SUSTAINABILITY

29. Widen scope of SEAI ACA Scheme for Investment in Energy Efficient Equipment

The agri-sector is a significant end user of energy demanding equipment in the rural economy. However to date there has not been a targeted scheme available for the sector to encourage such expenditure in energy-efficient equipment. While all sub-sectors of the agriculture sector have uses for energy efficient equipment, in the shorter term the dairy sector in particular has a significant need for investment and upgrading of milking facilities equipment arising from the forthcoming milk quotas abolition in 2015 when large increases output²⁰³ will be possible for the first time in a generation.

The Sustainable Energy Authority of Ireland (SEAI) has an Accelerated Capital Allowance (ACA) scheme in place since 2008. The scheme allows companies paying corporation tax (current rate 12.5%) to write off the full cost of SEAI approved energy efficient equipment against tax in the year of purchase. The ACA scheme was introduced 2008 for an initial three-year period. Arising from its success, the scheme was extended in 2011 for an additional three years and currently includes c. 10,000 registered products across 10 different equipment categories and 52 associated technologies. Teagasc have advised that a number of the 10 equipment categories in the ACA scheme have considerable potential for uptake in the agri-food sector. However as the vast majority of farmers are not incorporated they are currently excluded from availing of this ACA. Indecon therefore recommends widening the scope of the ACA scheme to include certain energy efficient equipment which may be accessed by small and medium non-incorporated farm businesses. There may however be a need to extend this to some other SMEs and this requires consideration. Indecon notes that accelerated capital allowances on energy efficient farm equipment are aligned with the need for enhanced sustainability. Similar measures are available in other countries such as the Netherlands.

30. Extend Income Averaging to Forestry Clear-Felling Profit

Clear-felling forestry profits are subject to the upper tax exemption limits of the High Earners Restrictions rules. This has had a disproportionate effect on forest owners as the majority of income comes at a single point in time, i.e., clear-felling. This is an important issue for the forestry sector as forestry is a unique investment where the majority of the revenue is realised at the end of the growing cycle (typically 40 years and sometimes significantly longer). It is felt that the effect of these ongoing restrictions is impacting on land owners' long-term decision making in afforesting land and thus impacts on the Government's afforestation planting targets. It is currently influencing

²⁰³ 50% increase in dairy production planned by 2020 in Department's Food Harvest 2020 Strategy, 2010

behaviour in that harvests are being split into two/three years in order to avoid the current limit (€80,000) and this is less than efficient. Forestry plays a key role as a Carbon sink, helping to mitigate the increase in GHG emissions in other sectors of the economy.

In order to offset the impact of this restriction on the forestry sector it is proposed to allow income averaging from the trade of farming to be extended to include clear-felling profits earned from the forestry sector in estimating the upper tax exemption limits. Indecon however recognises the need to ensure that there is equity in the tax system and that any changes in this do not dilute high income earners' restrictions in unintended ways. We also note that precise ways to achieve the objective of recognising that forestry income arises in one particular year needs to take account of how different sections of Tax Acts dealing with farming and woodlands will require careful examination. How to ensure that changes are focused on those employed in farming and forestry rather than external investors should also be considered.

Conclusions

Indecon's analysis suggests that the existing agri-tax reliefs have a marginal net economic benefit and support a critical sector of the Irish economy. The significance of the agri sector was noted in a wide range of submissions and for example the IFA referred to "the importance of the agri-food sector as a source of employment and economic activity across the entire country". However the ownership structure and age profile of the Irish agricultural sector is preventing it from realising its potential. Indecon's analysis suggests that with better targeting, the contribution of the incentives to agricultural policy objectives could be enhanced. In particular, there is a need for a new focus on facilitating land access and enhancing the relative incentives for leasing. There is also a need to redirect tax measures to support active farmers and to target the measures to achieve other objectives. This will require actions which disincentivise unproductive or less productive use of agricultural land. There is also a wider need to ensure agri-tax measures do not unintentionally hinder structural change and instead support the more productive use of land. The importance of facilitating younger new entrants with resultant benefits for farm output should be prioritised. The scale of this challenge was highlighted by Macra na Feirme where they pointed out that, "There are currently more farmers over 80 years of age than under 35 years of age." The issue of access to land and the age profile of farmers was also pointed out by ICMSA where they indicated that a "major issue is in relation to structural matters namely the age profile of farmers, fragmentation and the price and availability of land". The measure of success will be determined by whether sufficient changes are made to enable progressive farmers to have access to land to unlock the potential in Irish agriculture.

With appropriate reforms, Indecon believes the expansion of Irish agricultural output and employment can be accelerated. The proposed reforms would underpin Ireland's inherent comparative advantages in this sector. However, failure to introduce radical effective measures to increase long term leasing and to facilitate younger age farmers would represent a lost opportunity for the Irish economy.

Annex 1 Details of Organisations / Individuals Contributing to the Consultation Process

List of Submissions to the Public Consultation on Agri-Tax measures		
1	Barleyfield	
2	Aubrey Kee	
3	Eoin Phelan	Laois Farm Forestry Group
4	Timothy A Coakley	
5	Shane Price	CORR property consultants and agronomists
6	The Friendly Farmer	
7	Ciaran Fallon	Coillte
8	Nodstown	
9	Lawrence Bartley	Farmers possibly impacted by Glencore/Xstrata mining project
10	Michael Keane	UCC
11	Tom Kearns	Farming as a sole trader
12	Audrey Crean	Taxation Partner
13	Brian Keegan	CCAB-I
14	Martin Dineen	Lisavaird Co-operative Creamery Ltd
15	Paul Farrelly	RDS
16	Teresa Nolan	
17	Claudia & Richard Greene	Incorporated farmer
18	Donal Whelan	Irish Timber Growers Assoc
19	Tom Dawson	Agricultural Consultants Assoc
20	Ger Buckley	Dairy Farmer
21	Aisling Meehan	Solicitor & Tax consultant
22	Sean Farrell	Agricultural Science Assoc
23	Peter Farrelly	Farm Contractors in Ireland
24	Kevin Kilcline	Irish Farmers' Assoc
25	Gary Ryan	Farm Tractor & Machinery Trade Assoc
26	Conor O'Donovan	Society of Chartered Surveyors Ireland
27	Mary Buckley	ICMSA
28	Cora O'Brien	Irish Tax Institute
29	John Phelan	Woodland Managers Ltd
30	Derry Dillon	Macra na Feirme
31	Kevin Twomey	Dairy Industry Progression Group
32	Shane O'Dwyer	Irish Thoroughbred Breeders Assoc
33	Edel Carter	Grant Thornton
34	Seamus O'Donohoe	Irish Co-operative Organisation Society Ltd
35	Kieran Coughlan	Tax Consultant
36	Eddie Punch	Irish Cattle & Sheep Farmers Assoc
37	Patty & Barry Murphy	Farmers
38	David Murphy	Dairy Ireland Discussion Groups
39	David Ashmore	Agricultural Consultant
40	Sean Molloy	Glanbia Ingredients Ireland Ltd
41	Declan McEvoy	IFAC
42	Brendan Garry	
43	Cotter Bros Firewood	Firewood company
44	Prof Gerry Boyle	Teagasc
45	Michael Healy	
46	Patrick Davitt	IPAV

List of organisations and representatives present at Agri-Taxation Stakeholder Meetings on 15, 21 and 29 May	
Organisation	Representative Names
Irish Farmers Accounts Co-op Society (IFAC) Accountants	Declan McEvoy and Joan O'Sullivan
Aisling Meehan	Aisling Meehan
Irish Creamery Milk Suppliers Association (ICMSA)	Lorcan McCabe, Pat McCormack, John Enright and Mary Buckley
Macra na Feirme	Edmund Connolly, Derrie Dillon, Kieran O'Dowd and Sean Coughlan
Irish Cattle and Sheep Farmers Association (ICSA)	Eddie Punch and Patrick Kent
State Aids meeting with EU and Trade Division, D/AFM*	Grainne Mulligan and Brid Cannon
The Society of Chartered Surveyors Ireland (SCSI)	Tom McDonald, Trevor McCarthy and Declan McEvoy
Irish Timber Growers Association (ITGA)	Dermot Byrne
Kieran Coughlan, Coughlan Accounting	Kieran Coughlan
Irish Farmers' Association (IFA)	Eddie Downey, Tom Doyle, Pat Smith, Rowena Dwyer and Joe Hickey
Irish Tax Institute (ITI)	Cora O'Brien, Billy Irwin and Bernard Doherty
Agricultural Consultants Association (ACA)	Tom Dawson and Martin O'Sullivan
Institute of Professional Auctioneers and Valuers (IPAV)	Patrick Davitt and Val Mogerley
The Irish Co-operative Organisation Society (ICOS)	Seamus O'Donoghue and Sinead Farrell
Agricultural Science Association (ASA)	Sean Farrell, Fiona Thorne and Aoife Byrne
Royal Dublin Society (RDS)	Tom Cannon, Tom Kirley and Paul Farrelly
Dairy Ireland Discussion Groups / Dairy Industry Progression Group (DIDG/DIPG)	Kevin Twomey, David Murphy, Austin Finn and Paidí Kelly
Lisavaid Co-operative	Donal Toibin and Martin Dineen
Teagasc	Fintan Phelan, Kevin Connolly and Tom Curran
Consultative Committee of Accountancy Bodies Ireland (CCAB-I)	Norah Collender and Mark Doyle
Glanbia Ingredients Ireland Limited (GIIL)	Sean Molloy, Gordon Murphy and Brian Hanifin
Irish Thoroughbred Breeders' Association (ITBA)	Shane O'Dwyer, Joe Foley and Declan McEvoy