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ICMSA Deputy President addresses Joint Oireachtas Committee on Communications, Natural Resources and Agriculture

ICMSA Presentation on Pre-Budget Submission 2012 to the Joint Oireachtas Committee on Communications, Natural Resources and Agriculture.

Tuesday 8 November 2011

Chairman and Members of the Committee.

May I first of all thank you for the invitation and the opportunity to present the main points of our Pre-budget Submission to the Joint Committee. Before I get into the specifics, I would like, Chairman, to make a number of general comments by way of context.

The Agriculture and Food Sector is now viewed, or should I say, once again viewed - as an important indigenous sector currently contributing significantly to increased exports. Indeed, it has untapped potential to increase this contribution. Furthermore, it is now realised that export-led growth is the only way in which we can actually rebuild our economy both in terms of the size of the economy and its sustainability. As these matters are now generally accepted, the issue is how the agri-food sector can be supported and be or allowed grow to its full potential in the context of Government policy, having full regard to current and upcoming policy changes at European level.

The second general point I wish to make is that taxation, by its nature, is a complex matter and that, in the past tax provisions were introduced in a rather broad-brush way with little regard to economic benefits or disadvantage or their impact on the tax base. We should now realise that the fine tuning of the tax system is an essential aspect which you as legislators no doubt are aware and play a critical role in this matter. In our recent meetings with the Minister for Finance, the Minister indicated his full agreement in-so far as he noted that each sector had unique matters which must be taken on board in the drafting of any tax measure so that we get the maximum potential economic growth - particularly in the export oriented sectors. I fully agree with this essential approach and wish to emphasise the importance of this to the agricultural sector.

I now wish to deal with specifics both with regard to taxation and expenditure and with your permission Chairman, I'll deal with taxation first.

Based on figures contained in the National Recovery Plan for 2012, it would seem that a figure of ?220million addition carbon tax may be implemented in 2012. (The revised budgetary adjustment figures announced by the Minister last week involving a total tax take of ?1.6 billion may actually increase that figure further.) On the eve of the General Election, we met the Taoiseach in his home constituency where he emphasised that there would be no increase in the carbon tax on agricultural diesel and in so doing he was emphasising this provision of the Fine Gael manifesto. Following the General Election, the Government Parties agreed to include this in the Programme for Government in which it was specifically stated that the Government will exempt farm diesel from further increases in farm tax. Based on CSO data, the price of motor fuel used in agriculture has increased by over 45 per cent since 2009.

Given the enormous increase in the price of energy costs and given the importance of energy as a significant component to over all farm costs, we believe that this commitment to not increase the carbon tax on agricultural diesel must be honoured in full.

Stamp Duty.

Referring back to our opening comments regarding the fine tuning of tax to take account of sectoral needs, a good example is furnished by looking at stamp duty relief for farm consolidation.

It is self-evident that availability of land, and particularly availability close to the farm yard, in is a critical matter and could be one of the limiting factors in the attainment of the targets in Food Harvest 2020. We are disappointed that the stamp duty relief that existed for consolidation - notwithstanding its limitations - was not renewed last July. Based on the latest figures available from the CSO, the average number of parcels of land per farm holding is 3.5 with about two-thirds of farms having 3 or more parcels. Indeed, the fragmentation of farm holdings would seem to be increasing rather than decreasing based on CSO statistics over the last decade. The arguments for such a measure are self-evident and there is no material downside in terms of loss of revenue. The upcoming budget should provide for a practical stamp duty relieve measure that takes account of the need to bring about greater farm consolidation. I believe that this measure can be fine-tuned to cater for genuine consolidation with the obvious increase in productivity that would arise.

Other Capital Taxes

We are fully aware that capital taxes are likely to be increased and I am referring specifically to Capital Acquisition Tax and Capital Gains Tax. In relation to Capital Acquisition Tax, our specific proposal is that there should be no further reduction in the Capital Acquisition tax-free threshold for gift or inheritance in Budget 2012 and it is crucial that the agricultural relief is retained at 90 per cent.

We are fully aware that minor changes, or a series of minor changes in the details of this tax, can have a profound impact on dairy farmers - even medium-scale enterprises. I attach a table which sets out the impact of a reduction in the agricultural relief and an increase in the tax rate. For example, a reduction in the agricultural relief to 75 per cent combined with an increase in the tax rate, could see an inheritance tax liability of ?85,000 on a dairy farm with 100 cows. Chairman, this would represent, bluntly speaking, a re-introduction of the old Estate Duties or Death Duties as they were normally referred to.

Putting this in context, it would mean that in the above example of a family farm, we would have moved, over a very short number of years, from a situation where there was Installation Aid and Early Retirement Schemes to a situation where there may actually be increased borrowing required to fund an inheritance tax liability. Our proposal is quite clear and sufficiently targeted to bring about the desired result and to prevent an undesired result. We have proposed to Minister Noonan that where a farm is farmed for a period of time by a donor and that farm is subsequently farmed by a son/daughter there would be no liability to capital acquisitions tax regardless of what changes be brought about to thresholds or rates of tax.

Capital Gains Tax

ICMSA believes that it is crucial that the transfer of a typical family farm can take place without incurring any tax liability. All current Capital Gains Tax reliefs to be retained.

Rollover relief should be introduced to allow for farm consolidation and parcel swaps. This could be restricted to a specific time limit for reinvestment in agricultural property.

In the event of an increase in the current CGT rates (as indicated in the National Recovery Plan) the Government must reintroduce reliefs such as indexation and general rollover relief.

ICMSA supports the Commission on Taxation proposal that Capital Gains Tax relief for disposal of a business or farm on retirement should continue.

Income Tax

ICMSA supports the Commission on Taxation recommendation that an Earned Income Credit should be introduced for the self-employed and be equal to the PAYE allowance.

Income Averaging ? ICMSA believes that farmers whose spouse takes on a trade or profession resulting in an income up to ?40,000 should be allowed to continue to avail of Income Averaging. The current regime acts as a disincentive for farmers or farmer spouses in creating new enterprise.

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Expenditure

Disadvantaged Areas Payments are a very valuable direct income support across the country and ICMSA is totally opposed to any further cuts in DAS payments.

ICMSA is very concerned that the Minister for Agriculture may be contemplating taking part of the Single Farm Payment in order to fund the current Suckler Cow Welfare Scheme. This would be a regressive move and would amount to actual reduction in incomes for a substantial number of farm families on top of the cuts and increased costs that these families are already facing.

While substantial investment has taken place on farms in recent times dealing primarily with environmental regulations, substantial investment remains to be undertaken on dairy farms and we would see a need for a continuation for the Targeted Agricultural Modernisation Scheme (TAMS), particularly the Dairy Equipment Scheme.

Chairman, I have covered in very outline form the main points of our Pre-Budget Submission. I understand that a fully copy of our Pre-Budget Submission is available to Joint Committee Members.

I thank you and your Committee for the opportunity to put our Pre-Budget Submission before you today.

Thank You.

Calculation of Inheritance Tax on Transfer of Family Farm to Child

Assets

Existing
90% Agricultural Relief

25% CAT

Scenario 1
75% Agricultural Relief
25% CAT

Scenario 2
75% Agricultural Relief
35% CAT

150 Acres @ 12,000/acre

1,800,000

1,800,000

1,800,000

100 Milking Cows @ ?1,200/cow

120,000

120,000

120,000

50 Cattle 0 ? 1 Years @ ?300 each

15,000

15,000

15,000

50 Cattle 1 ? 2 Years @ ?700 each

35,000

35,000

35,000

Single Farm Payment

80,000

80,000

80,000

Farm Machinery

250,000

250,000

250,000

Total Value Assets

2,300,000

2,300,000

2,300,000

Value of Benefit for Inheritance

Tax Purposes

230,000

575,000

575,000

Lifetime Limit

(332,084)

(332,084)

(332,084)

Taxable Benefit

Nil

242,916

242,916

Inheritance Tax Payable

Nil

60,729

85,021