Opening Statement by IFA President Tim Cullinan
to the Oireachtas Select Committee on Budgetary Oversight
on specified chapters of the Commission on Taxation and Welfare Report
Wednesday 23rd November 2022

Chairman and Committee Members, I would like to thank you for inviting IFA to address you today. I am joined by Rose Mary McDonagh IFA Farm Business Chairman and Shane Whelan IFA Farm Business Policy Executive.

As the largest and oldest indigenous industry, the Irish agriculture sector has been the foundation stone on which economic activity and employment (both upstream & downstream) has been built in towns and villages throughout rural Ireland.

Coupled with its positive and growing status on global markets as a consistent supplier of high quality, sustainably produced food, many Governments have prioritised agriculture and food as a major economic driver for the Irish economy, and one in which farm families and industry stakeholders have delivered on.

This also explains in part the large suite of tax relief measures that are currently in place to support the sector, spanning multiple facets, including land mobility, inheritance, and measures to complement wider agricultural policies and schemes.

Undoubtedly there are numerous and broader challenges ahead for Ireland and its citizens, which prompted the establishment of the Commission of Taxation and Welfare and the review of existing taxation and welfare systems for the new realities. IFA were not afforded the opportunity to have a representative on the Commission of Taxation and Welfare, despite numerous attempts on our part.

While we acknowledge the work of the Commission, and appreciate their challenging remit, there are a number of proposals, specifically within the chapters we are discussing here, that IFA has serious concerns about, and strongly oppose.

There are concepts too which we very much agree with, such as preserving the integrity of the Agricultural Relief for example, and adopting 'equity/fairness' – taxing people according to their ability to pay – as the key and core principle in the design of our future taxation & welfare system.

In this regard it is essential that the full economic impact of any proposed amendment is thoroughly understood, not just in isolation but from a composite or cumulative perspective, and their combined impact on farm families. This needs to take account of the availability of obvious alternative inputs/practices where relevant and will help avoid the creation of economically unviable operations and potentially, the forced sale of intergenerationally owned land, something which regrettably the 'unjust' Residential Zoned Land Tax failed to do. Many of the proposals within the Commission report – e.g. the progressive removal of reduced/zero VAT rates; capital taxes / charges - will, if introduced, undoubtedly have a disproportionate impact on farmers.

We fully understand the comprehensive report prepared by the Commission is not in any way intended as an exhaustive list from which Government are to merely implement in future Budgets. Instead, they represent a series of considerations from which Government ultimately decide and implement which they perceive most appropriate and fair.

The reality, however, is that the drip-feeding of proposals through media leaks, and indeed the report itself, has created a cloud of uncertainty for farm families. We have anecdotal evidence for example of farmers transferring farms earlier than anticipated purely out of fear that Agricultural Relief and existing Capital Acquisition Tax thresholds will be significantly eroded and their children left with a considerable tax bill. Thankfully numerous senior Government officials have eased concerns somewhat more recently, rejecting the Commission proposals and confirming these key supports will very much be protected going forward.

To comment on all the proposals that we would have concern with would take some time. I will touch on some of the most significant now and perhaps others will materialise in our subsequent discussions.

Agricultural Relief & Capital Acquisition Tax thresholds

Firstly, and just to be crystal clear, IFA is totally opposed to any reduction in Agricultural Relief or any decline in the Category A Capital Acquisition Tax threshold. The latter proposal completely contradicts the commitment made in the Programme for Government[1] to instead increase the Category A threshold (parent and child) from the current rate of €335,000 to €500,000 – reflecting more the reality of the inflationary property and land price pressures currently endured.

The 90% Agricultural Relief from Capital Acquisitions Tax is a hugely important support for the intergenerational transfer of family farms. It reflects the fundamental reality that land, as an asset, has a value far beyond what it generates in terms of income. Any reduction in the relief rate for inheritance would have a disproportionate impact on the farming sector and, as referenced already, would be very punitive on farm families trying to organise orderly succession plans for the future. It would also place a huge tax burden on the next generation at a time when they will be seeking to invest in their farm enterprise.

Others too share IFA's position regarding the Agricultural Relief. For example, in preparation for Budget 2023, the Tax Strategy Group identified, on the proposed reduction of Agricultural Relief from 90% to 80%, the reduction could have a negative impact on the development and growth of family businesses. The 2014 Agri-Taxation Review also recommended retaining the Agricultural relief as it represented a vital measure to ensure the ongoing viability of farming businesses that pass from one generation to another.

With regard the Agricultural Relief for CAT, we share the Commission's view that there is a need to protect the active/genuine farmer and maintain the integrity of the relief as a targeted incentive for farmers, rather than for it to be used by non-farmers as a mechanism to reduce the tax burden when transferring wealth or seeking to secure land purely to off-set the carbon footprint of alternative operations. The latter, in the context of achieving net zero emissions by 2050, may significantly distort the agricultural land market; have serious consequences for economic activity in rural areas, and more broadly food security if adopted globally. IFA propose that in order to avail of Agricultural Relief the transferor or transferee, or a combination of both, have to farm/lease to a qualifying active farmer or have farmed/leased to a qualifying active farmer, the land for a minimum of 15 years. In addition, the retention period of the individual receiving the gift or inheritance for farming purposes is 6 years; 15years where received by a non-farmer.

Finally, in relation to Inheritance, IFA support the Commission recommendation of retaining the hugely important Retirement Relief in facilitating early or life-time transfers to the next generation but challenge the introduction of a lifetime limit involving children. The proposed introduction of deferral arrangements or long payment schedules fails to take into account the income generating capacity of farm operations and may, where interest accumulation occurs, represent a significant barrier to future farm investment and/or succession.

[1] *Our Shared Future* – June 2020

Class S PRSI
Given the typically low levels of profitability on-farm, IFA oppose any potential progressive increase in the PRSI rate, believing it would only add increased financial pressure on farm families, hinder entrepreneurial activity/innovation, and should be resisted.

Rather than trying to derive higher contributions from those already contributing, a more equitable approach in the more immediate term may be to increase the contributions through increased employment and increased self-employment as demonstrated in pre-Covid era where an increasing surplus contribution trend was evident.

Site Value Tax
Finally, the proposed introduction of a Site Value Tax. While the Commission recommends a differential treatment to agricultural land (potentially in the form of lower rate), IFA strongly oppose the inclusion of agricultural land at all within its remit, and propose that land that is actively farmed by farm families as an integral part of their farm business should be excluded entirely from any Site Value Tax.

One of the justifications provided by the Commission for introducing the tax is toward achieving our '*Housing objectives'*. IFA resist the sinister motivation and indeed its discriminatory nature / lack of appreciation of its impact on Irish farm families. Let me read out the inscription: '*The recurrent taxation of land reduces the incentive to retain ownership of land in anticipation of higher prices as it places an annual tax on its value. It encourages the development of undeveloped land by reducing its net present value, while discouraging the activation of derelict or uninhabitable property by creating an increased opportunity cost to the landowner for choosing not to invest in or sell the property"*.

Let us be clear about this, farmers are private land owners who utilise land for food production and earn an honest living. Farmers hold land to farm, not hoard it as an investment – demonstrated by strong intergenerational transfer and limited volumes traded annually. This undeniable fact has to be recognised, something which unfortunately in relation to the Residential Zoned Land Tax was lost, but is something we continue to challenge on.

In its broadest sense, most farm operations may be considered 'asset rich, cash poor'. Average on-farm assets (i.e. Machinery; Breeding Livestock; Trading assets; Land & Buildings) in 2021 was estimated at €885k (87% relating to Land & Buildings), however average farm income on Irish farms in 2021 was only €34.7k, with wide variation depending on farm size and farm system – the average 2021 farm income on Cattle Rearing farms was €10.9k; Cattle Finishing farms €17.2k; Sheep farms €20.8k. At an aggregate level, only one-third of Irish farms are considered economically viable – i.e. able to provide a financial return to labour employed at the minimum agricultural wage, plus a 5% return on non-capital assets. It is therefore IFA's position that any new tax/measure must give due consideration to one's 'ability to pay' same, and that land that is actively farmed by farm families as an integral part of their farm business should be excluded entirely from any Site Value Tax.

Conclusion
To conclude, the agriculture sector represents the foundation stone on which economic activity and employment (both upstream & downstream) revolve in many towns & villages throughout rural Ireland.

Irish farmers, across all sectors, are facing into an increasingly uncertain future. Increasing input prices, increasing regulation and pressures to meet climate ambitions, along with substantial cuts in European Union (EU) direct payments as a result of new CAP reforms for many, create enough stress and complexity to normal day-to-day operations, not to mention making planning and future investments all the more difficult. With almost 60% (57%) of farm families earning less than €20,000 in 2021, in the interest of fairness & equity, it is incumbent on Government, and all Department officials, to ensure that additional cost/tax liabilities are not placed on already low-income farm families, now or into the future.

Thank you.

Background
The IFA is Ireland's largest farming organisation, with over 75,000 farmer members covering all production systems. The Association is structured with 947 branches and 29 County Executives across the country. The IFA President and various Committee Chairmen, along with branch and county representatives are democratically elected by the farmer membership. IFA represents all farming sectors at National, European and International level. Through our office in Brussels, the IFA represents Irish farmers on the European umbrella body of farm organisations COPA/COGECA. In addition, the IFA is the representative for Irish farmers on the World Farmers' Organisation.