Ireland's Agriculture:
A Key Part of our Economic Recovery

Irish Cattle & Sheep Farmers' Association
Budget 2013 Submission

ICSA
IRISH CATTLE AND SHEEP FARMERS' ASSOCIATION

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Executive Summary

Irish farming forms the foundations of the agri-food sector, which is seen by many as a key part of the fiscal recovery strategy, with Food Harvest 2020 forming the roadmap to securing and expanding the sector. Such targets can only be delivered upon through budgetary decisions which support the overall vision of the plan and which do not continue to cut funding from farmers, many of whom are already subsisting on low incomes. In this context, ICSA submits the following recommendations to the Minister for Finance prior to Budget 2013.

Taxation

- Tax levels are now at their limit in terms of income tax rates, USC and PRSI. Capital taxes are now at a limit at a rate of 30% and there should be no further changes in either rate, thresholds or bands.

Effective Tax Rates

- ICSA submits that the increase in effective tax rates to 52% is undermining entrepreneurial endeavour and should be reviewed.

Income Tax Credits

- ICSA believes that the employee tax credit should be replaced with an earned tax credit, in line with the Commission on Taxation (page 104) although it should be phased in quickly rather than over time.

Stock Relief

- ICSA proposes that 50% stock relief should be available for all farmers in the interests of encouraging farmers to meet the targets of Food Harvest 2020. In the longer term, the state will reap much more from increased exports and future tax take rather than the short term view which limits stock relief except in the case of young farmers.

CGT Retirement Relief

- While early transfer of farms is preferable in some circumstances this is not always the case and may not be feasible for a variety of reasons. The introduction of a penalty on those aged over 66 is rather arbitrary and should be reversed as it is likely to cause more cases of delayed transfer than early transfer.

Capital Acquisitions Tax

- There should be no further reductions in the thresholds or increases in the rates.

Carbon & Excise Duties

- ICSA submits that the Government should limit its tax take on diesel. Excessive tax rates on fuel are not leading to increased revenue because fuel usage is curtailed or, in the case of parts of the international haulage sector, fuel is being purchased outside the jurisdiction.

Croke Park Agreement

- The Croke Park Agreement reform agenda needs to be more strongly implemented, with additional savings needing to be made within the framework of the current agreement, particularly from allowances and overtime. However, the insistence that areas such as increments are protected by Croke Park means that real savings are being diminished by de facto pay increases. Given the extent to which pay and pensions dominate the budgets of the highest spending Departments such as Education and Health, it is increasingly becoming untenable to be cutting front line services while maintaining unviable pay levels.

Suckler Cow Welfare Scheme

- Continue to implement this very important scheme in its entirety and make the necessary financial provision for it.

AEOS

- Provision needs to be made to maximise the number of farmers entering AEOS in 2013 after leaving REPS.

Installation Aid

- Funding of some €10 million should be provided to establish trained, young farmers.

Disadvantaged Areas Scheme

- There should be no further cuts to this scheme which is of absolutely vital importance to many livestock farmers.

TAMS

- Implement the following additional sub-schemes or changes to the TAMS investment programme: Upgrading of cattle water troughs and feed bins which minimise badger access on farms at risk of repeated Bovine TB outbreaks (or neighbouring farms), at a grant-aid rate of 50%; Installation of video technology for calving sheds at a grant-aid rate of 40%; Increase the grant-aid rate for Sheep Fencing and Handling investment to 50%

Farm Assist

- Make no further cuts to the Farm Assist Scheme which has been of critical importance to a large number of farmers during the ongoing recession.

Pensions

- ICSA submits that the pension levy decision should be reversed and that tax relief for pension contributions should continue at the marginal rate and take into account USC as well.

SECTION 1: CONTEXT

Irish farming forms the foundations of the agri-food sector, which is seen by many as a key part of the fiscal recovery strategy, with Food Harvest 2020 forming the roadmap to securing and expanding the sector. Such targets can only be delivered upon through budgetary decisions which support the overall vision of the plan and which do not continue to cut funding from farmers, many of whom are already subsisting on low incomes.

In this context, ICSA wishes to highlight the commitment made in the Government Comprehensive Expenditure Report 2012-14 that the Minister for Agriculture, Food and the Marine is ***"committed to implementing the further expenditure cuts and reduced staffing levels while attempting to ensure that the more vulnerable farm families continue to receive support and that scarce resources are directed towards developing the potential for growth and expansion identified in Food Harvest 2020 and the Government Programme."***

From a farm income perspective, both 2010 and 2011 were relatively good years for farming, as detailed in the respective Teagasc National Farm Surveys. While there may be a temptation to note improvements in farm income when assessing the potential for the farming sector to absorb further cuts, it is of critical importance to appreciate the volatility of such income from year to year. While 2010/11 was a good period for agriculture, 2012 has been disastrous by comparison, with inclement summer weather leading to poor harvest and imminent fodder shortages for livestock farmers, combined with elevated oil and feed prices. As a result, it is clear that 2012 incomes will fall dramatically from 2011 levels and be more comparable with 2008/09.

For reference, ICSA has compiled the following tables, which document the average Family Farm Income (FFI) values from the 2009, 2010 and 2011 Teagasc National Farm Surveys, broken down by farming type and farm size. The tables have been colour coded to reflect FFIs above and below the CSO National Average Earnings for each year; farms earning above the average wage are coded green, while those below are coded red. As can be seen, there is a trend for large area farms to earn higher than average Family Farm Incomes. The vast majority of farms in Ireland, particularly in the suckler (cattle rearing), beef (cattle other) and sheep sectors have consistently low incomes, notwithstanding the fact that 2011 was an exceptional year in terms of product price.

A key point is that the typical disadvantaged farm, carrying a mix of sheep and sucklers, has carried the brunt of previous budget cuts. Suckler farms saw the Suckler Cow Welfare Scheme cut from €80 to €40, the DAS payment has been cut twice, with the maximum rate reduced by 25% from 45ha to 34ha, and many of these farms had a disproportionate dependency on REPS which is no longer available to them. Unfortunately, many of the farms that have been hit repeatedly by these cuts are also the farms with below average Pillar 1 payments (Single Farm Payment) under the CAP.

Core ICSA Policy Position:

The Suckler Cow Welfare Scheme must be funded for 2013 and 2014 or until there is a new rural development programme agreed in the context of a CAP reform agreement. The Disadvantaged Area Scheme should be protected from any more cuts.

Table 1 - 2009 Family Farm Income by Farming System and Farm Size (Source: Teagasc National Farm Survey) (Annual Average Workforce Salary = €36,766.47)

	<10ha	10-20ha	20-30ha	30-50ha	50-100ha	>100ha	Hill Farms
Dairy	-	-	€8569	€24078	€37187	€39645	€22117
Dairy/Other	-	-	-	€12409	€25887	€61853	€2387
Cattle Rearing	-	€4053	€3571	€10650	€14153	€29706	€5264
Cattle Other	€1200	€4369	€5658	€11849	€22511	€53211	€8262
Sheep	-	€2621	€8189	€14362	€20619	€30635	€12543
Mixed Livestock	-	-	-	€10951	€21386	€29726	-
Tillage	-	€4002	€5773	€14811	€26202	€42621	€10126

Table 2 - 2010 Family Farm Income by Farming System and Farm Size (Source: Teagasc National Farm Survey) (Annual Average Workforce Salary = €36,071.49)

	<10ha	10-20ha	20-30ha	30-50ha	50-100ha	>100ha	Hill Farms
Dairy	-	-	€17363	€41559	€68364	€93548	€25985
Cattle Rearing	-	€2631	€3307	€9179	€18655	-	€7878
Cattle Other	-	€4331	€6533	€11958	€22679	-	€6360
Sheep	-	€3806	€9838	€14871	€27346	€40831	€17220
Mixed Livestock	-	-	-	€17895	€51514	€82489	-
Tillage	-	-	-	€21801	€45893	€107873	-

Table 3 - 2011 Family Farm Income by Farming System and Farm Size (Source: Teagasc National Farm Survey) (Annual Average Workforce Salary = €35,880.13)

	<10ha	10-20ha	20-30ha	30-50ha	50-100ha	>100ha	Hill Farms
Dairy	-	-	€27439	€55426	€92081	€117624	*No data*
Cattle Rearing	-	€5438	€5521	€14735	€26165	-	*No data*
Cattle Other	-	€4906	€11907	€20363	€30462	€57355	*No data*
Sheep	-	€7256	€12556	€19402	€30048	-	*No data*
Mixed Livestock	-	-	-	€30111	€66594	€111385	*No data*
Tillage	-	-	-	€17443	€45138	€112591	*No data*

In the tables above, it is worth noting the discrepancy in farming type and income levels; intensive dairy, tillage and mixed farms tend to earn more on average than cattle and sheep enterprises. It is of key note that drystock farms, even in the 50-100ha size bracket, have an average FFI which still falls well below national wage averages; this is the case even in 'good' farming years like 2010 and 2011. In this context, it can be easily seen how marginal many farms are, and how any additional cuts to farm supports or increases to broad and sector-specific taxes will lead to increased hardship for many farmers, particularly in the drystock sectors.

The framing of the budget for 2013 is constrained by agreements with the IMF, ECB and EU and the overall need to get the deficit in line with the agreed targets. The target for 2012 of a General Government Deficit of 7.5% of GDP is difficult to disagree with.

While it is clear that the Government is tied into these commitments under the Stability and Growth Pact and as a result of the agreement with the Troika, there is also a need to inject confidence and to support sectors that can aid job creation, particularly through increased exports.

While the Government has emphasised that the bigger share of adjustment is to be on the expenditure side rather than the taxation side, the evidence so far suggests that tax targets are being exceeded but expenditure reductions are more elusive.

For example, the August 2012 Stability Programme Update indicated that tax revenues were 1.7% ahead of forecast. Meanwhile, failure to make progress on cuts to allowances in the public sector suggests that anticipated expenditure savings will not be met.

This reality again calls into question the sustainability of the Croke Park agreement. The commitment to maintain pay rates in the public sector means that a disproportionately high part of all expenditure reductions is focused on cutting schemes, services and capital investment.

In addition, as the private sector becomes more competitive with nominal unit labour costs falling by over 4%, the pay costs in the public sector are leading to a two-tier employment model. The OECD report refers to the need for further falls in unit labour costs.

Government strategy to cut payroll costs is more focused on a reduction of numbers employed in the public sector rather than the rate of pay. However, in most cases, this results in a parallel increase in pension and/or social protection costs as well as having a detrimental impact on consumption taxes such as VAT.

The Croke Park agreement now seems to preclude a very big area of expenditure from further cuts, which in our view, makes it impossible to achieve the targeted adjustment. There is also an issue of fairness, which cannot be avoided in the context of decisions that will impact on farming schemes. Cuts to schemes such as the Suckler Welfare Scheme, Disadvantaged Area Scheme etc are effectively pay cuts for farmers.

Farmers can rightly argue that the REPS scheme and DAS schemes are in fact "core pay" but to no avail. This contrasts badly with the treatment of the public sector.

Why should there be further pay cuts for farmers when the public sector now has a pay agreement of no further cuts? Moreover, the government cannot lose sight of the fact that an export oriented sector such as farming needs to be nurtured rather than hindered.

We submit that all budgetary decisions, whether on cuts or increased taxes, must be evaluated on two criteria:

(1) Impact on job creation and retention;

(2) Impact on export and foreign earnings growth.

From a farming perspective, the strategy outlined in the Food Harvest 2020 report points the way with ambitious targets for growing agricultural output and exports. The target for increased exports of €12 billion represents a 42% increase on the 2007-2009 average. With gross output of €24 billion, the agri-food sector is obviously important to Ireland's economic well-being. More significantly, its low import content (domestically sources 71% of raw materials) means that if it grows, then the benefits are substantially captured by the Irish economy.

This is an important point when considering the pros and cons of a fiscal stimulus. One of the criticisms is that, in a small open economy, any stimulus is frittered away by the propensity to import. This manifestly is not a problem with the agri-food sector because it is based primarily on the utilisation of native resources and is massively export oriented.

The reality, of course, is that a fiscal stimulus is only possible if the government can access the funds to fund it. At present that possibility is not there. On the other hand, the government can, as a first remedy, opt to 'do no harm.' By this we mean government avoiding undermining the ability of the agri-food sector to fulfil the potential identified in the Food Harvest 2020 report. If a fiscal stimulus to agriculture is not possible, let's not impose a fiscal contraction.

By this, we mean that no further cuts should be imposed on agriculture as such cuts can only further depress the sector and invariably will counteract the strategy of expansion outlined in the Food Harvest 2020 report.

It must be emphasised again that farming has already taken a severe hit in previous budgets and the level of cuts already imposed is far more severe than for any other sector.

Commodity prices rose sharply in 2011 but that improvement stalled badly in 2012, for key products such as dairy and meat. Costs however have remained at record highs and the impact of an appalling year in weather terms means that farmers are extra vulnerable to any additional cuts.

It is important to emphasise that agriculture has already made more than a fair contribution. While much of the Bord Snip report lies untouched, agriculture implemented some of its decisions even before it was printed. ICSA believes that even in the context of a necessary adjustment as high as €4 billion for this budget, all decisions must be informed by two key imperatives- do what helps to increase employment and do what helps exports.

Accordingly, every single cutback in expenditure, reduction in capital projects or increases in taxation must be examined to see what the effects are on increasing employment and helping exports.

We do emphasise that competitiveness is still a critical problem. Wage costs remain high, and there is considerable anecdotal evidence of a poverty trap whereby social welfare recipients are not incentivised to take work due to the loss of social welfare and various benefits. Low paid workers are being brought into the tax net to a greater extent particularly with the introduction of the USC and the cutting of tax credits.

Any further adjustment to tax on lower paid workers does necessitate equivalent reductions in social welfare benefits. Otherwise, the incentive to work is further weakened and the cost of employing people is increased.

Again, we need to drive down costs. Electricity costs are simply too high and the Energy Regulator should insist on a 10% reduction on ESB charges. Unless Ireland does more to be more competitive, ambitious targets for increased exports and increased tourism will not be met. The carbon tax was a mistake which simply increased transport costs.

ICSA recommendation:	**The Croke Park Agreement reform agenda needs to be more strongly implemented, with additional savings needing to be made within the framework of the current agreement, particularly from allowances and overtime. However, the insistence that areas such as increments are protected by Croke Park means that real savings are being diminished by de facto pay increases. Given the extent to which pay and pensions dominate the budgets of the highest spending Departments such as Education and Health, it is becoming increasingly untenable to be cutting front line services while maintaining unviable pay levels.**

SECTION 2: EXPENDITURE SAVINGS TO DATE IN THE DEPARTMENT OF AGRICULTURE, FOOD & THE MARINE

ICSA notes that the Department of Agriculture has made significant savings in its overall voted expenditure in recent years, as shown in Table 2.1. A more detailed breakdown of expenditure changes from 2011 to 2012 is shown in Table 2.2. Total funding of €1,312m was provided in the Department's Vote in 2012 (€1,144m in current and €168m for capital expenditure). The rolling savings from measures introduced in the 2012 Budget amount to €105m, while another €87m is due to be found from Department expenditure in 2013, with a further €115m of reductions due in the 2014 budget.

The extent to which agriculture has been hit is summed up by the fact that Gross Voted Expenditure has been cut by one-third in the Department of Agriculture in just 4 years. (€2.104 bn in 2008; estimated €1.311 bn in 2012)

ICSA wish to highlight that farmers have already carried a significant part of the adjustments seen over recent years:

- **The Farm Waste Management Scheme cost €413 million in 2008 but was zero cost in 2012.**
- **REPS voted expenditure was €341 million in 2009, compared with total agri-environment scheme spend of €243 million in 2012.**
- **Fallen animals went from a cost of €26 million in 2008 to zero in 2012.**
- **Disadvantaged Area Scheme has been progressively cut from €257 million to an estimated €190 million in 2012, even though this scheme is co-funded by the EU.**

An example of the difficulties facing the government within the framework of the policy to cut public sector numbers but not pay is seen in the fact that the 2011 estimates for agriculture put exchequer pay at 7% less (€251,738,000 compared with €269,672,000) but exchequer pensions are correspondingly 29% higher. This is based on associated public sector employees reducing from 5,681 to 5,232. (Source: Estimates - Vote 3, Department of Agriculture, Fisheries & Food). Furthermore, Government continues to facilitate the pay-out of €240 million per year in staff increments, while widespread allowances in the public sector also continue to act as a drain on Government coffers, where this money could be redirected to parts of the economy which can drive recovery. ICSA wishes to highlight the fact that it will be difficult to achieve further savings of over €200 million over the next two years in the Department spend without seriously compromising the viability of government support to farming, and in turn undermining the plans set out in Food Harvest 2020. This in turn will have significant implications for the wider economy and rural development.

Table 2.1: Department of Agriculture Expenditure, 2008 - 2012

	€000s					
	2008	2009	2010	2011 (Provisional Outturn)	2012 (Estimated)	2012 Change
Gross Voted Expenditure	2,104,573	1,973,843	1,763,777	1,421,366	1,311,934	-8%
Appropriations	451,814	408,140	400,981	382,212	369,632	-3%
Net Expenditure	1,699,923	1,529,702	1,362,796	1,039,154	942,302	-9%
Administration	303,864	276,823	244,625	237,338	235,371	-1%

Table 2.2: Selected Breakdown of Department of Agriculture Spending, 2011/2012

	€000s			
	2011	2012 (Estimated)	Change	% Change
Agri-Food Policy, Development And Trade				
Research And Training	35,188	31,910	-3,278	-9
Development Of Agriculture And Food	20,361	25,250	+4,889	+24
Teagasc - Grant-In-Aid For General Expenses	120,156	117,060	-3,096	-3
An Bord Bia - Grant-In-Aid For General Expenses	27,637	27,120	-517	-2
Food Safety (And Public Health), Animal Health & Welfare And Plant Health				
Food Safety (And Public Health), Animal Health & Welfare And Plant Health	121,302	118,972	-2,330	-2
Rural Economy, Environment And Structural Change				
Rural Environment	277,022	243,000	-34,022	-12
Land Mobility (Early Retirement/Installation Aid Schemes)	27,702	24,150	-3,552	-13
Development Of Agriculture And Food	40,882	26,261	-14,621	-36
Forestry And Bioenergy	116,459	89,460	-26,999	-23
Direct Payments				
Income And Market Supports	17,609	29,161	+11,552	+66
Disadvantaged Area Income Supports	233,757	190,000	-43,757	-19
Other Services	137	103	-34	-25

SECTION 3: FARM SCHEMES AND FUNDING

To date, the changes applied by the Department have tended to focus on schemes, which are aimed at supporting farmers operating on smaller margins, particularly those situated in Less Favoured Areas. ICSA strongly advocates not making any further reductions to funding which may affect these schemes which are of critical importance to the sustainability of many farms. ICSA submits that, even in the context of budgetary adjustments, there must be room for some element of targeted stimulus programmes, especially to productive, export-oriented sectors. The agri-food sector has excelled in terms of export growth over recent years, when compared to manufacturing or other industries; this sector accounts for about half of all exports from indigenous-owned firms. However, it is of note that the Irish Exporters' Association estimates that following two years of significant expansion, agri-food exports stalled to some degree in the first half of 2012 due to changes in commodity prices and the continuing recession in EU markets. Despite this, the beef commodity market is predicted to increase, due to overall global upward demand trends.

In this context, it is essential that government decisions on the budget do not undermine the expansion targets set out in FH2020, which include a 50% increase in dairy exports and a 40% increase in beef exports (Implementation Group target). ICSA argues therefore that there is no more room for further cuts to schemes that are vital supports to farmers in vulnerable enterprises. Without viability, there can be no expansion. As already noted, previous budgets have seen substantial cuts to important schemes such as the Disadvantaged Area Scheme and the closing off of schemes such as REPS, Installation Aid and Early Retirement. The Suckler Welfare Scheme rate has already been cut in half. Finally, the reality is that the ending of investment schemes such as the Farm Waste Management Scheme has played a central role in reducing voted expenditure for the Department of Agriculture.

3.1 *Agri-Environment Options Scheme*

The Agri-Environment Options Scheme (AEOS) was introduced in 2010 as a replacement for REPS. However, 2010 applicants were limited to a maximum payment of €5,000 and had to wait over 15 months without payment. 2011 applicants have been restricted to a maximum payment of €4,000. The new €20m AEOS 3 scheme announced at the end of September 2012 by the Minister for Agriculture, Food and the Marine is to be similarly restricted. These payments are significantly less than those available for REPS, and are of key importance to farmers working in marginal areas on relatively lower quality land.

In general, AEOS is a scheme worth supporting as it delivers real environmental benefits and it has a high labour content, which benefits the rural economy. Entry to the scheme is only possible for most farmers when they exit their REPS 3 contract. Therefore it is vital that funding is in place for those who have finished REPS after the 2012 closing date.

ICSA Recommendation:	**Provision needs to be made to maximise the number of farmers entering AEOS in 2013 after leaving REPS.**

3.2 Suckler Welfare Scheme

This scheme continues to be very efficient in delivering benefits to animal welfare and to cattle breeding. Applicants have to undertake a regime of feeding and managing suckler calves before weaning that ensures optimum health. In turn, this is essential to securing vital export markets such as Italy and Spain for weaned calves. In addition, applicants are contributing vital information to the Irish Cattle Breeding Federation, which uses the information to build up a data bank of information which will form the basis of a much more scientific approach to breeding with a view to much more efficient and economically viable cattle breeding. In turn, this will contribute to the application of the Economic Breeding Index in Irish cattle, which has been highlighted by Teagasc as being a key approach to dealing with Ireland's climate change targets. The payment also offers some financial support to the suckler-farming sector, which is barely viable.

ICSA Recommendation:	**Continue to implement this very important scheme in its entirety and make the necessary financial provision for it.**

3.3 Installation Aid

Installation aid is a vital support for young farmers, which was suspended in a previous budget. The potential identified in the Food Harvest 2020 report to increase exports by a possible €4 billion cannot be achieved without an influx of trained, motivated young farmers. An investment of €10 million in Installation Aid would provide an excellent return and create foundations for substantial increases in exports in the next decade.

ICSA Recommendation:	**Funding of some €10 million should be provided to establish trained, young farmers.**

3.4 *Disadvantaged Area Scheme*

Disadvantaged Area Scheme funding has now been cut to €190 million 2012, but it is co-funded. It is a vitally important scheme for some 85,000 farmers. It is particularly important to low income cattle and sheep farmers and there is a strong dependency on it in western counties. The implementation of the cuts by doubling the required stocking rate to 0.3LU/HA retrospectively, where stocking rates in 2011 automatically became qualifying criteria for the 2012, means that around 7,000 farmers in Donegal, Mayo, Clare, Galway and Kerry who were paid €16 million under the DAS in 2011 were ineligible to apply for scheme funding in 2012. These counties, which by their geographical nature are at a greater risk of climatic impacts on farming, have therefore had to bear a disproportionate load of the cuts to the Disadvantaged Areas Scheme.

ICSA Recommendation:	**There should be no further cuts to this scheme which is of absolutely vital importance to many livestock farmers.**

3.6 *Targeted Agricultural Modernisation Schemes*

ICSA has welcomed the re-opening of the selected Targeted Agricultural Modernisation Schemes (TAMS), Sheep Fencing/Handling, Rainwater Harvesting and Sow Welfare. ICSA notes that the overall scheme has the potential to incentivise farmers to invest in their enterprises and secure their futures, contribute to job creation and help maintain of existing jobs in rural areas. However, the publicised lower-than-expected uptake of TAMS grant-aid means that the scheme may not achieve its maximum potential. In this context, ICSA proposes that additional capital investment items be added for 2013, whereby more farmers will become eligible for funding.

ICSA Recommendation: **Implement the following additional sub-schemes or changes to the TAMS investment programme:**

- **Upgrading of cattle water troughs and feed bins which minimise badger access on farms at risk of repeated Bovine TB outbreaks (or outbreaks on neighbouring farms), at a grant-aid rate of 50%**
- **Installation of video technology for calving sheds at a grant-aid rate of 40%**
- **Increase the grant-aid rate for Sheep Fencing and Handling investment to 50%**

3.7 *Farm Assist*

The Farm Assist scheme has been of critical importance to a large number of farmers during the ongoing recession, especially now that that off-farm and spousal income may be greatly reduced or non-existent. As of May 31st 2012, there were 11,154 recipients of payments at an estimated 2012 cost of €115 million, with a further 251 pending. Changes following Budget 2012 relating to the means assessment thresholds for self-employment and child-related deductions are estimated to have affected some 5,500 claimants, with a saving to the exchequer of over €5 million. Any additional cuts to the Farm Assist Scheme will undoubtedly lead to increased hardship for many families and may lead to progressive loss of family farms and an overall decline in rural communities.

Budget 2012 made a very significant change to the rate paid to farm families by cutting the income disregard from 30% to 15%. The effect of this is to cut some beneficiaries by €40-50/week. ICSA believes that the only fair approach is to cut the basic social welfare rate for all recipients by a small amount rather than this kind of clandestine cut which has a severe impact on a small segment of welfare recipients.

ICSA Recommendation:	**Make no further cuts to the Farm Assist Scheme, including no changes to eligibility criteria.**

SECTION 4: TAXATION

4.1 General Comments on Taxation

Since the beginning of the fiscal/economic crisis there has been a significant increase in the level of personal income taxation. While Government policy is to put more emphasis on expenditure reduction rather than tax increases, the reality is that this objective is circumscribed to a significant and even decisive extent by the Croke Park agreement, and by the policy of no cuts to headline social welfare rates.

Government policy in terms of tax increases is that any increases should be achieved through a broadening of the tax base rather than increases in income tax. Hence the household charge was introduced in 2012 as a pre-cursor to a full-blown property tax due to be introduced in 2013.

Nonetheless, the cumulative effect of budgets introduced since 2007 has been to substantially increase the marginal rate of tax/PRSI/USC. In 2007, the marginal rate of tax/PRSI/Health Levy on incomes in excess of €48,800 was 43%. In 2012, the marginal rate on incomes in excess of €32,800 is 52% for PAYE workers and up to 55% for self employed.

These are substantial increases and give lie to the notion that there has been no effort made to get extra tax from the better off. Unfortunately, in the Irish tax system, 'better-off' is essentially marked by a cut-off point of €32,800 (reduced from €36,400 in 2011). However, it is now clear that income tax rates are at a level that are killing the incentive to work and moreover, creating huge pressures on middle income families that are bearing the brunt of the adjustments and have no entitlement to benefits such as medical cards, exemptions from property taxes and other charges.

Income tax rates are now also at levels that are extremely onerous on unincorporated sole traders such as farmers. This is particularly so in the context of enterprises trying to pay down principal sums on borrowings out of after-tax income. Accelerated capital allowances have been phased out (e.g. 3 years for Farm Waste Management Scheme Expenditure) and there are no allowances for land purchase for example.

Farm income volatility is also a huge issue that is impacted by tax levels. As volatility increases, farmers who have profit in a good year should ideally set aside some of this for the almost inevitable down turn in future years. While income averaging is seen as one solution, it is not sufficient to deal with the greater extremes in volatility seen in the past 4/5 years.

The only solution available to larger scale farmers would seem to be incorporation to take advantage of corporation tax levels, but this is not suitable for the typical family farm.

ICSA Recommendation:	**ICSA submits that the increase in effective tax rates to 52% is undermining entrepreneurial endeavour and should be reviewed.**

4.2 *Income Tax Credits*

ICSA believes that the Employee Tax Credit discriminates against the self-employed, including full-time farmers. There is no longer any justification for this discrimination which potentially costs an individual full-time farmer €1650 in extra tax, assuming a tax liability.

ICSA Recommendation:	**ICSA believes that the employee tax credit should be replaced with an earned tax credit, in line with the Commission on Taxation (page 104) although it should be phased in quickly rather than over time.**

4.3 *Income Tax Reliefs*

Land Leasing Relief

ICSA supports the Commission on Taxation proposal that Income Tax Relief for Land Leasing continues in the interest of getting land more productively used.

Stock Relief

Budget 2012 introduced an enhanced stock relief of 50% for registered farm partnerships. However, this relief is only available to dairy farm partnerships and it is not available for cattle, sheep or tillage partnerships.

ICSA Recommendation:	**ICSA proposes that 50% stock relief should be available for all farmers in the interests of encouraging farmers to meet the targets of Food Harvest 2020. In the longer term, the state will reap much more from increased exports and future tax take rather than the short term view which limits stock relief except in the case of young farmers.**

4.4 Employment taxes and cuts

While many farmers do not employ staff directly, some of the larger farms do and all farms are dependent on agricultural contractors and other service providers who employ staff. ICSA is concerned at suggestions that employers could be expected to carry the costs of employees on sick leave. This proposal is totally unworkable particularly in the case of small enterprises. For a farmer with one employee, who is on sick leave, the cost of employing a replacement means that there is no scope to pay the sick employee as well. Employers pay 10.75% PRSI which should cover them for sick employees.

4.5 Capital Taxes

Capital Acquisitions Tax

In Budget 2012, the rate was increased from 25% to 30%. The Group A tax-free threshold was reduced from €332,084 to €250,000.

Both of these measures increase the risk of significant tax liabilities for farmers who take over the family farm, either by way of gift or inheritance. The changes in last year's budget means that a young farmer taking over the farming business where land and other assets exceeds €2.5 million is at risk of a substantial tax liability on the excess at a rate of 30%.

Such taxes are likely to undermine the viability of the young farmer and could set back plans for investment and farm development, which are vital for increasing exports and in the longer run should lead to more taxable income.

ICSA Recommendation:	**There should be no further reductions in the thresholds or increases in the rates.**

Capital Gains Tax Rollover Relief

ICSA wishes to see Rollover Relief restored in line with the Commission on Taxation Recommendation 5.26 - Capital Gains Tax rollover relief should apply to the gains on disposal of land pursuant to a compulsory purchase order where the proceeds are re-invested in land. However, ICSA believes that this should also apply to re-investment in productive farm assets (e.g farm buildings) in view of the fact that replacement land is rarely readily available and in recognition of the fact that a CPO often severely compromises the viability of a farm, particularly where a road splits a farm in two halves.

Rollover relief should also apply for the purposes of farm consolidation. Many Irish farms carry inefficiencies due to fragmentation with excessive cost and time lost due to travel between different land parcels. Therefore where farmers can consolidate by buying adjacent land and selling a parcel of land further away; this process should be encouraged. In terms of exchequer finances, the opportunity for such transactions is actually limited to a very small number of cases each year and so any concessions are not going to make any impact.

Agricultural Relief for CAT

The Commission on Taxation, Recommendation 8.71, proposed restricting the reduction of the value of the property to 75% rather than the 90% which currently applies, and that the maximum amount by which a property is reduced should be €3 million. ICSA is opposed to this recommendation. The relief is withdrawn if the farm is sold anyway, so that this proposed change will only affect the next generation taking over the family farm.

The value of a farm can fluctuate wildly, as seen in recent years, but for reasons which have no relationship to the ability of a farm to generate income. Therefore, it is unjust, in our view, to drastically reduce the relief, as the transferee, typically a young farmer, is not likely to be able to pay substantial tax bills without selling off some of the land. Such a move would undermine the viability of the farm.

CGT Retirement Relief

Budget 2012 provided for the introduction at the end of 2013 of a new upper limit of €3 million where the person transferring is aged over 66. ICSA regards this as a bizarre tax which penalises a farmer who hands over the farm to the next generation without any financial consideration.

While the measure was presented as an incentive to transfer before age 66, the reality is that there are many factors influencing farm transfer, including the age and circumstances of the successor. A potential tax hit to a farmer of 66 who may not have access to a pension other than the contributory old age pension may in fact cause transfer to be deferred until death rather than encourage transfer before 66.

ICSA Recommendation:	**While early transfer of farms is preferable in some circumstances this is not always the case and may not be feasible for a variety of reasons. The introduction of a penalty on those aged over 66 is rather arbitrary and should be reversed as it is likely to cause more cases of delayed transfer than early transfer.**

4.6 *Stamp Duty*

ICSA welcomes the Budget 2012 reduction in stamp duty to 2%.

4.7 *Carbon and Excise Duties*

The increase in Carbon Tax from €15/ton to €20/ton outlined in Budget 2012 has been very damaging to the viability of farms and agricultural contractors. Excise duties are also damaging. While there is a lower rate of VAT and excise duty on farm diesel, this merely reflects the practice in most countries. Ireland, as an island on the periphery of Europe is impacted more severely by transport costs, both in terms of import of inputs and export of product.

A possible strategy would be to cut the tax take for a year to examine the overall economic impact. ICSA suggests that the impact would be cost beneficial overall in terms of increased economic activity with a consequential increase in other taxes. It might be noted also that reduced fuel costs on farms and farm inputs can lead to increased farm expenditure elsewhere, meaning that the exchequer does not lose out.

ICSA Recommendation:	**ICSA submits that the Government should limit its tax take on diesel. Excessive tax rates on fuel are not leading to increased revenue because fuel usage is curtailed or, in the case of parts of the international haulage sector, fuel is being purchased outside the jurisdiction.**

4.8 *Other Taxes - Septic Tank Charges*

ICSA submits that no work should be imposed on any rural householder unless there is a provision for 100% grant to assist with such remedial works. All urban households have full sewage disposal costs covered and recent evidence suggests that the cost per house in urban housing developments is actually more than the potential cost of a 100% grant for rural households to upgrade septic tanks.

SECTION 5: PENSIONS

5.1 General Comments

ICSA believes that the government needs to be careful that it does not destroy the environment for private pensions. For self-employed people such as farmers who have no access to a public sector or occupational pension, the task of providing for retirement is a challenging one.

The collapse of shareholder value in global markets has exacerbated the difficulty as most pension funds have declined in value over the last few years.

ICSA is opposed to the matching exchequer contribution proposal in the Commission on Taxation report which suggests replacing tax/PRSI relief at the marginal rate of tax with a contribution of €1 for each €1.60 contributed by an employee or self-employed person.

However, while that is still at the proposal stage, there are two retrograde steps that have already been taken- restricting pension relief to income tax (but not allowing Universal Social Charge and PRSI) and the pension levy of 0.6% on the value of the fund.

ICSA submits that this is sending a very negative message to those who fund their own pension. In practice, many self-employed people make an annual contribution to their pension and this decision is reviewed each year.

ICSA recommendation:	**ICSA submits that the pension levy decision should be reversed and that tax relief for pension contributions should continue at the marginal rate and take into account USC as well.**

SECTION 6: THIRD LEVEL GRANT ASSESSMENT

6.1 *General Comments*

Eligibility for third level grants is assessed on the basis of family income. ICSA contends that this is the only fair system. There is a debate around what thresholds of income should apply, and about the level of support.

However, the Minister has tasked an implementation body with examining the feasibility of taking assets into account and how assets might be accounted for in any proposed means test.

ICSA is utterly opposed to this plan. Farm families are especially vulnerable because land is a valuable asset but one which generates exceptionally low returns on investment. Current land values are of the order of €25,000/ha whereas the top one third of suckler farmers who participate in the Teagasc Profit Monitor could only achieve a net margin of €376/ha in 2010. In investment terms, that is a yield of just 1.5%. The majority of suckler farmers wouldn't get anywhere near that.

While some believe that farmers qualify unfairly because income is unusually low in the year of assessment, this problem - which is actually a reflection of farm income volatility - is easily solved by examining average income over a period of 3-5 years.

While the decision on third level grant eligibility is now a matter for the Minster for Education and the cabinet, rather than Budget 2013, ICSA emphasises that any decision, which discriminates against farm families, is unacceptable.

ICSA recommendation:	**ICSA submits that third level grant eligibility must be on the basis of income. If there is a concern about income levels fluctuating then the appropriate change is to assess farm income over 3-5 years.**