An Roinn Airgeadais
Department of Finance

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

Consultation on

- **the implementation of the Agri-taxation Review 2014;**
- **income stabilisation and taxation.**

Progress report on the 2014 Agri-Taxation Review

An inter-departmental working group has been established to examine the progress which has been made towards achieving the 25 key recommendations of the Agri-taxation Review 2014.

The working group is chaired by the Tax Division of the Department of Finance and its membership includes officials from the Department of Agriculture, Food and the Marine, the Department of Public Expenditure and Reform and the Revenue Commissioners.

The group also proposes to further examine the recommendations having regard to developments since 2014, such as Brexit, Climate Change and the abolition of milk quotas.

The working group now proposes to conduct a public consultation seeking further detailed views from interested parties.

Background

The 2014 review was a joint initiative between the Department of Agriculture, Food and the Marine (DAFM) and the Department of Finance and was published as part of Budget 2015. The review provides a clear strategy for the achievement of the following specific policy objectives into the future:

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 competiveness, 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.

The review has been implemented over the past number of budgets, strengthening existing agri-tax measures and introducing new measures such as the "Succession Farm Partnership Scheme".

Income stabilisation

Commodity price volatility has been an increasing feature of agricultural markets. With the gradual decoupling of farm payments under the CAP and the abolition of milk quotas in 2014, the sector has become more exposed to fluctuations in global prices. The longer-term global outlook is for increasing consumer demand; especially from emerging economies with a growing middle class, for safe, healthy and nutritious food, meeting high standards of environmental protection and animal welfare. This demand represents a significant growth opportunity for Irish, and all EU, food producers. However, this growth potential is threatened by periods of price volatility.

Measures in place to help alleviate the pressures of income volatility include:

- Direct payments, estimated by Teagasc at an average of almost €18,000 per farm, provide a valuable source of farm income support and act as a hedge against price volatility.
- "Income Averaging" for farmers smooths income over a five year period for tax purposes.
- The 'Agriculture Cash-flow Support Loan Scheme' made €150 million available to farmers throughout Ireland at low-cost interest rates of 2.95%. It assisted farmers in addressing the impact of the change in the sterling exchange rate and lower commodity prices in some agriculture sectors in 2016 and 2017.

Fixed price contracts are increasingly becoming a feature of the producer/processor relationship in the dairy sector, with numerous milk purchasers offering such contracts, which provide producers with the opportunity to lock in prices over the medium term, taking costs of production into account. There have also been innovative financial products introduced in Ireland recently, which link loan repayments to movements in milk price.

Climate Change

The Programme for a Partnership Government sets out the ambition of achieving "*an approach to carbon neutrality in the agriculture and land-use sector, including forestry, which does not compromise capacity for sustainable food production*"

Under the EU's Climate and Energy Package, Ireland has a legally binding target to reduce non-ETS greenhouse gas emissions by 20% by 2020 (on 2005 levels). This target rises to 30% by 2030.

According to the Environmental Protection Agency's (EPA) 2017 Emissions Projections Report, agriculture is the single biggest contributor to Ireland's non-ETS greenhouse gas emissions and it is projected that agricultural emissions will increase by 4% - 5% by 2020 from current levels.

Sustainability is one of the core themes of Food Wise 2025, the 10 year strategy for the agri-food sector, which recognises that "environmental protection and economic competitiveness are equal and complementary: one cannot be achieved at the expense of the other".

Taxation and policy background

The 'Programme for a Partnership Government' states the following in relation to agri-taxation: *"[w]e will also investigate taxation measures aimed at supporting farmers through periods of volatility".* Addressing volatility through the taxation system is also an action under Food Wise 2025, which sets out an enabling strategy for the development of the agri-food sector over the next decade. The Government has adopted Food Wise as the basis for its agriculture policy and it sets out ambitious growth projections for the sector, including an 85% increase in exports and 23,000 additional direct and indirect jobs. The expert committee which drew up the strategy believe that these projections are achievable by 2025, provided that the detailed Food Wise recommendations are implemented. Moving up the value chain where possible, in terms of the type of products sold, and how they are produced, is an important insulation against volatility. The Food Wise strategy for the sector contains detailed recommendations aimed at improving value added and productivity at farm and food industry level through a focus on sustainability, efficiency, knowledge transfer and innovation.

Given the agri-food sector's reliance on exporting to the UK market (39% of total sector exports in 2016), the impact of Brexit poses a major risk. The effects of currency changes, additional costs and possible tariffs are likely to have a significant impact. In turn, taking into consideration the income profile and vulnerability of many farms, Brexit has the potential to cause significant disruption to primary agriculture.

The Agri-taxation Review included two recommendations specifically to help address farm income volatility, both of which were introduced in Budget 2015:

- Retain and enhance 'Income Averaging' by increasing the period from three to five years, providing more scope for income smoothing within a commodity price cycle.
- Allow averaging to be availed of where a farmer and/or their spouse receive income from an on-farm diversification trade or profession.

Both developments have been in operation for a number of years. The introduction in Budget 2017 of a further adjustment to the 'Income Averaging' system, allowing an opt-out for an exceptional year, was also well received and assists farmers in times of exceptionally low prices to manage cash-flow.

Consultation Questions

In responding to this consultation you are invited to gives your views on the following:

1. The implementation of the Agri-taxation Review 2014.
2. How the tax system might further address income stability in the primary agriculture sector?
3. How developments such as Brexit, climate change, the abolition of milk quotas etc. affect the context in which the recommendations of the 2014 Agri-tax Review were made?
4. Given the ambition to grow the sector and the urgent need to reduce emissions, the question arises, what is the role of agri-taxation in the achievement of this target in the context of Food Wise 2025 and the increased global demand for food?

5. Other priority areas or future challenges that the tax system should seek to address in the context of the primary agriculture sector?

In responding, you should keep in mind the tenets of Department of Finance Guidelines for Tax Expenditure:

- What objective does the tax expenditure aim to achieve?
- What market failure is being addressed?
- Is a tax expenditure the best approach to address the market failure?
- What economic impact is the tax expenditure likely to have?
- How much is it expected to cost?

Consultation Period

The consultation period will run until 17:00 on 25 May 2018. Submissions received after this date cannot be considered.

How to Respond

The means of response is by email to:

agritax2018@finance.gov.ie

Alternatively, you can respond by post to:

Agritax 2018
Tax Policy Division, Room 2.2
Department of Finance
Government Buildings
Upper Merrion Street
Dublin 2, D02 R583

Please include contact details if you are responding by post.

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 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.