TSG 12/08

Tax Strategy Group
Summary of Farm Taxation Reliefs

Executive Summary

Scope of this paper
This paper covers taxation issues relating to farming and agriculture. There are a number of taxation expenditure measures which are exclusively aimed at the farming community. Farmers can also avail of number of other expenditure measures which are not exclusive to that sector. This paper sets out the current position and examines issues that have been raised, or are likely to arise, in the context of the Budget and Finance Bill 2013 and the Programme for Government.

Section 1 sets out the various income tax provisions that are available to the farming sector including Capital Allowances and Stock Relief provisions.

Section 2 deals with Capital tax provisions including Stamp Duty (SD), Capital Acquisitions Tax (CAT) and Capital Gains Tax (CGT).

Section 3 details the various VAT measures which relate to farming.

Section 4 gives details of proposals for new tax incentives that various stakeholders would like to be introduced.

Background

Agriculture in the Economy
The Teagasc National Farm Survey showed that average Family Farm Income was less than €25,000 in 2011 and is mostly made up of payments through the Single Farm Payment scheme and under the Rural Development Scheme. However, on 78% of farms either the farm-holder or spouse had off-farm income, for example through employment, pension or social welfare.

Teagasc figures showed that in 2010 Family Farm Income increased by more than 45% and increased by a further 30% in 2011. These increases are mostly explained by the fact that farm income was particularly low in 2009. The 2010 figures were a return to normal and 2012 figures are expected to be more along those lines.

The medium term outlook is for continued buoyancy in agricultural commodity prices as a result of increased global demand for dairy and beef in particular, partly due to EU milk quotas ending in 2015. However world commodity prices can fluctuate wildly as recent experience has shown. Economic downturns in key markets can affect our exports and so can changes in exchange rates. Farmers are also challenged by high input prices,

exacerbated by extreme weather in cereal growing regions and this is expected to hit profit margins for 2012.

Ireland's farm structures are unfavourable for competing in an international market place. The age profile of Irish farmers has deteriorated from an average of 51 years of age in 2000 to the 2007 average of 55, with the percentage of farmers aged under 35 now less than 7%. Land mobility is very low in Ireland, with approximately 0.5% of the total agricultural land area offered for sale annually.

Tax Issues

The farming sector currently receives extremely favourable treatment through the tax system, with over thirty different tax schemes benefitting the farming sector with an estimated cost of well in excess of €100m per annum. A number of measures supporting the farming sector were introduced in Finance Act 2012. The following is a summary of the various tax reliefs available to farmers.

Section 1

INCOME TAX

Income Averaging

Farming profits chargeable to income tax in a year of assessment can be computed on the average of profits and losses over the year in question and the preceding two years. This means in effect that one-third of the profits for the three years is charged in any one year. This option only applies to individual full-time farmers.

Other income tax provisions

- Farming stock can be valued at its book value instead of at market value when transferred between farmers where one of them is ceasing to trade as a farmer.
- Finance Act 2012 introduced a double deduction for carbon tax when computing the profits of the trade of farming to take account of the increase in the rate of carbon tax on farm diesel. The Irish Farmer's Association (IFA) would like a double income tax deduction of the full cost of carbon tax.

Capital Allowances

Farm Buildings Allowance

Capital allowances for the construction of farm buildings and ancillary works, for example roadways, fences and land reclamation works, have a writing down period of seven years.

Farm Buildings for control of pollution

This scheme is closed to new entrants but some buildings may still be within their writing down period.

This is a capital allowances scheme for work carried out on farm buildings and structures associated with pollution control up to 31 December 2010. It consisted of an initial 'floating allowance' which could be taken in whole or in part at any time over the writing down period. The balance of the expenditure is written off over three years.

Milk Quotas
Allowances are available to farmers for expenditure on or after 6 April 2000 on any qualifying milk quota. The rate of the allowance is 15% for the first six years and 10% in year seven.

Where the capital allowance has been claimed and the quota is subsequently sold a balancing charge or allowance will apply by reference to the tax written down value of the quota at the date of sale.

Milk Quotas are subject to the Universal Social Charge (USC). The IFA have asked for them to be included in the list of capital allowances that can be excluded from the USC.

The Single Farm Payment (SFP)
The single payment scheme was introduced in 2005 to replace a range of other subsidies. This payment is linked to the average number of animals or hectares on which previous payments had been made up to 2005. The SFP is liable to income tax, with some exemptions.

- If an individual farmer leases out their land, that part of the lease income related to the SFP qualifies, since 2005, for the leased land tax exemption, subject to ceilings.
- The sale or gifting of an entitlement to the SFP is liable to CGT but consolidation of entitlements is not liable.
- A SFP entitlement can qualify for CGT retirement relief but only if the entitlement is disposed of at the same time and to the same person as land which would support a claim to payment in respect of that entitlement.
- A gift or inheritance of a SFP entitlement is subject to CAT and qualifies for agricultural relief.
- The cost of acquiring a SFP entitlement, being a capital expense, is not allowable as an income tax deduction.

This payment is made directly by the EU under the Common Agricultural Policy (CAP) and is worth in excess of €1.2 billion to the farming sector.

Leasing of Farm Land
If a farmer is aged forty or over, or is permanently incapacitated by mental or physical infirmity, and leases their farmland for a period of at least five years, they can avail of a land leasing tax exemption. Where the lease includes both land and the SFP entitlement, the rental income attributable to the SFP also qualifies for the relief, subject to the appropriate ceiling. In order to qualify, both parties to the lease must be unconnected.

The IFA have requested that this exemption be made available for lease agreements between certain connected parties such as family members and be extended to include farm businesses that have incorporated.

It is estimated that this relief costs the exchequer €27m per annum.

Forestry
Income, including grants and premiums, from forestry carried out in the State on a commercial basis is exempt from income tax and corporation tax but not from the USC or PRSI. Establishment or maintenance costs are not deductible against other income. Income from forestry activities is subject to the High Earners Restriction.

Race Horses
Although horse breeding is an activity taxable in the same way as other livestock farming, when a horse is transferred to a racing stable the winnings or sale proceeds are exempt. However, the costs incurred in training and racing are not tax deductible. This treatment does not apply to race horse trainers.

The tax exemption for stud fee income ended on 31 July 2008. Income from stud fees and profits or gains from the sale of stallions are now fully taxable.

However, the full initial market value of stallions purchased for stud purposes or transferred from racing, can be written-off over four years.

Trading expense deductions

Stock Relief
A farmer can claim a 25% deduction from their trading profits for any increase in the closing stock value over the opening stock value for an accounting period. Stock in this instance includes animals, feed, fertiliser and seed. This provision cannot be used to turn a profit into a loss. This relief applies until 31 December 2012.

Young Trained Farmers Stock Relief
A scheme of income tax relief was introduced in 2006 for young trained farmers under 35 years of age. These individuals can claim stock relief of 100% for a four year period beginning in the year they become a "qualifying farmer", ie when they have met the specified farm training requirements. It is designed to assist young farmers entering the livestock sector to encourage generation renewal in the sector. Finance Act 2011 extended this relief until 31 December 2012 and was notified to the Commission under State aid guidelines but has not yet received formal approval.

It is estimated that the extension of the farming stock relief will cost the exchequer €2m per annum.

Stock relief for registered farm partnerships
Finance Act 2012 provided that farmers who participate in registered farm partnerships can avail of a 50% rate, rather than the 25% rate of stock relief. This means that if the value of a farming partnership's trading stock at the end of an accounting year is greater than the value of opening stock in that year, 50% of the increase can be claimed as a deduction in calculating the trading profits of the partnership. Qualifying young trained farmers can avail of the 100% rate of stock relief if they are in such partnerships.

This increased rate of stock relief will be available until 31 December 2015 for partners in registered farm partnerships. This provision is subject to a Commencement Order on foot of State aid clearance.

Farm partnerships are currently defined as milk production partnerships within the meaning of the EU Milk Quota Regulations. The IFA and the Department of Agriculture, Food and the Marine would like this definition extended to include other farm partnerships such as beef production partnerships.

It is estimated that the expenditure on this scheme of stock relief will cost the exchequer €5m per annum.

Disposal of stock under statutory disease eradication measures
Where a farmer, as an individual or as a company, disposes of stock such as livestock or poultry under statutory disease eradication measures, and such disposal results in a gain, the profit arising can be excluded from the income tax computation for the accounting period during which the disposal takes place. Instead, the gain can be spread over the next four accounting periods or, alternatively, over the period during which the disposal takes place and the following three. In addition, enhanced stock relief of 100% (instead of the normal 25%) is available in the four year deferral period.

Section 2
CAPITAL TAXES RELATED TO FARMING: GENERAL OVERVIEW

Transfer of land – Tax Liability
Capital taxation in the farming sector arises on transfers of land or other property, whether through a sale, a gift, an inheritance, or a compulsory acquisition. A transfer of land or property may incur liability to tax under three different taxes: Stamp Duty, Capital Acquisitions Tax (CAT) and Capital Gains Tax (CGT). Stamp Duty and CAT are payable by the person acquiring the land while CGT is payable by the person disposing of the land. Certain reliefs and allowances may reduce the tax burden on the transfer, and CGT payable by a person disposing of land can be claimed as a credit against any CAT due from the recipient on the same event.

The current capital tax incentives/expenditures for the farming community are set out below. Certain incentives/expenditures which can be claimed by other taxpayers as well as farmers are also listed, with the exception of general exemptions and reliefs such as the CAT tax-free thresholds and small gift exemption (€3,000), and the CGT annual exemption (€1,270). The paper also examines some recently expired tax expenditures which farmers could claim, and certain tax expenditures which the farming community is seeking to have introduced or re-introduced.

Current farming-related tax expenditures:

Taxhead	**Tax expenditure aimed exclusively at farming community**	**Tax expenditure not aimed exclusively at farming community**
Stamp Duty	100% relief on transfers of agricultural land and buildings to young trained farmers	50% relief on transfers from certain family members ("consanguinity relief")
	100% relief on certain family farm transfers (where transferor is claiming CGT retirement relief and receives land in return for transfer)	100% "commercial woodland exemption" on the value of trees growing on land (the land itself is subject to Stamp Duty)

CAT	Agricultural relief: 90% reduction in taxable value of gifts/inheritances of agricultural property (if beneficiary meets asset based "farmer" test)	Business relief: 90% reduction in taxable value of gifts/inheritances of business property (may apply if beneficiary doesn't meet the "farmer" test)
	Lower interest rate on installment payments for CAT due on gifts/inheritances of agricultural property	Lower interest rate on installment payments for CAT due on gifts/inheritances of business property

		CGT/CAT "same event" relief – CGT payable on a disposal can be claimed by the beneficiary as a credit against a CAT liability on acquiring the same property/asset
CGT	Retirement relief for rented land in certain circumstances (retirement relief cannot normally be claimed on assets which have been rented)	Retirement relief applies to disposals of "chargeable business assets" with differing conditions depending on age and whether the disposal is to family or outside the family
		"Site to child" relief on land up to 1 acre in size and €500,000 in value where the site will be used for the construction of the child's sole or main residence

Recently expired or abolished farming related tax incentives/expenditures:

Taxhead	**Tax expenditure aimed exclusively at farming community**	**Tax expenditure not aimed exclusively at farming community**
Stamp Duty	Farm consolidation relief (expired on 30 June 2011)	100% "site to child" relief on land up to 1 acre in size and €500,000 in value where the site will be used for the construction of the child's sole or main residence (abolished on 8 December 2010)

STAMP DUTY

Basics of Stamp Duty

Stamp Duty dates back to the late 17th century. It is a tax on instruments, including instruments effecting the transfer of property. The current rate of Stamp Duty on transfers of non-residential property (including agricultural land and buildings) is 2%. This was changed in Budget 2012 from banded rates varying from 0% on property valued less than €10,000 to 6% on property valued over €80,000. The previous rates applied to the full value of the property, not just to the amount above the relevant threshold (for example, if a non-residential property being transferred was valued at €100,000, Stamp Duty was charged at 6% on the full amount, rather than 0% on the first €10,000, 1% on the next €10,000, etc). The rate reduction is intended to stimulate the market in non-residential property, including agricultural property, in conjunction with the new Capital Gains Tax (CGT) relief for properties bought before the end of 2013 and held for at least seven years.

Stamp Duty expenditure measures aimed exclusively at farmers:

Young Trained Farmer Stamp Duty Relief

Background

The purchase of land by a "young trained farmer" qualifies for an exemption from Stamp Duty. A young trained farmer is defined as someone who is under 35 years of age on the date of execution of the deed of transfer, has attained one of the necessary qualifications and, where required, is the holder of the appropriate certificate(s) awarded by the Further Education and Training Awards Council (FETAC) in respect of Teagasc approved training courses.

The academic qualifications which make an individual eligible for young trained farmer relief from Stamp Duty are set out in Schedules 2, 2A and 2B of the Stamp Duties Consolidation Act 1999. These lists include qualifications awarded by third-level institutions.

This exemption is due to expire on 31 December 2012. However, if an individual, who meets all the conditions for obtaining the exemption other than holding the necessary qualification, acquires land and pays Stamp Duty before 31 December 2012 and obtains one of the necessary qualifications within four years of the land transfer, he or she can obtain a refund of any duty paid on the transfer.

As noted in the Income Tax section of this paper, there is also a stock relief from income tax aimed at young trained farmers.

Cost

The cost of young trained farmer relief was estimated at **€47m** in 2010. The costing for 2011 to date is not available but given the decline in land values the cost of the measure would have reduced. There were 865 applicants for young trained farmer relief in 2011, down from 1,170 applicants in 2010.

If this relief is to be extended, it would require EU State Aid approval. The amount of duty payable in the absence of this relief would have fallen given the reduction in the non-residential property Stamp Duty rate to 2%; and if the transfer is from a family member such individuals continue to be able to claim consanguinity relief (see below) until the end of 2014.

Relief on certain family farm transfers

Background

This relief can be claimed when an individual claims CGT retirement relief (see CGT section below) on a transfer of farm land to her/his "child" as defined for retirement relief purposes (which can also include a niece or nephew or another person under the care of the individual disposing of the land in certain circumstances). If part of the consideration paid by the child for the farmland disposed of by the individual claiming retirement relief is wholly or partly other farmland, Stamp Duty does not apply to the transfer of the other land. This would mean, for example, if a parent gave land to a child and a child gave a parent a smaller piece of land in part exchange, Stamp Duty would not apply on the transfer from child to parent.

Cost

This relief cost **€0.3m** in 2010. There were 14 applicants in 2010 and 15 applicants in 2011. This relief was considered in the context of Budget 2012 and the Minister decided to retain it.

Stamp Duty expenditure measures not aimed exclusively at the farming community:

Relief on transfers from family members (consanguinity relief)

Consanguinity relief reduces by 50% the Stamp Duty payable on transfers of property between certain family members. It previously applied both to residential and non-residential property but the relief was abolished for residential property in the context of the reduction in residential property Stamp Duty rates in Budget 2011.

This relief costs **c€14m** per year (on non-residential property). In connection with the reduction in the rate of non-residential property Stamp Duty in Budget 2012, the Minister for Finance decided that consanguinity relief would cease to apply after 31 December 2014.

Commercial woodland exemption

When agricultural land is sold, part of the value of the land relates to crops, trees or other vegetation growing on the land. The commercial woodlands exemption from Stamp Duty applies to the value of such land which relates to the trees growing on the land. Stamp Duty is payable on the land itself. There is also an income tax exemption on the sale of the commercial wood.

This relief cost c €7.5m in 2010. There were 67 applicants in 2010 and 72 in 2011.

Recently expired or abolished reliefs

Farm Consolidation Stamp Duty Relief

Background

Farm consolidation relief allowed a farmer to claim relief from Stamp Duty where s/he sold and purchased land in order to consolidate his/her holding, where the sale and purchase occur within 18 months of each other. In these circumstances, the farmer was liable to Stamp Duty only on the difference, if any, in value between the two. The relief was introduced to encourage farmers to consolidate their holdings, in order to reduce fragmentation and increase the operation and viability of the farms concerned. There are specific conditions relating to land, consolidation, farming and retention that must be adhered to in order for the relief to apply. The relief expired on 30 June 2011.

This relief was claimed in very few cases (a total of 115 claims since its introduction in 2005 up to the end of 2010). It has been claimed that the conditions to qualify for the relief were restrictive but it was extremely generous, involving in many cases a full exemption of Stamp Duty.

The Department of Agriculture has suggested a re-introduction of the relief to 31 December 2015. They also suggest amending some of the qualifying conditions so as to further encourage consolidation of farm holdings. However, the previous measure was subject to EU State Aid approval, which expired with the relief, and any re-introduction would require new State Aid approval before it could be commenced (as with a possible extension to young trained farmer relief).

Site to child relief

This relief from Stamp Duty could be claimed when a parent transferred land under one acre in size and €500,000 in value to a child for the purpose of building the child's sole or main residence. It was abolished as part of the reduction in residential property Stamp Duty rates in Budget 2011. The valuation limit was rather unrealistic, given that the average price of agricultural land was about €10,000 an acre in 2011, although land which is a suitable residential site would be more valuable than average land (as it would have better road access, etc.). Although the child to whom the land is being transferred may now have a liability to Stamp Duty, the applicable Stamp Duty rate is now 2% (previously up to 6%) and if the transfer is liable to duty the transferee can claim consanguinity relief until 31 December 2014, which reduces the duty payable by half. In addition, a parent can still claim Capital Gains Tax relief on "site to child" transfers.

Cost

Site to child Stamp Duty relief cost c. **€6m** per year.

CAPITAL ACQUISITIONS TAX (CAT)

Basics of CAT

The Capital Acquisitions Tax (CAT) code includes gift tax, inheritance tax and discretionary trust tax. It was first introduced in 1976 when it replaced estate duty. CAT is payable by the donee or beneficiary; that is, the person who acquires the property. The current CAT rate is 30%. There are group tax-free thresholds based on the relationship between the disponer (the person gifting or bequeathing the property) and the donee. The current thresholds are: Group A - Son/Daughter: €250,000; Group B - Parent/Brother/Sister/Niece/Nephew/ Grandchild: €33,500; Group C - All others: €16,750. These thresholds can be claimed in conjunction with other available reliefs.

CAT expenditure specifically targeted at farming community:

Capital Acquisitions Tax Agricultural Relief

Background

Qualifying farmers who acquire property by gift or inheritance can avail of CAT agricultural relief which reduces the value of agricultural property by 90%. To qualify for this relief, 80% of the farmer's assets, after having received the gift or inheritance, must consist of qualifying agricultural assets.

The combination of agricultural relief and the group tax-free thresholds is extremely generous. If an individual can claim the current group A tax-free threshold (gifts/inheritances from parents to children) of €250,000, as well as agricultural relief, s/he could inherit or be gifted agricultural property worth over €2.5m without paying any CAT. Given that the average value of agricultural land was €10,000 an acre in 2011, a farm of 250 acres in size could pass from parent to child without any CAT liability.

Difficulties with CAT agricultural relief

The 80% farmer test is more favourable to larger gifts or inheritances. For example, if a beneficiary owned a house worth €200,000 and received a gift or inheritance of agricultural property worth €600,000, s/he would not qualify as a "farmer" because 80% of her/his assets after receiving the gift/inheritance would not be agricultural property; whereas if the property gifted or inherited was worth €3 million, s/he would qualify for full CAT relief. [However, an individual who does not qualify for agricultural relief may be able to qualify for business relief from CAT, which reduces the value of business property for tax purposes by the same factor of 90%.]

The existence of the relief does not encourage lifetime transfers, because the rate of the relief is the same for gifted property as for inherited property.

The relief also does not encourage participation in farming, because the beneficiary does not have to farm the land to benefit from the relief. A non-farming beneficiary could potentially inherit land free from CAT as a result of agricultural relief and also benefit from the income tax relief on leased land.

Possible changes to agricultural relief
Given the requirement to obtain additional revenue from CAT, the various reliefs will be critically examined. The Commission on Taxation has recommended that agricultural relief be reduced to 75% with an overall cap of €3m on the value of the assets qualifying for the relief. As part of this process, consideration could be given to targeting the relief at recipients who are putting land to efficient agricultural use. For example, to encourage lifetime transfers the CAT rate for gifts could be made lower than the rate for inheritances, or the amount of agricultural relief could be set higher for gifts than for inheritances. Also, the conditions for agricultural relief could be changed (together with those for business relief) to make it conditional on participation in farming rather on the quantum of asset inherited so that the beneficiary had to be involved in farming to benefit from the relief.

<u>CAT expenditures not specifically targeted at farming community:</u>

CAT business property relief
This relief applies to business property assets passing by gift or inheritance. Unlike in agricultural relief, the property must be a business or used in a business, and owned by the disponer and/or her/his spouse for at least five years before the transfer in the case of a gift or two years before the transfer in the case of an inheritance. As noted above, a beneficiary who does not qualify for agricultural relief because s/he does not meet the "farmer" test may be in a position to claim business relief instead.

As with agricultural relief, business relief does not encourage lifetime transfers and does not of itself encourage participation in business by the donee – only the person making the gift or leaving the inheritance has to be involved in the business, not the person receiving or inheriting the property. The relief should be examined as part of the requirement to obtain additional revenue from CAT and consideration could be given to targeting the relief more efficiently.

CGT/CAT same event relief
If a transfer of property is subject to CGT, payable by the person disposing of the property, and the same transfer is subject to CAT, payable by the person acquiring the property, any CGT paid by the disponer can be used by the donee as a credit against her/his CAT liability.

CAPITAL GAINS TAX (CGT)

Basics of CGT
CGT was introduced in 1975. The tax is charged on the value of the capital gain made on the disposal of an asset. Disposals are not limited to sales of assets – a gift of an asset counts as a disposal and will be liable to CGT if a gain is made according to the calculation rules. The current CGT rate is 30%.

CGT expenditure specifically aimed at farming community:

CGT Retirement Relief for leased land
Background
CGT "retirement relief" (see more detailed discussion below) applies in most cases to "chargeable business assets" – assets used directly in a business by the person disposing of the assets and claiming the relief, rather than business assets leased by the person disposing of them.

However, farmers can avail of "retirement relief" on disposals of leased land in three circumstances:

- On disposals of land which the farmer has leased under the early retirement scheme and which he subsequently disposes of;
- On disposals of land to a child, where the land has been let for no longer than 15 years (ending with the date of disposal) and prior to its initial letting had been owned and used for farming by the person making the disposal for not less than ten years; and
- On land which is the subject of a compulsory purchase order by a local authority, if the land was let for up to five years before the purchase and prior to being let the farmer had used it for farming for at least ten years.

Given that land leasing is often relieved from income tax, and given the need to obtain additional yield from CGT, the rationale for making retirement relief available in these cases should be critically examined.

CGT expenditure not specifically aimed at farming community:

Retirement relief on transfers inside and outside the family
No CGT is payable on a death. CGT retirement relief provides that business or farming assets ("chargeable business assets") are relieved from CGT on disposal, where the person disposing of the assets is aged 55 years or over and had owned and used the asset for the ten years prior to disposal.

The operation of the relief differs as between persons aged 55 to 65 and persons aged 66 and over. In the former cases, the relief applies to assets valued up to €750,000 where the assets are transferred outside the family. Where the disposal is made to a child or favourite niece/nephew, there is no monetary limit to the relief.

For individuals aged 66 years and over disposing of business or farm assets outside the family, the consideration limit is being reduced from €750,000 to €500,000. For individuals aged 66 years and over disposing of business or farm assets to a child or nephew/niece who has worked full time in the business/on the farm for the previous five years, the relief can be claimed up to a consideration or value limit of €3 million. The changes for individuals aged 66 years and over come into effect from 1 January 2014, in order to encourage transfers by individuals who are already aged 66 year or who reach that age before then.

CGT Site to child relief

This relief from CGT can be claimed when a parent transfers land under one acre in size and €500,000 in value to a child for the purpose of building the child's sole or main residence. The relief from Stamp Duty on these transfers was abolished as part of the reduction in residential property Stamp Duty rates in Budget 2011. As noted above in the discussion on the former Stamp Duty relief, the valuation limit is rather unrealistic. Given the current value of land (about €10,000 an acre on average in 2011, as noted above) and the availability of other reliefs (such as the annual exemption, currently €1,270, and indexation relief) the CGT payable on the transfer of a site under 1 acre to a child would be minimal if the relief was abolished.

Section 3
VAT MEASURES RELATED TO FARMING

Farmers Flat-rate Addition
The farmers flat-rate VAT addition is a mechanism used to compensate farmers who pay VAT on their business purchases but who are not entitled to reclaim this VAT. The scheme is provided for in the EU VAT Directive and is essentially an administrative arrangement, reducing the administrative burden on small farmers and on tax authorities. The addition works by allowing these farmers to raise the sale price of their produce by a certain percentage, i.e. the flat-rate.

The current flat-rate addition is set at 5.2% and has been in place since 2007. The rate is reviewed annually in the run up to the Budget, the calculation of which is governed by the VAT Directive, which directs that the rate be struck on the basis of macro-economic data. This data is supplied by the CSO.

VAT Refund for Farmers on Construction, etc
Farmers who are not registered for VAT are not in the normal course entitled to credit for, or repayment of, VAT incurred by them on their business inputs. However, the VAT (Refund of Tax) (Flat-rate Farmers) Order 2012 provides for refunds to unregistered farmers for tax borne on the construction, extension, alteration or reconstruction of any building or structure which is designed for use solely or mainly for the purposes of a farming business. Specifically such farmers can claim back VAT they incur on the purchases relating to construction of farm buildings, fencing, drainage and reclamation of farmland.

Furthermore, the Refund Order also provides for a VAT refund to farmers who purchased from 1 January 2012, either a) a wind turbine system, b) a solar power system, or c) equipment ancillary to those systems required for storage of electricity or connection to the grid. In order to qualify for a refund, the equipment must be designated as energy efficient by the Sustainable Energy Authority of Ireland and used only for farming purposes.

4.8% super-reduced VAT rate on Livestock
While the majority of goods and services in Ireland are subject to VAT at the 23%, 13.5% and 9% rates, Ireland also applies a VAT rate of 4.8%, but this is limited to livestock sold by VAT registered persons/firms. Specifically the 4.8% rate applies to the supply of livestock, greyhounds, the hire of horses, and the supply of artificial insemination where a no-foal no-fee agreement is in place.

9% reduced VAT rate on Open Farms, and Built & Natural Heritage
The Finance Act 2012 provided that admissions to open farms and built and natural heritage facilities, such as waterfalls or heritage monuments, are subject to the 9% VAT rate from 1 January 2012. Prior to this date such admissions were exempt from VAT, having been treated for VAT purposes as lettings. However, following certain decisions of the European Court of Justice it was decided that such admissions could no longer be treated as exempt lettings.

Section 4

Consultation with interested parties

While the Department of Finance has not yet received a formal pre-Budget submission from the IFA, officials from the tax side have met with them and other interested parties such as the Department of Agriculture, Food and the Marine during the year.

Throughout the paper the views of the IFA or the Department of Agriculture, Food and the Marine have been stated where applicable.

The Business Tax Team are aware of a number of further tax reliefs which have been requested by various interested stakeholders and they are summarised below.

Tax-incentivised loan scheme
The Dairy Industry Working Group have proposed a tax-incentivised loan scheme where investors could loan money to co-operatives for a 5 year period and receive up-front tax relief at marginal rates.

CGT relief for Farm Consolidation
The IFA have previously requested the introduction of a CGT relief where farms are consolidated.

Rollover relief
Up to 2002, a taxpayer who made a capital gain could reinvest the sale proceeds in another asset and defer or "roll over" payment of tax until the replacement asset was disposed of (and potentially could "roll over" the tax payment if the sale proceeds of the replacement were reinvested, ad infinitum). This was called "rollover relief". The relief was abolished in 2002 following the reduction in the CGT rate as part of a policy of keeping the CGT rate low and abolishing various reliefs and exemptions.

Farm organisations often seek the reintroduction of rollover relief. In particular, they have suggested its reintroduction where the proceeds from land purchased under a CPO are reinvested, and for farm consolidation – that is, where a farmer sells land but uses the proceeds to consolidate her/his holding by making it less scattered and more contiguous.

It is appropriate that tax should be paid when a chargeable event occurs, and the availability of roll over relief often meant that tax was never paid on gains which were "rolled over". xxxx