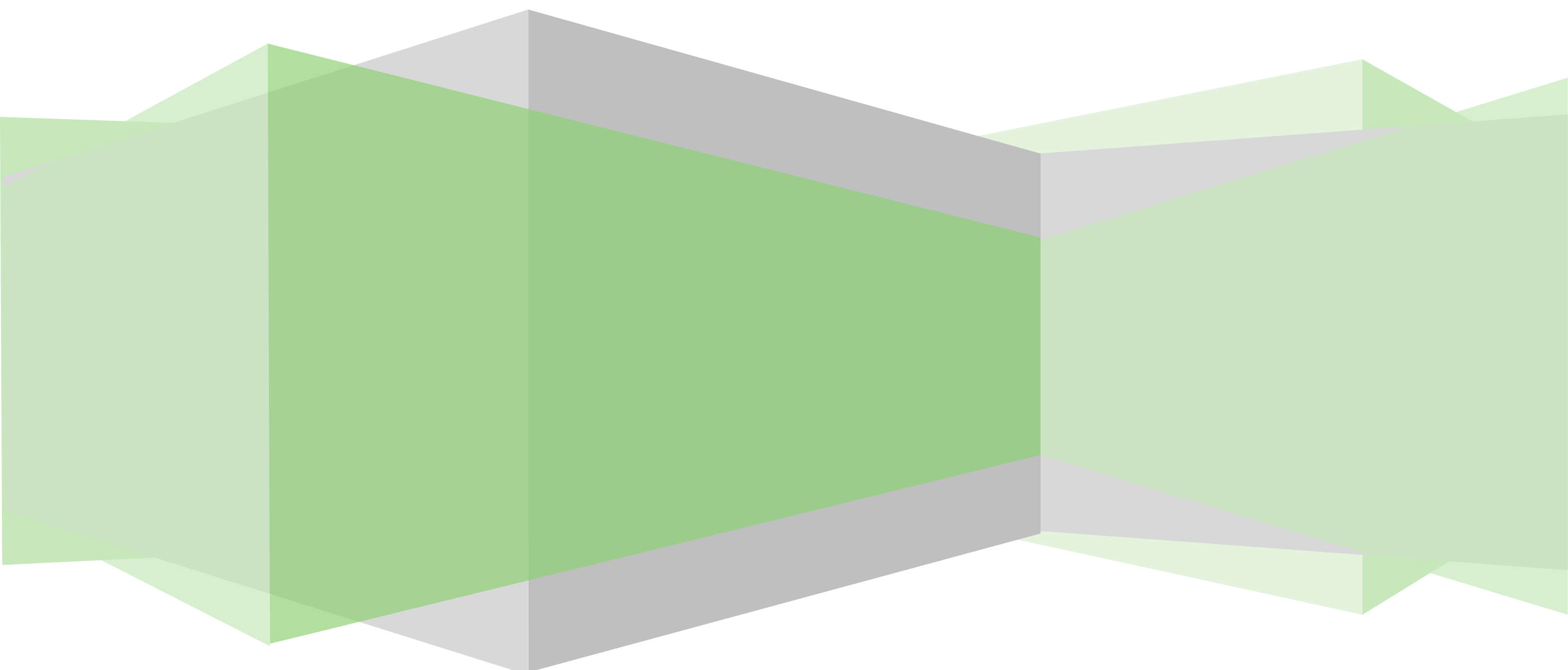
Irish Creamery Milk Suppliers Association

ICMSA 2017 Pre-Budget Submission

To the Minister for Finance, Mr. Michael Noonan and Minister for Public Expenditure and Reform, Mr. Paschal Donohoe

July 2017



Introduction

The most recent "National Income and Expenditure Annual Results" published by the Central Statistics Office outlines very strong growth in the Irish economy for 2015, following increased growth from 2014. The growth of Gross Domestic Product (GDP) at constant prices indicates an economy in good health in 2015, with the domestic economy indicating significant growth and recovery with a growth in Gross National Disposable Income (GNDI). The annual growth rate of 2.3 percent in GDP terms and 10.6 percent in GNP during the first quarter of this year substantiates an economy with positive growth trends.

The Agri-Food sector has played an intrinsic part in the recovery and growth of the Irish economy over the last number of years with agri-food exports to the fore of the recovery. In 2015, Irish agri-food and drink exports increased by an estimated 3 percent to approximately €10.8 billion. However, the UK was the main destination for Irish agri-food and drink exports in 2015 accounting for 41 percent of all exports. 31 percent of exports went to Continental EU markets while the remaining 28 percent went to international markets. It is essential not only for rural Ireland and farm families but also the macroeconomy of this country that Budget 2017 takes account of the full economic benefit and contribution of Irish agriculture, particularly in a post Brexit environment.

The Irish Government and Department of Agriculture, Food and the Marine have ambitious plans for the future of Irish Agriculture as outlined in the Food Wise 2025 Report which sets out a ten year strategy for the Irish agri-food sector which projects exports to increase to €19 billion coupled with the creation of 23,000 new jobs by 2025 and increasing value added in the agri-food sector to in excess of €13 billion.

ICMSA believe Irish agriculture is presented with an excellent opportunity to reach its full potential despite the current difficulties of low milk price. However, Budget 2017 must provide for the necessary adjustments to current taxation policy including the provision of a suitable income volatility management tool, Capital Tax adjustments and adequate funding for Farm Schemes, as outlined in this Submission. It is essential Budget 2017 provides the necessary supports to ensure the continued growth and development of the most important indigenous sector in the Irish economy.

John Comer,
President.

Table of Contents

Section 1 **Income Tax Measures to Support Farm Business Development** **1 - 5**
- Income Volatility Management
- Income Averaging
- Financial Instruments
- Personal Taxation

Section 2 **Land Policy and Taxation** **6 - 9**
- Stamp Duty
- Capital Gains Tax
- Capital Acquisitions Tax
- Income Tax Relief and Land Leasing

Section 3 **Tax Incentives to Support Investment** **10 - 11**
- Stock Relief
- Capital Allowances

Section 4 **Funding Farm Schemes under the Rural Development Programme 2014 – 2020** **12 - 13**
- EU Dairy Support Package July 2016
- GLAS and GLAS +
- Areas of Natural Constraint
- Beef Data & Genomics Programme
- Targeted Agricultural Modernisation Schemes II (TAMS II)
- Knowledge Transfer Groups

Section 5 **Indirect Taxation** **14**
- Value Added Tax
- Farm Safety Initiatives

Section 6 **Social Welfare Issues** **15 - 17**
- Farm Assist
- Rural Social Scheme
- Fair Deal Scheme
- Employer PRSI
- Pension Contributions
- Occupational Benefit

Section 7 **Higher Education Grants** **18**

Section 8 **Water Charges** **19**

Section 1

Income Tax Measures to Support Farm Business Development

1. Income Volatility Management

The extent of the extreme volatility in milk price in recent years has been clearly documented by Teagasc and other commentators such as the European Milk Market Observatory. In addition, recent 2015 figures from the Central Statistics Office illustrate clearly the extent of the collapse in milk price in recent years and show that the total dairy income for 2015 was down €222 million on 2014 despite a 14 percent increase in milk production. The 2016 situation with regard to milk price is significantly worse and ICMSA believe the Government must develop a workable and straightforward agri-taxation measure that will help farmers to manage the inherent volatility within the sector, especially during years of low milk prices.

Dairy farm income fluctuates from year to year due to many circumstances outside the control of Irish farmers. External forces such as macroeconomics, weather events, geopolitical matters, commodity markets, feed and oil prices, currency, and disease all combine to cause income volatility. Such external and internal forces compel those involved in the industry to adapt to ever-altering scenarios, however, the Irish agri-taxation system significantly impedes the ability of the sole trader to seize the opportunity to grow and develop their business due to periods of significant farm income volatility. Budget 2017 should provide for the introduction of an income volatility management tool to address the difficulties associated with the low level of after-tax income available for investment and self-funding of farm development.

In this context, ICMSA proposes the introduction of an income volatility management tool modelled on the Australian Farm Management Deposits Scheme (FMDS).This would allow a farmer to claim a tax deduction for farm management deposits in the income tax year in which they are made, the appropriate amount of the deduction is included in the tax assessable income in the income year the deposit is repaid to the farmer. The deposits scheme complements other risk management strategies available to farmers such as income averaging.

The current rules in the Australian model place a maximum threshold for off-farm income of a person availing of this tax measure and there is an overall ceiling on the amount that can be deposited in the Farm Management Deposit Scheme and ICMSA would support such measures being incorporated into an Irish income volatility management tool.

ICMSA believe the Farm Management Deposits model has many merits and most definitely should be used as a template for the introduction of a farm income volatility management tool into the Irish income tax code for farmers based on the following criteria;

- ICMSA believe limits could be placed both on the total amount that could be deposited in a given year and the aggregate amount at any time and suggest a maximum deposit per annum of 30 percent of farm profit and/or a maximum of €10,000. Funds would remain in the Farm Management Deposit account for a maximum period of 5 years. In addition, ICMSA recommend that 12.5 percent tax should apply on a once off basis for the amounts deposited in the farm management account. This would give all the advantages of incorporation without the necessary cost of compliance and uncertainty associated with farm companies;

- Farmers would then be able to avail of these funds in the farm management deposit account to support the farm business in the event of a downturn in farm income and/or for investment in the farming enterprise;

- Where funds are taken from the farm deposit account in the form of income then the normal rate of tax applicable in the year of withdrawal would apply to these withdrawals less a credit for the 12.5 percent tax which was originally paid on the funds when deposited in the farm deposit account in the first instance;

- This tax relief measure could be confined to farmers whose sole or principal income is from farming. Realistic off-farm income thresholds should be set;

- On-farm investment using funds from the farm management deposit account would qualify for all reliefs currently available for on-farm investment such as capital allowances.

ICMSA Recommendation:

Introduction of an Income Volatility Tool into the Irish Tax Code to address the extreme volatility within the agri-sector.

2. Income Averaging

Income Averaging has been used for many years as a mechanism whereby farmers can elect to have their tax for a tax year assessed on the average of the aggregate farming profits and losses (before deduction of capital allowances which are not subject to averaging) over 5 years, that is, of the tax year in question and the 4 tax years immediately preceding that year. Prior to Budget 2015, Income Averaging was based on a three year averaging of profits. The extension of Income Averaging from three to five years in Budget 2015 was a welcome initiative for many farm enterprises. However, income volatility and its management can vary considerably across individual sectors and in many instances farmers would benefit from having the option of choosing between three or five year averaging for their farming enterprise.

The following Table illustrates the impact of five year averaging on the assessment of average profit for 2015 and 2016 versus three year averaging. If farmers who avail of Income Averaging had the option of remaining on three year averaging since the introduction of the five year averaging in 2015 there would be a considerable difference in the tax liability in the current year:

Year of Assessment	Profit/Loss in year of assessment	Aggregate of Profit/Losses for Year of Assessment and Previous 4 Years Using 5 Year Averaging	Aggregate of Profit/Losses for Year of Assessment and Previous 2 Years Using 3 Year Averaging	Average Profit for Assessment in Year (a) 5 Year Avg V's (b) 3 Year Avg
2011	20,000			
2012	18,000			
2013	21,000			
2014	24,000			
2015	(10,000)	73,000	35,000	(a) 14,600 V's (b) 11,666
2016	(20,000)	33,000	(6,000) Loss	(a) 6,600 V's (b) No Profit

ICMSA Recommendation:

ICMSA propose that Income Averaging be retained within the tax code in Budget 2017, coupled with the introduction of a supplementary measure whereby individual farmers could opt for three or five year averaging in order to allow them to more effectively manage income volatility for their farming enterprise and to take account of individual circumstances.

3. Financial Instruments – Introduction of Loan Guarantee Scheme for On-Farm Development

The well-documented problem with excessively high interest rates in Ireland continues to be a significant difficulty for many Irish Small and Medium Enterprises (SME's), in particular, farmers trying to access finance at a competitive rate. ICMSA estimates the higher interest costs are costing Irish farmers up to €80m a year when compared to the Euro area interest rate average. Financial Instruments offer the possibility of improving access to finance for farmers by way of low interest loans and this can be done by modifying the Rural Development Programme to set aside money for a guarantee fund, lowering the risk for lenders.

Financial instruments can take the form of loans at competitive interest rates over longer terms, guarantees or equity. The Department of Agriculture, Food and the Marine are currently commissioning an *ex-ante* assessment which is required under EU Regulations prior to the introduction of Financial Instruments. In addition, an agreement must be reached by the Department and any other stakeholders/financial institutions on a clear investment strategy that is developed from the gaps identified in the *ex-ante* assessment. Finally, financial instruments would have to be introduced as a new measure into the Rural Development Programme by way of an amendment.

Overall, this can be a lengthy process and ICMSA believe this initiative must be progressed as a matter of urgency as the use of Financial Instruments under the European Agricultural Fund for Rural Development (EAFRD) offers a unique opportunity to provide low interest finance for farmers investing in the overall expansion and sustainability of their holdings.

ICMSA Recommendation:

It is essential Financial Instruments under the European Agricultural Fund for Rural Development are introduced to support access to low cost finance for farmers and thereby encourage necessary on-farm investment.

4. Personal Taxation

Earned Income Credit

ICMSA welcomes the introduction of an Earned Income Credit of €550 in Budget 2016 and believes it is a first step in addressing the anomaly that existed within the tax code with respect to the self-employed including farmers. The Government has committed to equalizing this credit to the PAYE Tax Credit in successive Budgets.

However, ICMSA believe Budget 2017 should provide for an immediate equalizing of the Earned Income Credit by increasing it to €1,650 effective from 01 January 2017.

ICMSA Recommendation:

Equalization of Earned Income Credit in Budget 2017 to €1,650 effective from 01 January 2017.

Universal Social Charge

The "Programme for a Partnership Government" has committed to making Ireland's personal taxation system more competitive by continuing to phase out the Universal Social Charge (USC) as part of a wider medium-term income tax reform plan. The USC continues to have a negative impact on low and middle income families including farm families and ICMSA fully supports the elimination or a considerable further reduction of this charge.

In the interim, ICMSA believe Budget 2017 must address the current anomaly with regard to USC and the self-employed whereby self-employed income in excess of €100,000 has an additional 3 percent USC (effective rate of 11 percent USC) relative to equivalent PAYE income (effective rate of 8 percent USC). If entrepreneurship and expansion are to be encouraged in our economy, particularly in the agri-food sector which is so crucial to the continued recovery and growth of our overall economy, parity must be restored with respect to the rate of USC for self-employed income.

ICMSA Recommendation:

Elimination or further reduction of the Universal Social Charge in Budget 2017. In addition, the effective USC rate applicable to the self-employed must be equalized to the PAYE income effective rate of 8 percent in Budget 2017.

Section 2

Land Policy and Taxation

1. Stamp Duty

The extension of the Young Trained Farmers Stamp Duty Relief to the 31st December 2018 in Budget 2016 provides reassurance regarding future costs for farm families planning for the future of their farm business.

Consanguinity Relief (1 percent Stamp Duty) is an important relief from stamp duty frequently availed of in transferring family farms. Consanguinity relief is mostly relevant to transfers of agricultural property where the transferee does not qualify for an alternative relief, such as Young Trained Farmer relief. A wide range of relatives can benefit from consanguinity relief, but for transfers after January 2015 the land must be farmed or leased for farming for a period of at least 6 years from the date of transfer and the farmer must either have a relevant qualification, such as the Teagasc Green Cert, or spend at least 50 percent of their normal working time farming on a commercial basis. From January 2016, an additional condition is imposed: the person transferring the land must be under 67 of age at the date of the transfer. However, Consanguinity relief is due to expire on 31 December 2017 and ICMSA believes this Relief must be extended in Budget 2017 as many family farm transfers will be subject to a significant financial impact if this relief is removed.

In addition, an anomaly exists for farm families operating a farm company whereby the Young Trained Farmer Stamp Duty Relief does not apply on transfer of the farm and farm company to a successor where a farm is personally owned. Budget 2017 must amend this anomaly as it is essential this vital relief is available to all farm families in order to achieve the structural change required within the industry.

ICMSA Recommendation:

Consanguinity Relief which is due to expire on 31 December 2017 must be extended in Budget 2017. In addition, the anomaly with regard to the application of Young Trained Farmer Stamp Duty Relief on transfer of a farm to a farm company where the farm is personally owned must be addressed in Budget 2017.

2. Capital Gains Tax

ICMSA believe that the current 33 percent rate of Capital Gains Tax continues to be a significant deterrent to farm investment and propose that Budget 2017 should provide for a significant reduction in the 33 percent rate currently applicable to all chargeable gains. In addition, the first €1,270 of an individual's chargeable gain is exempt from Capital Gains Tax, however, this exemption has not been increased since its introduction and ICMSA believe it should be increased to €5,000 in Budget 2017 in order to stimulate land transfer, facilitate sale of assets and encourage further re-investment in the farm business.

Capital Gains Tax Restructuring Relief applies to a sale, purchase or exchange of land in the relevant period from 1st January 2013 to 31st December 2016, where Teagasc has certified that a sale and purchase or an exchange of agricultural land was made for farm restructuring purposes. This relief is due to expire on 31st December 2016 for transactions where the initial sale, purchase or excahnge of land does not occur before that date. ICMSA believe the period to which this relief applies must be extended beyond 31st December 2016 in Budget 2017 to facilitate much needed restructuring and consolidation of farm holdings.

Indexation was withdrawn in 2002 and ICMSA propose its re-introduction in order to further stimulate the land transfer market and encourage land mobility.

ICMSA Recommendation:

Budget 2017 must provide for a significant reduction in the 33 percent rate of Capital Gains Tax. In addition, ICMSA propose that the first €5,000 of an individual's chargeable gain be exempt and that Indexation should be reintroduced in order to act as a catalyst to encourage land mobility.

Capital Gains Tax Restructuring Relief must be extended beyond 31st December 2016 in Budget 2017.

3. Capital Acquisitions Tax

Food Harvest 2020 and Food Wise 2025 have set ambitious targets for the agri-food sector and ICMSA believe Budget 2017 taxation policy must support the achievement of these goals. In this context, transfer of the family farm to the next generation in a timely manner is essential to ensure the continued growth and viability of the agri-sector. Budget 2016 provided for an increase in the Group A tax-free thresholds for transfers from parent to child/favourite niece or nephew to €280,000. However, this still represents a significant reduction compared to previous tax-free thresholds and ICMSA propose that Budget 2017 provides for an immediate increase to the Group A category from €280,00 to €500,000. In addition, as a commitment to the continued growth and development of the economy, the Government must provide for a significant reduction in the 33 percent Capital Acquisitions Tax rate in Budget 2017.

In addition to the tax-free thresholds, lifetime transfer of the family farm to the next generation would not be possible in the absence of the 90 percent Agricultural Relief for Capital Acquisitions Tax. This cornerstone relief which promotes the transfer of land from one generation to the next must be maintained at its current 90 percent rate in Budget 2017.

There is an anomaly within the application of the Capital Acquisitions Tax Favourite Niece/Nephew Relief with regard to a situation whereby the niece/nephew has opted to lease the farm from the disponer prior to transfer as opposed to a situation whereby the niece/nephew has been working for the disponer. ICMSA believe this relief should also apply where the favourite niece/nephew has farmed the land under a lease agreement.

The fact that benefits from the same Group Threshold are aggregated back to 5th December 1991 can cause considerable difficulties when transferring assets to family members and ICMSA propose that Budget 2017 should provide for the introduction of a five year limit to the look-back period for aggregation purposes on gifts and inheritances. In addition, ICMSA propose the reintroduction of the lower rate of Capital Acquisitions Tax applicable to gifts (75 percent of Capital Acquisitions Tax Rate) in order to incentivise lifetime transfer of assets.

ICMSA Recommendation:

Budget 2017 must provide for a significant reduction in the 33 percent rate of Capital Acquisitions Tax and the Group A Tax Free Threshold should be increased to €500,000. Retention of the 90 percent Agricultural Relief.

ICMSA believe CAT favourite niece/nephew relief should apply where the favourite niece/nephew has farmed the land under a lease agreement.

4. Income Tax Relief and Leasing Land

Income Tax Relief on land leases and the ongoing discrimination in the tax code of inter-family leases continues to be an issue for many farm families. There are many personal and family reasons why a parent is unable to transfer the family farm to the next generation prior to the natural retirement age of 65 years of age. Previously farm families in this situation were able to avail of the Early Retirement Scheme which would allow for the timely transfer of the farm to the next generation while still providing an income for the retiring farmers. ICMSA believe farm families must be provided with an option to lease the farm to a family member for a period in advance of retirement, particularly, in the absence of a suitable Retirement Scheme.

In this context, ICMSA propose the following with regard to the extension of income tax relief to include family members in Budget 2017;

- Lessor must be 55 years or older;
- Suitably qualified leasee (Young Trained Farmer);
- Lease contract for definite term of no more than ten years;
- Lease contract to include provision for transfer of farm to leasee at end of lease period;
- Clawback provision if farm is not transferred to the Young Trained Farmer at the end of the lease contract period;
- Force majeure provisions.

ICMSA Recommendation:

Income tax relief on land leases should be extended to family members in Budget 2017 subject to strict criteria regarding farm transfer.

Section 3

Tax Incentives to Support Farm Investment

1. Stock Relief

Current Stock Relief measures are working well and are a vital tool for farmers increasing stock numbers as they expand their farming enterprise and ICMSA welcome the extension of such reliefs to 31st December 2018.

However, the current 25 percent stock relief means that farmers expanding their enterprise are taxed at 75 percent of the additional investment, which in many cases is a substantial amount and is having a negative impact on expansion. ICMSA propose an extension of the 100 percent stock relief to all additional stock expenditure of up to €100,000. Once a farmer has reached the €100,000 level, they would then qualify for 50 percent relief on the remainder of their investment in stock. In addition, ICMSA propose that if the qualifying farmer disposes of the herd within a specified timeframe then provisions could be included for a claw back of such relief.

The level of TB has been falling over the last number of years with the number of reactors at 15,317 animals in 2015 compared to 16,145 in 2014 and the number of herds restricted at 3,823 in 2015 compared to 4,111 in 2014. However, TB continues to be particularly prevalent in certain black-spot areas throughout the country and in particular areas with high deer populations. For the individual that has a TB problem, the impact can be very severe depending on the timing, extent and period of the restriction. In this context, ICMSA believe a specific Stock Relief provision should be introduced in Budget 2017 to cover individuals that experience partial depopulation which would allow for enhanced Stock Relief of 100 percent (instead of the normal 25 percent) for those affected.

ICMSA Recommendation:

Budget 2017 to provide for the introduction of a new Stock Relief measure whereby farmers would be allowed 100 percent stock relief on additional expenditure of up to €100,000.

In addition, a specific Stock Relief provision should be introduced for individuals that experience partial depopulation.

2. Capital Allowances

Farm building Capital Allowance' is made, over a 7 year period, to a farmer who incurs capital expenditure on the construction of farm buildings, fences, roadways, holding yards, drains, land reclamation and other works such as walls, water and electrical installation and sewerage. The rate of the farm buildings allowance is 15 percent of the capital expenditure for each of the first 6 years of the 7 year period with the balance, 10 percent, allowed in year 7. Capital Allowances are also available on farm machinery such as tractors, trailers etc…, these Capital Allowances can be claimed over 8 years at a rate of 12.5 percent.

Under the CAP Rural Development Programme 2014 – 2020, the Department of Agriculture, Food and the Marine introduced a number of grant-aided capital investment schemes under the Targeted Agricultural Modernisation Scheme. Capital Allowances are a necessary tool for farmers investing in the expansion and upgrading of farm facilities to ensure the future viability of their business. However, the current application of capital allowances is very inflexible with farmers unable to utilize the allowance in years where farm profits are low or non-existant. Due to the cyclical nature of farm income, ICMSA believe the Government in Budget 2017 must allow for flexibility in the claiming of Capital Allowances and propose that farmers be allowed to write-off capital expenditure on farm buildings and plant and machinery over a period of between three and eight years with a "floating allowance" of up to 50 percent allowable in any one year in order to facilitate maximum utilization.

In addition, the Sustainable Energy Authority of Ireland (SEAI) has an Accelerated Capital Allowance (ACA) scheme for investment in energy efficient equipment which allows companies (paying Corporation Tax) to write-off the full cost of SEAI approved energy efficient equipment against tax in the year of purchase. ICMSA believe there a number of equipment categories in the ACA scheme which have considerable potential for uptake in the agri-food sector and propose the extension in Budget 2017 of the ACA scheme for investment in energy efficient equipment to sole traders in the agri-food sector.

ICMSA Recommendation:

Budget 2017 must allow for flexibility in the claiming of Capital Allowances and propose that farmers be allowed to write-off capital expenditure on farm buildings and plant and machinery over a period of three and eight years with a "floating allowance" of up to 50 percent allowable in any one year in order to facilitate maximum utilization.

Extension of the SEAI ACA scheme for investment in energy efficient equipment to sole traders in the agri-food sector.

Section 4

Funding Farm Schemes

Under the Rural Development Programme (RDP) 2014 - 2020, there is an overall allocation of €2.1bn of EU funding and €1.9bn of national funding for the period. Total funding of €4bn will support the introduction of environmental schemes, deliver programmes of support for low-income farmers, encourage and promote on-farm investment coupled with provision of schemes to promote transfer of knowledge to specific farming enterprises. The economic, social and environmental benefits to the agri-sector and the wider rural economy of the many schemes provided for under the Rural Development Programme cannot be underestimated in the preparation of Budget 2017.

1. EU Dairy Support Package July 2016

The recently announced EU Dairy Support Package will provide much needed financial assistance to dairy farmers experiencing extreme financial hardship. It is essential this package is implemented immediately and that the Irish Government fully matches the €11m EU package which Ireland has received and that these funds are used to support dairy farmers.

2. GLAS and GLAS+

There are currently 38,000 farmers approved for GLAS under Tranche 1 and Tranche 2. GLAS has been allocated €1.46bn in funding over the period of the RDP.

ICMSA believe adequate funding must be provided in Budget 2017 to support maximum participation and full-year payment to 55,000 farmers in 2017. ICMSA believe that the maximum €5,000/annum ceiling on GLAS payments should be increased in Budget 2017.

In addition, GLAS + must provide adequate funding to support landowners whose farm practices have been severely restricted by designations on their land such as Hen Harrier and other Special Areas of Conservation (SAC) and Special Protection Areas (SPA) designated lands.

3. Areas of Natural Constraint

The Programme for a Partnership Government has given a commitment to increase funding for this vital scheme by €25m in 2018. However, this is a vital financial support for farmers that are maintaining this marginal land and ICMSA propose that Budget 2017 should increase the Area of Natural Constraint budget by €25m to €220m, particularly given the current income crisis across various farming sectors. In addition, ICMSA propose the restoration of per hectare payment rates to farmers on this marginal land to pre 2009 levels.

4. Beef Data and Genomics Programme 2015 – 2020

The Beef Data and Genomics Programme will run until 2020 to provide financial support to suckler beef farmers who undertake to carry out actions aimed at improving the genetic merit of their suckler herd. This is a necessary support for committed suckler beef farmers and it is essential it remains fully funded for the full period of the RDP.

5. Targeted Agricultural Modernisation Schemes II (TAMS II)

Food Harvest 2020 and Food Wise 2025 have set-out ambitious targets for the agri-food sector and it is essential Budget 2017 supports the ongoing implementation of a strong on-farm investment across all sectors to improve efficiency and meet higher environmental and animal welfare standards and thereby ensure the ongoing growth and viability of the sector.

6. Knowledge Transfer Groups

Knowledge Transfer Groups provide a key support to the agri-food sector in building its knowledge and skills base to underpin continued growth and competitiveness. Knowledge Transfer Groups are a key element of the RDP 2014 – 2020 programme and it is essential Budget 2017 provides funding to support participants in these Groups.

ICMSA Recommendation:

ICMSA propose that the Irish Government fully matches the €11m EU Support Package which Ireland has received and that these funds are used to support dairy farmers.

Budget 2017 must ensure provision of adequate funding which is essential to support the various Schemes of the CAP Rural Development Programme 2014 – 2020.

Section 5

Indirect Taxation

1. Value Added Tax

ICMSA propose that the 23 percent VAT rate which was introduced in 2011 should be reviewed downwards to 20 percent in Budget 2017. ICMSA believe this would encourage further on-farm investment and have a positive impact on purchasing activity in the rural economy.

2. Farm Safety Initiatives

Farm fatalities and serious injury continued to be a significant concern in the agricultural sector with seven farm fatalities year to date (5th July 2016). However, financial constraints on farmers often results in a lack of investment in the upgrading of Safety Equipment and clothing. In this context, ICMSA propose that farmers should be allowed to claim back VAT on farm safety equipment and clothing.

In addition, in order to alleviate the cost burden on farmers, ICMSA propose the introduction of a Scrappage Scheme for PTO shafts as was recommended in the Seanad Public Consultation Committee Report on Farm Safety.

ICMSA Recommendation:

A reduction in VAT from 23 percent to 20 percent in Budget 2017.

In addition, ICMSA propose that farmers should be allowed to claim back VAT on farm safety equipment and clothing coupled with the introduction of a Scrappage Scheme for PTO shafts as was recommended in the Seanad Public Consultation Committee Report on Farm Safety.

Section 6

Social Welfare Issues

1. Farm Assist

Farm Assist has been utilized for many years by low income farm families as an essential income support during periods of low income. However, successive Budgets in the period 2011 to 2013 imposed severe cuts to Farm Assist through changes to disregards for income from self-employment, including farming, and children. For example a married farmer with 3 dependent children on a farm income of €17,000 /annum in 2011 received a Farm Assist payment of €190.45/week, however this family on a similar income in 2013 had their payment per week reduced by €115.18 to €75.27/week. ICMSA believe such cuts are excessive and represent a very poor understanding of the financial difficulties being experienced by low income farm families and propose that the Government must immediately review Farm Assist as committed to in the Programme for a Partnership Government.

The extreme volatility in family farm income is well documented and the significant income difficulties in the current year are pushing many more farm families into a financial situation whereby they need social welfare support. However, the decimation of Farm Assist in successive Budgets has made it more difficult for farm families most in need to be able to avail of such necessary supports. In this context, ICMSA believes Budget 2017 must review and revisit and reverse cuts to income from self-employment, including farming and children.

In addition, ICMSA believe that in order to properly take full account of the current income crisis, it is essential the Department of Social Protection takes the current years' income into account when assessing means on family farms. The current practice of means assessment on the basis of previous years' income does not fully reflect the current income crisis on family farms. This approach has been adopted successfully in previous difficult years to ensure equity in the provision of support to all sectors of society.

ICMSA Recommendation:

Review of Farm Assist as outlined in the Programme for a Partnership Government to include a reversal of cuts to income from self-employment, including farming and children.

2. Rural Social Scheme

The Rural Social Scheme plays a key role in the development of local communities and ICMSA believe that funding for this vital scheme is expanded in Budget 2017 to ensure the development of local and vibrant communities.

3. Fair Deal Scheme

The Nursing Homes Support Scheme is a scheme of financial support for people who need long-term nursing home care. Under the Nursing Homes Support Scheme, individuals make a contribution towards the cost of their care and the State pays the balance. This applies whether the nursing home is public, private or voluntary. However, there are significant difficulties regarding the costs of care and the implementation of the Fair Deal Scheme for farm families.

ICMSA fully supports a policy of lifetime transfer of family farms thereby giving the next generation the opportunity to grow and develop the business. However, there is a considerable discrimination against farm families where the farm has not been transferred, or where the transfer has taken place within the previous five years. The potential uncapped liability which applies to the family farm asset (excluding the primary residence) and the resultant risk to the ongoing viability of the farm business associated with meeting the costs of care is a significant concern for farm families. ICMSA believe the five-year look-back rule which applies to the financial assessment for the Fair Deal Scheme must be reassessed and suggest a reduction of this look-back period to one year. Coupled with this, ICMSA believe farm families and other business owners must be treated equitably and a cap on the percentage charge that can be applied to the non-residential farming asset must be introduced in Budget 2017 which is equivalent to the 3 year cap of 22.5 percent for the primary residence.

In addition, it is essential that there is no further increase to the 7.5 percent of the value of any assets which can be taken into account in any one year (5 percent of assets if the application was made prior to the 25th July 2013) in the financial assessment of ones contribution to care.

ICMSA Recommendation:

Five-year look-back period should be reduced to one year. Farm families and other business owners must be treated equitably and a cap on the percentage charge that can be applied to the non-residential farming asset must be introduced in Budget 2017.

4. Employer PRSI

Budget 2016 increased the threshold at which employers pay the 8.5 percent employers PRSI for employees on earnings up to €376/week. However, ICMSA believe if the Government wants to promote job creation within the primary agricultural sector and ensure targets set out in Food Wise 2025 are achieved, it is essential the lower rate of employers 8.5 percent PRSI on jobs that pay less than €376 per week and the 10.75 percent higher rate of employers' PRSI on earnings greater than €376/week is reduced in Budget 2017.

5. Pension Contributions

Farmers need to ensure their financial needs are adequately provided for post-retirement. Therefore, continued saving in the form of a private pension needs to be incentivised and the current marginal rate of income tax relief for pension contributions must be maintained in Budget 2017.

6. Occupational Benefit

The self-employed including farmers pay Class S PRSI which is currently 4 percent. However, the self-employed are not covered for the same level of Occupational PRSI Risk Benefit as is currently available to PAYE workers despite the particularly high occupational risk faced by farmers. The Programme for a Partnership Government has referred to the introduction of a PRSI scheme for the self-employed and ICMSA believe this must be provided for in Budget 2017. This must not involve any increase in the rate of PRSI for the self-employed including farmers.

Section 7

Higher Education Grants

The recently published "Cassells Report" from the Expert Group on Future Funding of Higher Education made a number of recommendations with regard to future funding options for Higher Education in Ireland. Recommendation 5 of the Cassells Report stated that "the current model of student support maintenance grants should continue and should be enhanced to better reflect the real costs of participation, and better targeted by taking account of capital assets and accumulated wealth".

Equal access to higher education grants has always been a key concern for farm families and ICMSA will not accept the inclusion of farm assets in any assessment for Higher Education Grants as it would result in a specific bias against farm families and ICMSA believes that any new system of assessment introduced by the Government must be based on fairness, equity and transparency.

ICMSA have always contended that farm assets are a productive business asset to be considered "tools of the trade", and any capital value must not be attributed to them other than income derived from their use.

ICMSA Recommendation:

ICMSA reject proposals contained in the Cassells Report with regard to treatment of capital assets and contend that farm assets are productive assets and any capital value must not be attributed to them other than income dervived from their use.

Section 8

Water Charges

Irish Water took over responsibility for providing public water services to business customers in January 2014 from Local Authorities. However, in the interim, Local Authorities have been issuing bills to customers on behalf of Irish Water. From July of 2016, business accounts which include farmers will begin to transition from Local Authorities to Irish Water with Irish Water issuing bills to all business customers by December 2016. There are currently 500+ tariffs across the country with six different billing frequencies.

Irish Water in association with the Commission for Energy Regulation plan on introducing a tariff harmonization programme by 2018. Farmers are high volume water users and are extremely concerned by the possible financial impact of the introduction of a new water charges structure on farming enterprises. It is essential farmers and other business users are guaranteed supply of clean potable water at a reasonable cost to ensure the continued production of a high quality raw material for national and international markets. Irish Water must ensure economies of scale are reflected in the harmonization of water charges thereby resulting in savings for all business users including farmers across the country.

In addition, farmers who receive water for domestic and non-domestic use are allocated a domestic usage allowance of 225,000 litres (50,000 gallons) per year. Any new charging structure must ensure this allowance is retained as a minimum and that no additional costs are imposed on the farming sector.

ICMSA Recommendation:

The introduction of a tariff harmonization programme must provide for a saving in the cost of water for non-domestic users including farmers across the country. In addition, any new charging structure must ensure the 225,000 litre domestic allowance is retained as a minimum and that no additional costs are imposed on the farming sector.