

Section 2

A Step by Step Guide to Setting up a New Dairy Farm

by Padraig French



Introduction

Establishing a new dairy farm is a very significant financial and time commitment which requires detailed planning and management. Prior to undertaking such a project you should be very clear on your goals for the farm and why you are undertaking the project. Because of the large capital investment required it is essential that very detailed plans are developed, analysed and stress tested.

- 1 What are the steps involved in setting up a new dairy farm?

A Step by Step Guide to Setting up a **New Dairy Farm**

- ① What are the steps involved in setting up a new dairy farm?

Step 1

Develop a physical plan for the farm to include milking and grazing infrastructure, animal housing and slurry storage.

- Decide on the number of cows that will be milked based on the size of the farm and the grass growth potential of the farm (see chapter 5)
- Design a milking facility (see chapter 22), winter housing facility (see chapter 24) and grazing infrastructure (see chapter 21) appropriate to the number of cows planned and the farm size.
- Decide on an operational plan for the farm, who will do the work? Who will manage the farm?

Step 2

Develop a capital budget for the farm to quantify the total cost of converting to an operational dairy farm.

- Estimate the cost of each item in the development plan, speak to other farmers who have undertaken similar scale conversions and get quotations from builders/suppliers. See table 1 as an example from the Greenfield Dairy farm in Kilkenny.
- Develop a stock budget based on the total number of stock including replacements to be bought, include also cost of disease testing, transport, vaccinations and any other cost associated with keeping the animals until the farm becomes operational.
- Who will project manage the conversion of the farm? Will there be a cost or opportunity cost associated with the project management?





- (d) Allow a contingency of at least 15% on the capital budget for unforeseen costs.
- (e) Decide how the development costs will be funded; how much equity is available from sale of existing stock/assets; how much will have to be borrowed? Ensure there is adequate working capital available to start up the operation of the farm

Step 3

Develop an operational budget for the farm to quantify the total costs and total income generated annually.

- (a) Use table 2 as a guide or the Teagasc 6 year budgeting tool to forecast cash inputs and outputs and profitability.
- (b) Net profit plus opportunity cost of unpaid labour or land minus debt repayments divided by the total capital investment will give the return on capital.
- (c) A target return on capital by year 5 should be >10% assuming an average milk price
- (d) When the budget is complete the plan should be stress tested at low milk price to ensure that the business is viable in years of low milk price particularly in the early years after conversion.

Table 1 Capital budget for the Greenfield farm

Item	Description	Projected	Actual
Stock	265 lactating cows €1300 70 heifers @ €1200	€344,500 €110,500	€389,268 €84,000
Reseeding of farm	117 ha, one pass till, sow, roll + grass seed + fertiliser	€35,000	€48,589
Fencing	20,000 m @ €0.9/m	€17,500	€17,617
Water supply	40 water troughs + 7 km water pipe laid + water store + Boring the well	€26,500	€29,040
Infrastructure	Stand off pad, Earthen bank tank Roadways, Site work, Gate, Tank fencing, Bark Mulch, Head feed, Calf shed, Gates, Yarding	€176,400	€326,738
Milking parlour	30 unit herring bone shed + dairy + collecting yard/ and office, wiring, plumbing, heating	€196,140	€228,709
Silage Slab	Silage bases	€16,300	
Feed bin			€4,000
Electricity supply	3 phase transformer + connection fee	€9,742	€8,584
Machinery	Jeeps and tractor	€20,000	€16,230
Labour	Labour from Start to December	€3,500	
Planning	Drawings + site assessment + mapping + planning application + council development fee	€19,000	€24,800
Office	Computer, farm package, phone connection, broadband etc	€5,000	€25,688
Company	Set up plus legal		€5,705
Contingency	10 % allowance to allow for unexpected costs that may arise	€99,968	€8,669
VAT paid			€86,000
Total			€1,316,408
VAT back			€77,400
Net capital		€1,100,000	€1,239,008



Budgeting profit and cash in a new dairy farm

Table 2

		Milk price (€/kgMS)	4	3.9	4.5
		Calculations	2017	2018	2019
Farm Size (ha)					
Cow numbers					
Milk sold /cow (kgMS)					
Milk Solids kg/Ha					
T Milk solids					
Sales	1	Mil k€			
	2	Calves €			
	3	Cull cows €			
		A= SUM(1 to 3)			
Inventory +/-	4	Total			
Gross Output		B=(SUM(A&4)			
VARIABLE COSTS					
Contracting	5	Silage €			
	6	Slurry spreading €			
	7	Hegecutting €			
	8	Reseed €			
	9	Soiled water spreading €			
A1	10	Contractor Other €			
	11	AI Straws €			
	12	Technician Service			
	13	Tail paint/ heat detection €			
	14	Tags €			
	15	Dead A Collection €			
Dairy	16	Supplies €			
	17	Milking Machine costs €			
	18	Milk Rec €			
Feed	19	Dairy cow €			
	20	Silage plastic €			
	21	Minerals €			
	22	Straw €			
	23	N. P. K €			
	24	Lime €			
	25	Calf feed €			
	26	Heifer rearing €			
	27	Other concentrate €			
	28				
	29	Milk penalties €			
	30	Routine € (TB & Call Outs)			
	31	Vacines €			
	32	Hoof care €			
		C= Sum(5 to 32)			
		Total Variable costs			
		Cost / kg MS			
		Cost/cow			
		Cost			
Gross Margin		D = (B minus C)			
Fixed Costs					
Administration	33	Accountancy €			
	34	Consultancy €			
	35	Office €			
Banks	36	Fees €			
	40	Interest old loan €			
	41	Interest new loan €			
Energy	42	Electricity €			
	43	Tractor fuel €			
Insurance	44				
	45	Hired labour €			
	46	Repairs and maintenance €			
	47	Machinery lease €			
	48	Car/jeep expenses €			
	49	Repairs & Maintenance €			
	50	Buildings €			
	51	Machinery €			
	52	Land €			
		E= Sum(33 to 52)			
Total Costs	53	F= Sum (C & E)			
Net Profit	54	G = (B minus F)			
Family Drawings	55				
Taxation	56				
Capital introduced	57	New Loan €			
Capital old loan	58				
Capital new loan	59				
Farm Development	60				
Single farm payment	61				
Capital In	62	H= SUM(A, 57, 61)			
Cash Out	63	I= SUM(F, 55,56,58,59,60) Less(50&51)			
Cashflow		J= (H minus I)			

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Step 4

Develop a timescale plan for the conversion of the farm.

- (a) Meet the bank with the plan to secure any funding requirements – allow six months.
- (b) Apply for planning for any development needed – allow six months.
- (c) When applying for grant aid for development the time schedules need to be factored into the plan.
- (d) Aim to construct grazing infrastructure and farmyard facilities during the summer months when ground conditions are usually more suitable allow six months for construction.
- (e) Ideally the milking facilities should be installed before the winter to avoid peak work flow for suppliers.
- (f) Plan the arrival/first calving of stock to match the timeframe of the farm development

Step 5

Managing the conversion phase.

- (a) Regularly monitor the costs relative to budget – adjustments may need to be made to plans to ensure the project stays within budget. Target scarce funds to essential investment, extras can be added later when funds permit.
- (b) There will usually be numerous contractors required for the development of a new dairy and each contractor should be provided with a plan of what is required and should provide a written quotation before commencement of any work. Any deviation from the quotation should be agreed in advance, including the cost implications.
- (c) If you have inadequate experience or expertise in the supervision of construction of farm infrastructure then seek help and, for large projects, a project manager could be a worthwhile investment.
- (d) Ensure that any stock on the farm are adequately managed during the conversion phase and are on-target to meet their production requirement.

Section 2



Farm Milk Price Volatility in Ireland

by Trevor Donnellan, Kevin Hanrahan, Michael Keane,
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Introduction

Over the past few years the exposure of Irish farmers to price risk has increased and is likely to increase further in the future.

- ① Why is milk price volatility increasing?
- ② How can farmers try to manage price volatility?

Farm Milk Price Volatility in Ireland

① Why is milk price volatility increasing?

The demand for agricultural commodities does not change very much as food prices change. Food is a basic requirement for living and if supplies are short, consumers will pay higher prices if necessary. On the other hand when food prices fall the additional demand is likely to be limited. Once their food requirements have been met, consumers tend to spend savings from their food budget on non-food items.

The supply of agricultural commodities is also relatively unresponsive in the short-term. Producers would like to produce more when prices rise. However, it takes time for production decisions to result in increased output. So, in the short-term, the supply of agricultural output tends to be fixed, which means that prices must adjust further to bring consumption in line with production over the short-term.

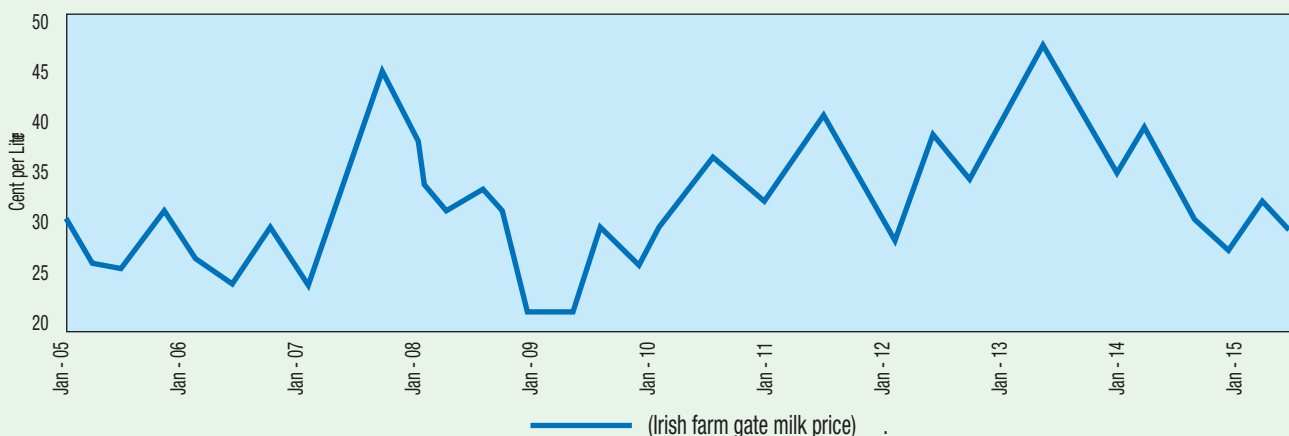
Global stock levels of many commodities have been lower in recent years than the historical norm. This is due to changes in policy internationally which have caused governments to be less willing to engage in stockholding (e.g. the EU intervention mechanism) and also due to a slow-down in production growth which has limited the surplus of production available to build up stocks.

As a result, for a given level of demand, small changes in supply can result in large short-term price changes. Thus, substantial price volatility can be expected to be a major characteristic of agricultural commodity markets due to the fundamental behaviour of buyers, coupled with production uncertainty.

Experience of milk price volatility in Ireland

Prior to 2007, there was virtually no extreme price volatility for farm-gate milk price in Ireland (Figure 1). The price volatility in recent times is associated with several factors. The most important drivers of the increased volatility are the recent unanticipated shocks to supply, combined with low stock levels and inflexible demand. This has been further accentuated in the EU by major policy change (the Luxembourg Agreement) which increased the exposure of EU producers to market prices, and the global recession that has affected the demand for agricultural commodities. Another possible factor, which has received considerable attention in recent debates, is the increase in volatility in commodity markets due to market speculation via hedge funds and index traders.

Figure 1: Irish Manufacturing Milk Prices (including VAT) (Cent) by Product and Month



② How can farmers try to manage price volatility?

Consequences of price volatility

The principles of economics suggest a set of mostly negative consequences of extreme price volatility for producers.

Most notably, extremely low prices can threaten the solvency of the farm, and lead to damage to productive capacity. Very high prices, however, can also be problematic, in that consumers forego a product e.g. butter whose price has risen in favour of a cheaper alternative e.g. margarine. Once the consumer makes the switch it may be difficult to reverse.

What options are available to deal with or reduce price volatility?

There are a broad range of instruments, both in the public and private sector, which may be utilised to manage price and income volatility. With regard to the private sector, the available suite of instruments includes over the counter contracts (OTC), forward contracting, futures contracts and insurance contracts.

Examples of these private market measures include the Glanbia milk pricing scheme announced in late 2010. The Glanbia milk scheme locks a percentage of a farmer's quota at a fixed base milk price for three years. This scheme is modelled on a similar scheme in the grain sector, which allows tillage farmers to sell grain one year in advance.

Also, farmers should bear in mind input price volatility and the potential to forward purchase inputs.

Coping with volatility

From the time of the introduction of quotas until the decoupling of dairy support mechanisms under the mid-term review, milk price remained relatively consistent allowing virtually all producers to make a reasonable margin from milk production. However, since 2006, with the decoupling of dairy support prices, we have moved into an era of much greater fluctuation in milk price. If the world market over the past 10 years is used as a guide, milk price could fluctuate from 20 to 40 c/l over the coming years.

The business strategy adopted to maintain a viable business in a volatile price scenario is substantially different to that used in a consistent milk price scenario. In a volatile scenario the objective is to be economically sustainable at the lowest milk price and to therefore forego some increased production that would be attainable in a higher and more stable milk price scenario. This is largely achieved through the adoption of a low cost system of milk production that can still return a margin at a low milk price albeit just ensuring survival.

This model for milk production will ensure substantial profits are returned when the milk price returns are positive and it will ensure that dairy farmers survive low milk prices. Dairy farming with volatile milk prices cannot sustain the luxury of large capital investment in depreciating assets.





Section 2

Taxation in Farming

by John Norris



Introduction

Farmers need to understand the various taxes and how they apply to the farm business. Important tax reliefs are available to all taxpayers. In addition, farmers can qualify for a range of tax reliefs/incentives which apply to the farming business to encourage development/expansion. Tax reliefs and rates can change from year to year and changes are announced in the October budget each year.

- ① What are the principal taxes which apply to farmers?
- ② How is farming income calculated for tax purposes?
- ③ What are the important tax deadlines for farmers?
- ④ What are the essential components of each tax type which apply to farmers?
- ⑤ What tax reliefs are available on farm expenditure and investment?
- ⑥ What off-farm investments can provide tax relief to farmers?
- ⑦ What are the components of a tax minimisation plan for farmers?
- ⑧ What are the risks if your taxes are not kept up to date?

Taxation in Farming

① What are the principal taxes which apply to farmers?

The principal taxes include the following:

- Income tax + PRSI + universal social charge (USC) apply to income.
- Value-added tax (VAT) applies to the purchase of goods and services.
- Excise duty applies to fuels, alcohol and tobacco products.
- Corporation tax applies to company profits.
- Various capital taxes (e.g. Stamp Duty, Capital Gains Tax, and Capital Acquisitions Tax) can apply when property/assets are transferred (e.g. by sale/gift/inheritance/exchange).

② How is farming income calculated for tax purposes?

- Your accountant will calculate your income for tax purposes based on rules laid down by Revenue.
- Most farmers are sole traders and their farming income is classified as Schedule D-Case 1 (profits from a trade – i.e. farming).
- All receipts from sales (livestock/crops), the Basic Payment Scheme, Areas of Natural Constraint/ANC payments, AEOS/GLAS schemes are added together.
- Livestock/other stock changes must also be taken into account. An increase in closing stock over opening stock increases profit for tax and a decrease in closing stock reduces profits.
- All the normal variable and fixed costs of farming are allowed as an expense and also the cost of any livestock purchased.
- Normally two-thirds of car, electricity and phone costs are allowed. One-third are for private use and are not allowed.

- The accountant must also add back depreciation before he allows for capital allowances. Any profit or loss from the sale of machinery/motor vehicles is also taken into account.
- Any other sources of income must also be added to the adjusted farm income.

Tax-free income sources are now very limited:

- Forestry premiums and timber sales are free of income tax but are subject to PRSI and the universal social charge.
- Income from the long-term leasing out of land for five years or longer subject to certain conditions is also free of income tax but subject to the USC (universal social charge) and PRSI.
- Government grants received to help with capital investment/improvements to the farm (e.g. buildings and facilities) are capital in nature and are tax-free. They are not classified as income.

The farm accounts

- All the above calculations by the accountant are done for a 12-month accounting period. e.g. 1 January to 31 December or various other 12-month periods.

③ What are the important tax deadlines for farmers?

On or before 31 October 2016 (for example)

- (a) Submit final tax return for 2015
- (b) Pay final balance of tax for 2015
- (c) Pay preliminary tax for 2016 (various rules)
- (d) Pay capital gains tax on any asset disposals; 01/01/2016 to 31/11/2016 by 15/12/2016
01/12/2016 to 31/12/2016 by 31 January 2017.

Taxpayers who file and pay using the ROS (Revenue-on-line) system are allowed an extra 15 days, up to mid November 2016 to make their returns.

4 What are the essential components of each tax type applying to farmers?

Notes

on different categories of tax



1. Income tax (2016)

- A taxpayer must pay income tax on their total income calculated according to the Revenue rules. This includes farming income, PAYE income, rental/investment income, share dividends, pensions and various others.
- Depending on which category you fit into, your lowest band of income is taxed at the low standard tax rate of 20% and any income above this is taxed at the high tax rate of 40% (we can call this the “pain zone”) – See table below.

Table. 1: Tax bands and tax rates (2016)

Category of Taxpayer	Band of Income Taxed at 20%	Balance of Income Taxed at Higher Rate
Single/widowed (with no dependant children)	€33,800	@ 40%
Single/widowed with dependant children	€37,800	@ 40%
Married couple – with one income	€42,800	@ 40%
Married couple – with two incomes	€42,800 + €24,800	@ 40%
TOTAL =	€67,600	

- A range of personal tax credits are available (see Table 2) which will reduce the gross tax bill as calculated based on Table 1.

Table. 2: Budget 2016 Main Tax Credits

Single person	€1,650
Married couple	€3,300
Widowed person (No dependant children)	€2,190
One-parent family	€1,650
Home carer	€1,000
PAYE credit (Employee Tax Credit)	€1,650

Earned income credit €550.

Examples

- In 2016, a married couple’s gross income tax bill is reduced by the tax credit of €3,300.
- A farmer’s spouse with a job taxed under PAYE will also qualify for the PAYE credit which will reduce the tax bill by €1,650.
- Medical insurance premiums qualify for a 20% tax credit applied at source by the companies. A 20% tax relief also applies to most health expenses incurred by individuals and their families.
- Mortgage interest tax relief is complex after many recent changes - get advice.
- Self employed taxpayers, for example farmers, do not qualify for the PAYE (Employee Tax Credit) but will now qualify for the new Earned Income Credit of €550 in 2016.

When making your own personal calculation it is advisable to contact Teagasc or a tax advisor.

Taxation in Farming

2. The universal social charge (USC) - 2016

The USC replaces the health levy and income levy which are now abolished. See table below.

Table 3: USC Rates in 2016.

Income after capital allowances	Rate of levy
€0 up to €12,012	1%
€12,013 up to €18,668	3%
€18,669 up to €70,044	5.5%
€70,045 up to €100,000	8%
Excess over €100,000 (PAYE)	8%
Excess over €100,000 (self-employed)	11%

NOTES:

- Normal capital allowances can be deducted from income but not private pension contributions before USC is calculated.
- People over 70 years earning less than €60,000 per year and people on Medical Cards will pay a maximum of 3.5% in USC.
- People with an income of €13,000 or less per year are exempt from USC.

3. Pay-related social insurance (PRSI)

- PRSI for the self-employed and farmers is Class S.
- It provides for contributory old-age pension and survivors, pension and also maternity benefit, bereavement grant and adoptive benefit.
- Class S PRSI applies at 4% in 2016 on all income.

The total tax bill in 2016

When each tax on income is added together, the overall bill can be quite high – particularly on larger incomes.

	Farm Income Level	
	Low/Medium	High Incomes
Income tax	20%	40%
Universal social charge (USC)	Up to 8%	11%
PRSI	4%	4%
Total tax bill	32%	55%

The tax bill can be reduced by sensible use of the various tax reliefs available to the farming sector, which we will examine in more detail later.





4. Value-added tax (VAT)

Value-added tax in the economy is one of the main sources of revenue for the government.

The VAT rates for various agricultural goods and services are:

Zero rate - Animal feed (except pets), fertiliser (over 10 kg), milk, cereals, medicines.

5.2% rate - Live cattle, sheep, goats, pigs, deer, horses and greyhounds.

9% rate - Special rate for tourism related products introduced in 2011 for a limited period.

13.5% rate - VAT is charged at 13.5% by builders for the construction/extension/alteration/reconstruction of farm buildings. The same rate applies to the fencing, drainage and reclamation of land and to agricultural contractor and veterinary services, fuel for power and heating (marked oil).

23% rate (standard rate) - Road diesel, petrol, auto LPG, concrete products and most building materials, auctioneer services. Machinery, plant, mobile equipment and motor vehicles.

Also:

- Farmers are not obliged to register for VAT, irrespective of their turnover. Most grassland/livestock farmers are not registered for VAT and are designated as “flat-rate” farmers for VAT purposes.
- They are compensated for their normal VAT charges by the flat-rate refund of 5.2% which is added to their sales of farm produce to purchasers who are VAT registered.
- Farmers registered for VAT include big tillage farmers (who have lots of machinery and use lot of chemicals) and farm machinery contractors. They must make full VAT returns on VAT 3 Form after each two-month period.
- Bulk tanks, milking machines and automatic slurry scrapers are subject to 23% VAT but where the supplier fits/install them on the farm and the equipment cost is under 66.66% (the two-thirds rule) then the lower VAT rate of 13.5% applies. The fitting/service charges must be at least one third of total costs.

- Unregistered “flat-rate” farmers can reclaim the VAT on fixed capital investment on farm buildings, fencing, drainage, and reclamation and on certain items of fixed plant: milking machines, bulk tanks, automatic slurry scrapers, cubicles, fixed cow mats etc. (use form VAT 58).
- Unregistered “flat-rate” farmers cannot reclaim the VAT of 23% they pay on their purchases of mobile equipment/ machinery (e.g. tractors, slurry tankers, computers, tools and repairs to farm buildings/roadways etc.).
- Where a farmer operates a contracting business or other type of service, he will be required to register for VAT if the turnover from that source exceeds €37,500 per year.

5. Capital taxes

When property/asset ownership changes, the transactions can be subject to stamp duty and capital gains tax. Capital acquisitions tax applies to property received by gift or inheritance. These capital taxes will be covered in more detail in the chapter on planning for retirement and farm succession.

5 What tax reliefs are available on farm expenditure and investment?

Investments should not be undertaken for the sole reason of reducing tax. Priority should be given to investments that will give a return to the business or reduce workload.

- Priority investments on dairy farms would include the following:
 - adequate breeding stock/better breeding – AI
 - improved grassland (soil tests, fertilisers, reseeding)
 - improved farm infrastructure (paddocks/fencing/roadways/water supply)
 - farm buildings/structures
 - efficient use of farm labour (family/hired/farm relief service)
- New investment should primarily give an economic return and not be made solely for the purpose of saving tax.

Taxation in Farming

1. Stock relief

An increase in the value of farm trading stock in year-end farm accounts versus the opening accounts adds to taxable profit.

- General stock relief at 25% reduces this profit (various rules apply).
- Young qualified farmers under 35 years can qualify for the special incentive stock relief of 100% for the first 4 years of farming in their own right. Various conditions apply - check with your accountant.
- Stock relief is very useful on farms who are expanding their livestock herds by rearing breeding stock to maturity.
- Both reliefs apply up to 31/12/2018.
- The budget of 6/12/2011 announced a 50% stock relief scheme (100% for young trained farmers) for registered farm partnerships. Now extended up until the 31st December 2018.

The maximum claim over the three year period (2016 to 2018) is €15,000.

2. Capital allowances for farm buildings/ structures

- Capital allowances (farm buildings allowance) are available for farm buildings/land reclamation/drainage/fencing/roadways. Calculated on the net cost of buildings = (gross cost less VAT reclaimed and less any grants received).

Example:

Capital allowances are available over seven years (six years x 15% per year and final 10% in year seven) on the net capital cost of the investment.

Tax relief up to 32% can be claimed at medium income levels and at up to 55% at high income levels.

3. Capital allowances for machinery/ equipment

- Keep machinery on grassland/livestock farms to the essential minimum to control costs and make maximum use of contractors.
- Capital allowances are known as wear and tear allowances for machinery/equipment.
- The rate is 12.5%/year over eight years.
- The above system applies to owned and hire purchase machines. Leased machinery tax treatment is more complex (discuss this with your accountant).

4. Capital allowances for motor cars and four-wheel drive vehicles

- Capital allowances (wear and tear allowances) are available over eight years at 12.5% per year on a maximum purchase price of €24,000 for motor vehicles.
- Since 1st July 2008, there is a new capital allowances system based on the carbon emission ratings of vehicles:
 - Categories A, B, C = eight years at 12.5% year on a maximum cost of €24,000
 - Categories D and E = eight years at 6.25% per year on a maximum cost of €24,000
 - Categories F and G = No allowances.
- Before purchasing a new vehicle, check the ratings category with the garage and the accountant or the Society of Irish Motor Industries website at (www.SIMI.ie).
- Normally, Revenue allow two-thirds of the wear and tear allowances and running costs of motor vehicles as a farm expense, with the other one third classed as private use and not allowed.
- Commercial vehicles fully used in the business are not limited.



5. Farm labour costs

- Greater scale and the need for a better lifestyle will increase the demand for labour.
- This labour can be family or hired labour or the farm relief service. Tax relief can substantially reduce the gross cost of labour to a lower net figure.

(A) Employing a son or daughter

- Register for tax/PRSI – Class K (for prescribed relatives).
- A family member doing part-time work can earn up to €8,250 in 2016 with no income tax, as it is offset by the value of the single person's tax credit. No universal social charge applies in 2016 if your total income for the year is under €13,000.
- Where a family member (son/daughter) is employed full-time on the farm, there is no income tax on earnings up to €16,500 in 2016, as the tax is offset by the value of the single tax credit + PAYE credit. However, the universal social charge applies = €255.
- High profit farms can pay higher wages. For example, a child can be paid up to €33,800 taxed at 20% but the parents can save 40% income tax on this. If the child is married and does not live at home with their parents, they may be liable for the full Class A PRSI rather than the Class K PRSI. Check with your accountant and the Department of Family Affairs. The universal social charge would amount to €1,152.

(B) Paying wages to a spouse

- For a married farming couple on one income from farming (no off-farm job) any income above €42,800 in 2016 is taxed at 40%.
- A married couple with two incomes only pay the 40% tax rate on income above €67,600. On high single income farms, the spouse can be paid a wage for work done and thus create the second income source and save up to a maximum of €4,960 in tax in 2016.
- Note that farmers/self employed people do not qualify for the PAYE tax credit. If the spouse is paid a wage in the business they do not get the PAYE tax credit either.

In 2016, the farmer will qualify for the new Earned Income Credit of €550.

- Another option is that the spouse shares the farming profits in a partnership arrangement. This arrangement will allow the spouse to establish their own separate PRSI status, which could be useful for pension purposes.
- From 2014 onwards, spouses working on the farm i.e. "Assisting spouses" qualify to make PRSI payments as a self-employed worker (PRSI class S).

(C) Farm Relief Service (FRS)

- Farm relief service labour charges range from €13 to €16 per hour in 2016.
 - Farmers on high income can save 55% tax on this charge (net cost = €5.85 to €7.20/hour).
 - Farmers on medium income can save 32% tax on this charge (net cost = €8.84 to €10.88/hour).

6. Farm interest payments

Farmers can claim full tax relief on all interest payments on bank loans, hire-purchase agreements and other borrowings which are fully part of the farming business. There is no relief, however, on the capital repayment portion of the loan.

7. Income averaging of farm profits

- Suits farmers who have profit fluctuations from year to year and farmers whose profits are progressively increasing.
- The farmer can opt to average profit over a 3-year accounts period (for example can average 2014 + 2015 + 2016 to arrive at an averaged profit for 2016).
- The farmer can opt to be taxed on an average of 5 years, commencing with the tax year 2015.
- Once a farmer goes into income averaging, it is not easy to opt out again without suffering tax clawbacks.
- Your accountant will assess if averaging suits you.

⑥ What off-farm investments can provide tax relief to farmers?

1. Private pension plans (PPPs)

- Private pension plans, also known as retirement annuity contracts, are widely used by farmers on medium/higher level incomes.

Taxation in Farming

- Tax relief on private pension contributions based on limits on the percentage of “net relevant earnings” (earned income). Related to the tax payer’s age (on a sliding scale): Under 30 years = 15% 60 years and over = 40%.
- The annual earnings limit for the calculation of pension contributions eligible for tax relief is €115,000 in 2016.
- Tax relief on pension contributions is available at up to 40% in 2016.
- There is scope for higher pension contributions within farming companies for the directors.

2. New business expansion schemes (BES) for 2007–2013

- BES schemes are used by high-income individuals for tax relief.
- Full tax relief up to 41% is available on new investments up to €150,000 per individual per year up to end 2013.
- The BES has been replaced by the Employment Investment Incentive (EII) Scheme. Discuss with accountant.

3. Property related investments

- These investments (e.g. Section 23, Section 27 properties) were used by higher income farmers in the past, but many are now abolished or severely restricted by Revenue and will finish by 2017.

7 What are the components of a tax minimisation plan for farmers?

With taxes high, it is very important to plan carefully to minimise your tax bill (legally, within the rules).

- With the help of your accountant, you should carefully check on your business plans for the tax year ahead and for the medium term (next five years).
- For each tax year going forward, examine your likely tax situation at least 2-3 months before the tax return date of 31 October. Fine tuning can then be planned.
- Ensure that you are availing of all relevant personal tax credits/allowances.
- Maximise tax savings on wages for family labour.
- Maximise the use of capital allowances for sensible investment (e.g. buildings/machinery).
- Use stock relief where livestock herds are expanding.
- Examine off-farm tax saving options (e.g. pensions).

- Meet Revenue tax deadlines/rules and avoid penalties
- Check if income averaging suits your situation (3 or 5 years).
- For very high income family farms (married couples with incomes of €80,000-€100,000 upwards per year) check the possibility of farming through a farming company business structure with your accountant/adviser.

If the farmer is single, benefits can kick in at lower income levels. This area is complex and there are pros and cons with companies – discuss with your accountant and adviser.

Key Risks



8 What are the risks if your taxes are not kept up to date?

- Under the Revenue self-assessment system you have a legal duty to make a tax return every year.
- Ensure your tax return is filed on time by 31 October each year (or by 15 November for returns under ROS).
- Surcharges of 5% - 10% apply to late returns.
- Interest is payable on the late payment of tax at 0.0219% per day or 8% per year.

MESSAGE:

Make tax returns in good time and avoid a last-minute rush, risk of errors and lack of time to plan.

REVENUE AUDITS

Revenue carries out periodic checks on the tax returns of self-employed taxpayers, including farmers, to ensure that tax returns are correct and to detect any fraud/tax underpayments. This check is known as the Revenue audit and is very detailed and thorough.

Where the Revenue audit finds that extra tax is due – then interest and penalties will apply.

- Penalties can be severe for serious defaults at up to 100% of the tax due. However, penalties can be reduced depending on the level of co-operation/disclosure by the taxpayer.

SOURCES OF INFORMATION ON TAXATION

1. The Revenue Commissioners website – www.revenue.ie
2. Local tax offices.
3. Taxation articles in the farming press.
4. The annual budget in October each year.
5. A range of family finance books available in local bookshops.
6. Your accountant and advisor.

Section 2

Dairy Discussion groups

by Tom Kelly



Introduction

Dairy discussion groups have always been a great way for farmers to meet their neighbours, share experiences, thrash out new ideas, and discuss new technologies.

- ① What are the benefits of dairy discussion group membership?
- ② Key features of successful dairy discussion groups.
- ③ How can a long-standing group be reinvigorated?

Dairy

Discussion groups

① What are the benefits of dairy discussion group membership?

- Farmers can learn from and share experiences with other, local, farmers.
- Farmers can bring problems from their own farms to be discussed and potentially solved by the group.
- Farmers will gain opportunities for personal development by being chairman of their group.
- Farming can be an isolated profession, so a discussion group offers a social outlet.
- Dairy discussion groups can visit farms or locations of interest at home or abroad, generating opportunities for travel.
- Farmers can share hard data, allowing them to benchmark higher levels of performance.
- Membership of a discussion group is a very cost-effective way to make use of a Teagasc adviser/specialist.
- Farmers will have access to the very latest ideas and technologies.
- Members will be challenged to enhance their performance through contact with fellow members and Teagasc facilitators.
- Encouraged by fellow members farmers can try-out innovations they might hesitate to attempt in isolation.
- Farmers in groups will make better management decisions.

② Key features of successful dairy discussion groups

- The facilitator is enthusiastic and energetic and communicates well with all members.
- Members are committed and there is a high attendance at meetings.
- The members know it is their group and the direction should be lead by members.

- All members participate in group discussions/meetings and host meetings as appropriate.
- Office-holders in the group (chairman for example) understand their responsibilities and carry out their tasks effectively.
- The basic rules of the group are known and observed, e.g. members arrive on time etc.
- Members have complete trust in the group and know that information shared will remain confidential to the group.
- Members respect each other's opinions and discuss them in a fair and frank manner.
- Members behave with courtesy to each other at all times.
- Members are united and sub-groups do not form unless the wider group establishes them.

③ How can a long-standing group be reinvigorated?

The initial wave of enthusiasm when a discussion group is formed may last for many years but inevitably a group may become 'tired'. Possibilities for reinvigorating a group include:

- a new project addressing an area untackled so far can generate new enthusiasm
- new members can be recruited – each member can be tasked with bringing temporary 'guest' members to meetings
- new members will bring different perspectives to the group
- social events, to which wives/partners/guests are invited add a new dimension to the group
- travel to events or other farms will benefit the group.

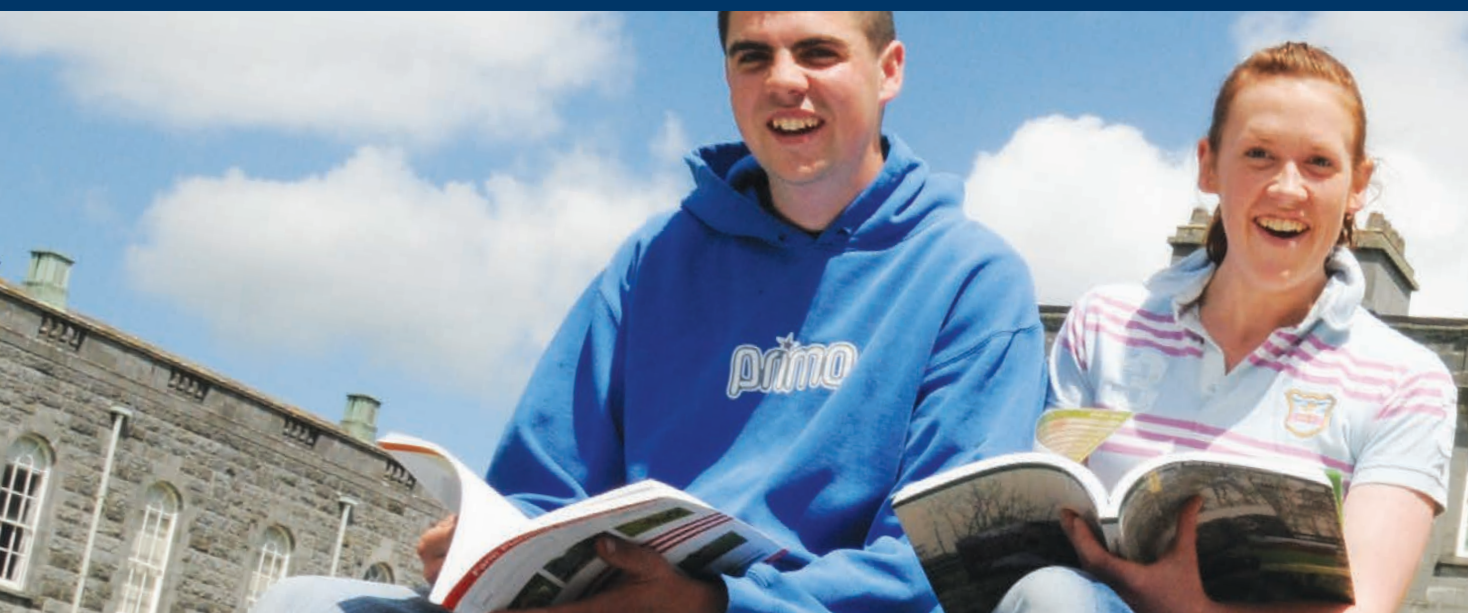
If you would like to find, join, or start a discussion group in your area contact your local Teagasc advisory office.

Section 2



Educational Opportunities for Dairy Farmers

by Tony Pettit



Introduction

Dairy farmers perform many different roles requiring a complex mix of knowledge and skills. Education and training can help existing or potential dairy farmers address any gaps in their knowledge or 'skill-set'.

- ① What key skills do dairy farmers need?
- ② What programmes does Teagasc offer?
- ③ Are there any opportunities for higher education?
- ④ What opportunities are on offer for mature farmers?

Educational Opportunities for Dairy Farmers

① What key skills do dairy farmers need?

Checklist



A successful dairy farmer will require:

- The business know-how to manage a commercial business
- The ability to identify, analyse and benchmark key financial and productivity indicators
- Technical knowledge to run a large modern dairy farm
- Skills to carry out farm assurance, herd bio-security, health & safety and cross compliance audits
- The ability to implement an environmental and sustainable farming plan
- Skills to recruit, lead, influence, negotiate and performance manage people effectively
- Project management skills
- Familiarity with information technology systems (Internet, farm software packages, farm eservices, decision support systems) to support business operations, make decisions and assess risks

The above competencies will require the ability to plan, organize, analyse, make decisions, negotiate, problem-solve, adapt and change.

Key Risk



Lack of a key skill can reduce the potential for success of a dairy farm enterprise.

② What programmes does Teagasc offer?

Teagasc advanced dairy programmes

Teagasc provides a specialised programme in dairy herd management at many of its colleges. Students who successfully complete the two-year programme receive an advanced certificate in agriculture (Level 6) awarded by FETAC. This is the recommended programme for those who intend to become commercial dairy farmers.

Year 1

Subject areas include:

- Farm business organisation
- Dairy production
- Key dairy husbandry skills
- Grass production and management
- Food assurance and environmental compliance
- Machinery and mechanisation

Practical learning

Students are required to complete a three-month practical learning period on a Teagasc-approved host farm. This is a vital part of a student's education which enables him or her to practice skills and participate in farm management decisions under the supervision of an independent farmer.

Leadership programme

Students also participate in a leadership programme which encourages personal development including communication, team working, planning and organising, problem solving and running meetings.

Year 2

Subject areas include:

- Farm business management
- Farm business planning
- Dairy herd management
- Animal nutrition
- Dairy breeding
- Grass management
- Environmental and sustainable farming

Overseas placement

Students are encouraged to complete an overseas three-month placement period on a commercial dairy farm (e.g. New Zealand) in Year 2 of the programme.



Management focus

In year 2 there is a strong emphasis on gaining competencies in farm management and business planning. Teagasc financial software packages including eProfit monitor, cost control planner and ICBF animal breeding reports are used by students.

Current research, new technologies and policy trends are central to the course, as are visits to top class farms and Teagasc research centres. Students also benefit from membership in College dairy discussion groups, measuring grass covers and participating in management decisions.

Continuous professional development

We advise graduates of our advanced dairy programme to:

- Gain further experience on other intensive commercial dairy farms at home or abroad before they return to their home farm or before seeking supervisory/management positions on commercial farms. Subject to demand, Teagasc offer a programme for professional dairy farm managers. This programme involves an extensive internship period on approved dairy commercial farms, combined with modules on business and financial management, dairy technology, knowledge transfer and people management skills. Participants are encouraged to complete part of the farm internship on suitable commercial farms overseas.
- Become a client of Teagasc's Business and Technology service through their local Teagasc advisory network and become a member of a Teagasc dairy discussion group.

③ Are there any opportunities for higher education?

Alternatives



Higher education options

Various Institutes of Technology offer agriculture-oriented degrees to ordinary degree (Level 7, three years) and honours degree Level (Level 8, four years) in partnership with Teagasc colleges. These include:

- Waterford (WIT) and Kildalton College
- Cork (CIT) and Clonakilty College
- Dundalk (DKIT) and Ballyhaise College
- Galway-Mayo (GMIT) and Mountbellew College

Graduates of Teagasc's advance dairy programme who reach a sufficiently high standard may have the option of transferring after year 2 of these programmes through the higher education links scheme. University College Dublin. In addition to its range of agricultural degree programmes, offers a dairy business degree which incorporates a placement period in New Zealand, a practical training period at Kildalton College and a semester at the Teagasc Dairy Research Centre, Moorepark, Co. Cork.

④ What opportunities are on offer for mature farmers?

Training options for mature entrants or drystock/tillage farmers

Some existing drystock or tillage farmers may convert to dairy farming in the coming years and existing smaller scale dairy producers may wish to substantially scale-up their dairy enterprise. The recommended training options in this case will depend on prior education received and personal circumstances.

- An advanced agricultural certificate course at a college or Teagasc regional education centre is recommended for those who have not acquired a formal agricultural qualification previously.
- Teagasc provide short special-purpose courses, where possible, for those converting to/expanding into dairying. These courses are aimed at those who have previously attended a general agricultural education programme or those who cannot attend a longer duration course.

Key Facts



General

- 87% of young people (aged 20-24 years) have completed a second-level education
- 70% of young people enter higher education

Agricultural education

- Each year over 1,600 learners enrol in accredited further education and higher education programmes offered through Teagasc and its higher education partners
- Teagasc college enrolments have more than doubled in recent years

Educational Opportunities for Dairy Farmers

Teagasc Professional Diploma in Dairy Farm Management

This course is designed for professional dairy farm managers. It is a two year programme which follows on from the Teagasc Level 6 Advanced Certificate in Agriculture.

Students complete two years professional work experience on approved progressive commercial dairy farms, which is enhanced by block release periods with an integrated team of highly specialised Teagasc staff in Kildalton College and Teagasc Moorepark.

Course content includes modules on dairy farm expansion, dairy technology, dairy farm management and professional work experience.

Details of application procedures are available on www.teagasc.ie/training/courses.

Dairy Courses delivered by UCD and Teagasc

Level 8 Bachelor of Agricultural Science (Hons) in Dairy Business

This course is designed to provide students entering dairy farming or the dairy industry with a balance of key scientific, technical and business knowledge and skills.

The course is delivered over 4 academic years (stages); three of which are based in UCD, and one based in Moorepark / Kildalton college with 6 months professional work experience (preferably overseas where students experience cutting edge farm practices).

Potential careers include dairy farm management, advisory, teaching, agri-food industry and progression to post graduate research opportunities. Applications are through the CAO (course code is DN252).

The benefits of a Teagasc education

Teagasc uniquely integrates agricultural research, advice and education under the one umbrella. This integration allows Teagasc education staff to incorporate up-to-date research, technology developments and farm business innovations in Teagasc courses. The most modern agricultural colleges provide an educational experience with state of the art IT and online facilities, labs, workshops, farm equipment and access to commercial farm units.

A modern agricultural college education has many benefits including opportunities to:

- taste and enjoy college life
- meet many other students of similar and different backgrounds
- develop your communication and social skills
- become confident and independent in your knowledge and view of farming
- become familiar with, and open to, new technologies and approaches
- gain awareness of big picture issues such as sustainable agriculture.

Please also consult the publication:

'Stepping Stones to a Career in Dairy Farming' which is available on the Teagasc web site.



Section 2

Farm Business Plan

by Paul McCarthy, James Maher



Introduction

A farm business plan outlines the current status of your farm business, where you want the farm business to go, and how you are going to get there.

- ① Why do I need to create a farm business plan?
- ② How do I prepare a farm business plan?
- ③ What should my farm business plan contain?
- ④ How do I market my farm business plan to an investor or bank manager?

Business Plan

1 Why do I need to create a farm business plan?

A business plan will help you to:

- secure finance from a lending institution
- manage cash flow
- measure enterprise performance
- control costs
- examine the impact of possible changes including:
 - enterprise size/system or performance
 - prices
 - investment in livestock, facilities, machinery.

The farm business plan must detail the proposed size of the new business and the time it will take to get to the final size.

The rate of expansion of the business might be constrained by physical factors such as cow numbers but equally could be constrained by financial shortfalls.

It is crucial to have the finance in place to deliver the working capital to establish the business. If access to finance/working capital is limited then a more 'organic' growth pattern may be required. This will involve growing cow numbers at a slower pace using profits retained in the business.

Always remember that it takes cash to put every additional animal on the farm, whether she is purchased or reared on the farm.

2 How do I prepare a farm business plan?

- Seek advice from an adviser or mentor.
- Test your ideas or assumptions on them.
- Measure your current situation including:
 - farm's physical/technical performance (e.g. stocking rate, land area around milking parlour, stock numbers etc.)
 - financial performance (Profit Monitor and taxation accounts)

- personal situation (current and future personal/family income requirements)

- Decide where you want your farm to go or what you want to achieve.
- Incorporate this into a business plan.
- Use the business plan to make it happen.

The advantages of planning on a computer

A computerised version of farm planning has two distinct advantages over a paper version:

- Calculations are much easier and often carried out for you by the computer programme (for example stocking rate, milk yields, nitrate usage).
- You can keep the plan up to date easily (for example any changes in price, stock numbers etc. can be updated as they happen).

Teagasc and various farm software companies have farm business management software to help this process.

3 What should my farm business plan contain?

Checklist



A business plan should be as concise as possible and tailored to your unique needs and the needs of your audience (e.g. a bank manager). In general a farm business plan should include:

- a brief description of the farm, the farmer and their contact details
- a description of any proposed changes to the farm
- information on resources (land, livestock, machinery, buildings)
- details of physical farm performance (for example milk yields, stocking rates)
- information on loans and leases
- information on cash flow (cash received, payments, personal spending)
- taxation details
- detailed results (including profit, net cash flow, debt).



Schedule of tasks and strengths/weaknesses opportunities/threats - SWOT analysis

A written schedule of tasks can often help you to implement any proposed actions in the farm plan, and break down larger projects into smaller achievable tasks for example:

Action	Jan	Feb	Mar	Apr
Complete new business plan – Mary	21st			
Organise finance – Mary		14th		
Complete new paddocks and roadways – John				25th
Purchase additional stock – John			1st	

A SWOT analysis can also be a useful addition at the start of the plan, especially where you are not fully sure about the farm’s potential for change. The SWOT analysis should reflect the strengths, weaknesses, opportunities and threats to your farm, as you honestly see them.

SWOT example

<p>Strengths</p> <ul style="list-style-type: none"> • 60 ha farm • Good husbandry and management skills 	<p>Weaknesses</p> <ul style="list-style-type: none"> • Poor housing • High rainfall • Poor grassland
<p>Opportunities</p> <ul style="list-style-type: none"> • Up-skill in grassland management • Improve soil fertility • Neighbouring farm likely to become available for rent • Quotas to be abolished 	<p>Threats</p> <ul style="list-style-type: none"> • Volatile milk price • Animal disease

4 How do I market my farm business plan to an investor or bank manager?

How to



To access bank finance you have to be able to show that your farm is able to generate enough funds to repay the amount borrowed and the resulting interest, while covering farm and personal expenses.

A bank representative will be very interested in the information available in your business plan, and depending on the proposal may ask for some extra information, such as other financial or legal documents.

A bank will need to see that you understand your plan, and any potential risks (for example increasing input costs) which might prevent you achieving the targets you have set yourself, and any actions you are taking (for example forward buying) to combat these risks.

How you manage your current account (and the level of current borrowings) will also be useful information to the bank official.

It is usually in a bank’s interest to lend money. If your proposal is turned down, seek feedback and see if your business plan can be improved.

If given the option, it is worth meeting the bank representative on your farm where you will find it much easier to describe your current situation and what you want to achieve. You should be able to convince the bank representative that for your farm:

- you know where you are
- you know where you want to go
- with their help you know how you are going to get there.



Section 2

Managing Labour on Dairy Farms

by Tom O'Dwyer



Introduction

Farmers must regularly evaluate how effectively they use their time and consider learning skills such as 'people management', 'delegation' and 'effective communication' to make the most of bought-in services and labour.

- ① How can I make best use of my own time?
- ② How should I manage employed labour?
- ③ How big a role can contractors play in my dairy business?

Managing Labour on Dairy Farms

1 How can I make best use of my own time?

Key Target



150 livestock units per labour unit.

Table 1. Livestock units per labour unit

120	spring calving cows	OR	150 spring calving cows
30	0-1 replacements		All replacements contract reared
30	1-2 replacements		150 livestock units (LUs)
150	livestock units (LUs)		



Checklist

How to achieve 150 livestock units/ labour unit:

- The only enterprises are dairying and replacement heifer rearing.
- Cows are calved compactly to grass in the spring.
- Casual labour is employed at calving, for holiday periods and on occasional weekends.
- Appropriate facilities are in place for all stock.
- Contractors are used for all major tasks i.e. fertiliser and slurry spreading, silage making, reseeding and hedge cutting.

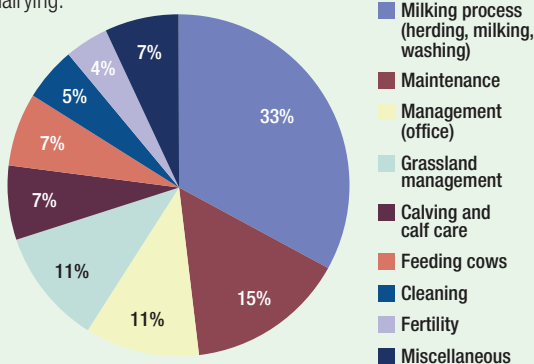
Key fact



Average labour usage in Ireland in 2011 is 40 hours per cow per year. The most efficient farmers use 20 hours/cow/year

The annual labour input in 2011 is 1,848 hours/year, larger herds had a lower labour input per cow but a similar overall labour input.

Figure 1: Breakdown of total labour input associated with dairying.



The milking process (herding, milking and washing) accounts for one third of the total labour input over the year; averaging 3.9 hours per day between March and November and approximately half of this for the remainder of the year.

Table 2. Dairy farm tasks (other than the milking process) and the time taken

	Most time-consuming task (other than milking)	Hrs/Day
Nov-Feb	Feeding animals	1.4
Feb-April	Calving/calf care	1.9
June-August	Grassland management	2.0

Key Message



There is significant scope for improved labour efficiency through better management of the milking process, calving and calf rearing, cow feeding and grassland management.

How to



Plan your time

Categorise your activities or tasks as important or not important, urgent or not urgent. Important activities are those which relate to your objectives and goals. Urgent activities are those that require your immediate attention.

Table 3. Time management matrix

	Urgent	Not Urgent
Important	Important/Urgent Milking Cow calving Discussion group meeting	Important/Not Urgent Five-year development plan Cash flow budgeting Profit monitor completion
Not Important	Not Important/Urgent Some sales people	Not Important/Not Urgent Time wasting i.e. going to co-op/merchant for a small item

Key Point



By using the matrix to categorise your activities, you remind yourself of those activities which are important to you. It will also help you to avoid non-important activities and to prioritise important activities.

Remember you must firstly have identified your goals or objectives – take time to identify these with your family. These will change over time so you do need to examine your goals on an ongoing basis. Goal setting makes you more focused and sets a direction for how tasks should proceed.

Table 4. Dealing with the four work categories

	Urgent	Not Urgent
Important	Do it as soon as you can Give it enough time Protect it from interruption	Schedule it Break it into smaller chunks Start it and keep it moving
Not Important	Do it quickly Do it early Do it once Delegate it	Do nothing and see what happens... Give it away

Key Risks



Overwork stress

If you find yourself 'always coming from behind' and playing catch-up on farm tasks, you are likely to be overworked and operating 'under stress'. If so, you are putting your long-term health and well-being at risk and it is likely that your family are also feeling the effects of your experiences

How to



Save time

- Identify the amount of time you spend on various tasks at different times of the year i.e. spring, summer, autumn, winter.
- Put in place time-saving devices or activities which allow you to save time on your most time-consuming tasks. This may require capital investment or training.

- Too much time spent on 'Not Important' activities, at the expense of 'Important' activities, can lead to time being lost. For example, poor planning can lead to a shortage of inputs and the need to make an unexpected trip to the local merchant or a delay while the materials arrive.

How to



Manage a task list

- Get into the habit of creating a priority list of the tasks to be completed.
- Create a schedule to allow you to complete the prioritised items on time.
- Complete activities as you have prioritised them.
- Stick with one activity until it is completed.
- Complete some ('Important/Not Urgent') tasks each week; this will help prevent crisis management.
- Do not put off that which you can do now. Be disciplined; avoid procrastination.

Key Tip



Make a list for every day, every week and every month. This is more than simply writing a list of tasks on a piece of paper. With practice, you will become skilled at making a meaningful 'to-do' list.

How to



Reduce your workload

If you are planning your activities and have put time-saving devices or activities in place, and you still find yourself working long hours, then you must shed work i.e. get somebody else to do it for you.

- Identify work which you may be doing because you enjoy it but could be done better by others.
- Use the freed-up time to focus on really important work.

An example on a dairy farm might be machinery operations e.g. fertiliser and slurry spreading, silage harvesting, land cultivations, hedge cutting etc. By delegating this work to your local contractor you free up your time for management activities.

Managing Labour on Dairy Farms

Key Risk



Being a perfectionist

Does everything have to be perfect? Would 80% perfect suffice? It can take a lot of time to get that last 20%. This is time wasted if 80% right is good enough. Remember that nobody else will complete the task as you would or exactly to your standards; do not fall into the 'nobody else can do it like I want it to be done' trap.

Key Risk



Delegating work and not using the freed-up time productively will only cost you money.

② How should I manage employed labour?

How to

Identify good potential employees



- Staff should have appropriate education/training and experience.
- Staff should also have the drive to succeed, take ownership of the job and treat the unit as their own.
- Staff should be able to show initiative and be willing to deal with problems.
- Each member of your staff must be able to fit in with other members of the team and effectively communicate with you and other team members, contractors etc.

Key point



Farm employers will have to pay attention to recruitment, job/working conditions, staff management and staff development/training if they are to compete for and retain staff in the future.

How to

Plan staff activities



- Decide what has to be done on the farm and who is going to do it.
- This process will identify the number and type of jobs and an overview of the responsibilities of staff.

Staff planning helps communicate the tasks to be completed and the work routine to be followed by all employees. It can also be used to manage employee performance.

Key Tip



Formalise key farm information and operational procedures i.e. 'How we do things around here' into an operating manual. This should include maps of farm layout, water circulation and power routes for electric fences, as well as standard operating procedures for farm safety, machinery operation, financial management and reporting, disease control (lameness, mastitis, grass, milk fever, testing and vaccination, mineral supplementation), biosecurity, pasture assessment and allocation, calf rearing, mating management, mixing teat spray etc.

A written set of instructions on how to complete key tasks on the farm could include:

- mixing teat spray solution
- managing a cow with mastitis
- procedure for recording heat in cows/heifers
- biosecurity protocols
- farm safety protocols

These documents should contain contact details for the vet, the doctor etc.

Checklist



By law, a farmer with staff employed must maintain:

- weekly timesheets showing hours worked
- payslips showing gross pay, date, employer number and PRSI deductions
- signed contracts
- rosters showing when staff are on/off duty.

Staff should work less than 48 hours per week, on average, over a six-month period. All staff members are entitled to 20 days paid leave per year. Short and part-time workers are also entitled to holidays.

③ How big a role can contractors play in my dairy business?

Contractors have a major role to play in large-scale dairy operations. They eliminate the need for specialist equipment and provide the specialist labour required.

A key consideration is the availability of a good machinery contractor, with the required range of machinery, in your area.

Alternatives



Should I employ a contractor?

There are two key questions which you must answer in relation to your use of contractors:

- (1) Have I sufficient time to do the job?
- (2) Can somebody else (using their machinery and labour) do the job more efficiently than I can (using my machinery and my time)?

The following tasks may have to be completed by contractors if the target of one labour unit per 150 livestock units is to be achieved:

- silage making
- baling silage i.e. removal of surplus grass – which will also reduce or eliminate the need for topping
- artificial insemination
- slurry spreading
- fertiliser spreading
- feeding out silage
- reseeding
- hedge cutting
- erection and maintenance of fences
- heifer rearing

Key point



100% machinery contracting is easier to operate on good quality land. On heavier soils, timing becomes more critical and many farmers maintain their own machinery for this reason.

Risks



When using contractors

Two risks associated with using contractors are: (1) biosecurity and (2) reliability. The biosecurity risk can be overcome by good procedures. The risk of the contractor not showing up as agreed can be overcome by developing a good relationship with a reliable contractor in your area; this includes good communications and regular payment for services provided.

Key point



Capital will be limiting when a dairy farm is in a growth phase. Therefore available capital resources must be allocated towards investments with the potential for the highest returns. For this reason it will make sense to contract out some or all machinery operations.



Managing Labour on Dairy Farms

Case Study: Greenfield Dairy Farm, Kilkenny

Three machines are used on the Greenfield Dairy Farm in Co. Kilkenny; the milking machine, a John Deere tractor and a farm jeep.

Two full-time labour units, a student on contract for six months plus relief milkers manage approximately 300 livestock units to produce 1.4 million litres of milk.

All machinery work is contracted out; this includes fertiliser and slurry spreading, silage harvesting, reseeding and winter feeding. No topping is carried out; grass is managed to provide ideal grazing covers to cows at all times with surpluses removed as bales (by the contractor). In addition, all replacement heifers are contract reared off-farm.

The labour cost of the machinery contracting and contract rearing of heifers is estimated at two cent per litre but this cost has to be measured against the cost of machinery purchase and operation and the cost of labour required for these tasks. Labour is limited so the decision has been taken to use the available labour where it will give best return – in managing cows and grass – and to contract out all other tasks. Greenfield dairy farm staff focus on the areas that they are qualified in and leave machinery operations to specialists.

Performance and management checks are carried out on a daily, weekly, monthly and seasonal basis.

Table 5. Performance and management checks (Source: Greenfield dairy farm)

Daily	Milk production (bulk tank or website)
Weekly	Farm grass cover - weekly management report Concentrate usage Fertiliser usage Milk quality Work roster: planning and review
Monthly	Stock-take: animals, feed, fertiliser Cash flow Merchant account(s) status Work roster check: holiday planning
Seasonal	Animal health check: TB, bulk milk check Cow condition Animal weights Contractor: tendering process

Table 6. Labour saving checklist

Task	Labour saving tips
Milking process	
i. Herding	Dairy cows on land adjacent to milking parlour Allocate grass on 24-hour basis Width of roadways; quality of surface
ii. Milking	Match number of milking units to number of cows Wide entry and exit points Develop efficient milking routine
iii. Washing	Adequately sized collection yard Ensure cows can go directly to paddocks after milking
Calving and calf rearing	
	Compact calving: calve in a block, breed in a block, dry-off in a block Ensure cows in correct body condition score at calving Feed cows late in the evening to encourage day-time calving Group calves once they are big enough Feed calves once per day from 10 days of age
Grassland management	
	Bulk spreading of fertiliser once per month by contractor Walk farm once per week to assess grass covers Target ideal grazing covers, remove surpluses as they arise
Machinery operations	
	Leave to the experts
Office management	
	Allocate time to it – ideally in the morning Don't put it off Get help or training if needed

Contacts

Farm Relief Services (FRS) www.frsnetwork.com
Cow Time website www.cowtime.com.au

Further reading

Please see chapter on contract rearing replacement heifer; 'Guidelines for the contracting and hiring of labour in a large dairy unit', pp 61-79, Greenfield Dairy Farm Open Day Booklet, Teagasc (2010)

Section 2



Keeping Track of Dairy Business Finances

by Kevin Connolly



Introduction

Finance is the 'life-blood' of any business and should be closely monitored.

- ① What are the key financial results I should measure?
- ② What is an effective way to monitor profit?
- ③ How do I track my net worth?
- ④ How important is cash flow?
- ⑤ How do I measure my cash flow?
- ⑥ What is a cash flow budget?

Keeping Track of Dairy Business Finances

① What are the key financial results I should measure?

Profit

Profit is what remains after operating costs and other expenses are subtracted from business output or income. It is the measure of the return your business creates and is essentially the reward for unpaid family labour, management and the owner's investment in the business. Profit is also referred to as net margin or "the bottom line".

How to

Calculate profit

Total Sales (€) – Purchases (€) ± Inventory Change
(Difference in value of livestock on hand at the start and end of year)
= Gross Output
subtract Variable Costs
= Gross Margin
subtract Fixed Costs
= **Net Profit (Net Margin)**

Net cash

During any business period money comes in - in the form of sales income or other income received and money is paid out in order to meet the various business expenses. For any given period, if you deduct the cash expenses from the cash receipts, you get the net cash flow for that period. Net cash flow can be positive or negative.

Cash expenses will include the costs (variable and fixed) taken into account in the calculation of profit and in addition will also include loan principal repayments, tax and drawings by the owner.

Surplus **net cash** is what is actually available to spend in a given period after all cash expenses have been met. Showing a surplus means that all cash requirements have been met which is essential for long-term business survival and owner peace of mind.

Profit and net cash are equally important and deserve to be monitored closely.

② What is an effective way to monitor profit?

Because of the seasonal nature of farming, sales and the costs associated with those sales may not always coincide. Therefore if you are measuring net profit for the whole business or for the dairy enterprise it is best to look at it over a period of time long enough (usually a year) to allow you to match income and costs.

The **Teagasc eProfit Monitor** is a system which takes in the financial details for a farm for the full year (usually the calendar year) and produces whole farm and enterprise net profit figures in a standard format. It also provides a detailed breakdown of how that profit figure was calculated.

With output, costs and profit shown in a standard way, year-to-year and farm-to-farm comparisons are possible. Crucially an eProfit Monitor analysis reveals how a dairy enterprise reached its profit or loss figure. This puts you in a better position to be able to cope with all the forces which determine product and input prices.

How to

Complete an eProfit Monitor

What you need:

Details for the last full year of:

- your sales – milk, cull cow, calves, replacement stock, cattle
- your expenses – feed, fertiliser, contractor, machinery running and other operating expenses
- your capital spending and loans – what you spent on land, buildings and machinery and if these were paid for using loans and the interest you paid on those loans.

What you get:

- Output, costs and profit figures for the whole farm and each individual enterprise including dairy, replacements, cattle, tillage etc.
- Breakdown of enterprise figures using key physical measures



- Linking the financial results to the physical production characteristics of the farm is an important feature of the **Teagasc eProfit Monitor**. It allows every farm to benchmark or compare key parts of its financial performance against Profit Monitor results for other similar farms, research farms or Teagasc targets
- Multiple year comparison – you can compare your latest farm performance figures with your figures for previous years - this allows you to monitor progress
- Discussion group analysis – Comparing your eprofit monitor results with other group members can help identify opportunities to increase profits.

Benefits of an eProfit Monitor:

- It helps you focus on the key elements of the business and highlights strengths and weaknesses.
- It gives you the information you need to plan how your business might perform in the future with different products or input prices or increased production through expansion.
- It will be welcomed by your lender as an additional source of information to back up a credit application.

Completing an eProfit Monitor will give you a clear understanding of:

- how money flows in and out of the business.
- what determines the level of income you take in through farming activity and what level of expenses you have to pay to access this income.
- what each enterprise on your farm is contributing to your overall returns from farming.

Getting started:

Decide on what system you want to use either the pen and calculator or the computerised Teagasc Cost Control Planner. Contact your local Teagasc advisor and ask for help in recording your dairy business cash flow. If using the Cost Control Planner your advisor will set you up with the programme and talk you through how to use it.

3 How do I track my net worth?

Net Worth = Assets - Liabilities

Net worth also known as owner's equity or the owner's stake in the business is calculated by subtracting the total of the business liabilities from the total value of all business assets. By valuing the assets at original cost minus depreciation and then tracking the change in net worth between years, it is possible to track the business's financial progress over time.

Ideally we like to see the net worth increasing year-on-year. Net worth will increase where the business is profitable and the profits are retained either as cash or are used for new business investment or to pay down debt. The balance sheet report from the eProfit Monitor will show the change in net worth for the year.

Valuing assets using market values will allow calculation of a market value net worth which should reflect what would be left if the business was liquidated at the valuation date. This net worth figure is very sensitive to changes in the values of key assets such as land and so may not reflect changes due to actual business operations.

Keeping Track of Dairy Business Finances

4 How important is cash flow?

Tracking the cash flow of your business over a period of time provides a great insight into how money is earned and spent in running the business.

While profit tends to be used as a full-year measure of business performance – net cash flow can be used as a measure over shorter periods to keep tabs on the business's financial health.

Timing is everything with cash flow. If too much cash is flowing out in a period where not enough is coming in and you don't have any cash reserves to call on, then this can put the business, as well as the owner, under pressure.

You can track cash flow using your bank account but it won't tell you the full story. To get a proper handle on cash flow you need a system to tag and track the sources and uses of cash.

5 How do I measure my cash flow?

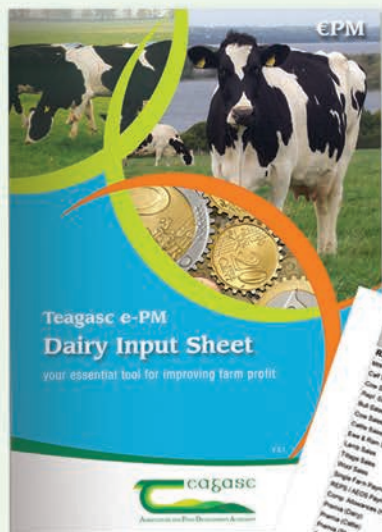
What you need:

- A method of recording.

Whatever method you choose should allow you to track receipts and expenses individually month by month. You can simply use pen and paper.

Alternatively Teagasc can provide you with a financial account book. An easier and less time-consuming option is to

use the **Teagasc Cost Control Planner** which is a computer-based recording tool.



FULL REPORT Teagasc e-PM	Cash Flow Budget		2010		Cash Flow Records January to June	Variance Records v Budget
	Total Budget	January to June	Budget	Actual to June		
RECEIPTS						
Teagasc e-PM						
Receipts						
Milk Sales	11,000	11,000				
Calf Sales	200	200				
Other Sales	500	500				
Total Receipts	11,700	11,700				
PAYMENTS						
Feed	4,000	4,000				
Fertiliser	2,000	2,000				
Veterinary	1,000	1,000				
Other	1,000	1,000				
Total Payments	8,000	8,000				
Net Cash Flow						
Total	3,700	3,700				

This will provide you with the standard headings and do all the maths needed to help you to easily calculate monthly net cash flow.

- Your basic business paper records.

The receipts and payments information is on cheque stubs, bank statements, invoices, merchant statements and receipts that you gather together month by month. Transfer this information into your recording system at regular times throughout the year and you will be building up a picture of your business's cash flow.

Golden rules of cash flow recording:

- Keep all the farm paperwork in one place.
- Identify a recording system, either computer-based or paper-based and get familiar with using it.
- Set aside time every month for the recording job.

What you get:

- a running total of your receipts (milk sales, cow and calf sales etc.) and payments (feed, fertiliser, veterinary etc.) for the year to date
- a monthly figure for net cash flow which is total monthly cash receipts less total monthly cash payments. You will be able to track your net cash flow for the year to date
- by recording cash movements under various headings for the full year you will also have all the information to carry out an **eProfit Monitor** analysis at the end of the year.

How you can use it:

Tracking cash flow each month will keep you in touch with how the business is operating financially. Examining the reasons why the net cash flow is low at certain times of the year might allow you to bring forward sales, delay payments or organise short-term bank finance. Understanding your

business cash needs can reduce your overdraft interest and bank charges as well

as always ensuring you have a reserve to meet unexpected bills.



⑥ What is a cash flow budget?

This is essentially a cash movement plan for the year ahead plotting the cash coming in and leaving each month. This plan can be as basic or as detailed as you want, but the more detail you put in, the more use it will be in assessing your future business cash flow.

Golden rules of cash flow budgeting

- Have a go – you have to try it before you can understand the benefits.
- Don't get bogged down in the detail of numbers and prices.
- Produce a first draft of the budget as quickly as possible and discuss it with your advisor.
- Revisit this budget and refine it over a number of drafts.

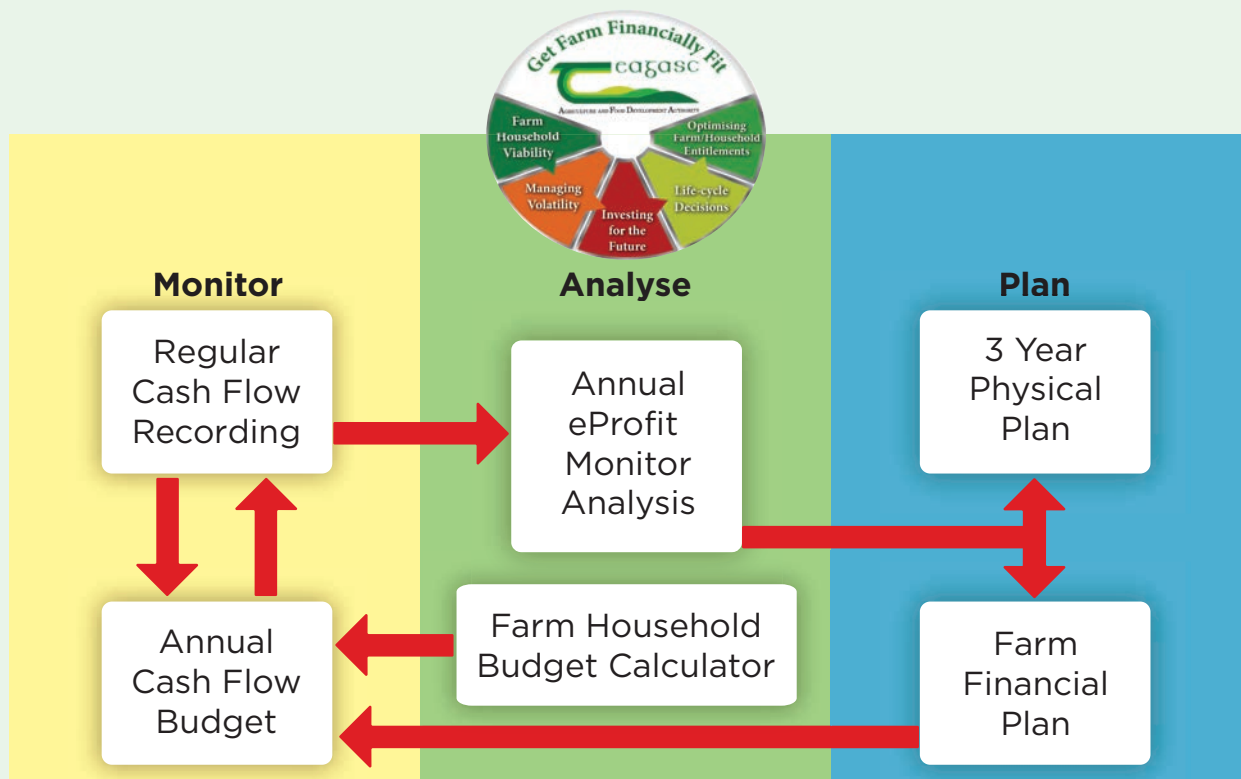
Getting started:

- Decide on what system you want to use, either the pen and calculator or the computerised Cost Control Planner.
- Contact your local Teagasc advisor and ask to get set up to record your dairy business cash flow. If using the Cost Control Planner, your advisor will set you up with the programme and talk you through how to use it.

Conclusion:

Your monthly cash records, your annual eProfit Monitor analysis and your annual cash flow budget should fit together as an ideal farm business monitoring system, as illustrated in the following diagram. If you are planning to invest in, expand, or significantly change the business, then you can also combine your profit and cash analysis with a future physical and financial plan to assess the feasibility of your plans.

The complete farm business monitoring & planning system in action
(Designed/operated by Teagasc)



Example: Farm Cash Flow Budget 2011 (by month)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
	€	€	€	€	€	€	€	€	€	€	€	€
Income												
Livestock sales	0	1,300	1,927	0	6,929	5,334	8,990	8,300	3,000	10,200	18,000	6,000
Milk	0	183	7,558	39,974	65,466	59,372	89,373	56,936	59,177	53,218	43,789	29,010
Heifer purchase	0	0	0	0	0	0	0	0	0	0	0	(22,000)
Total Income	0	1,483	9,485	39,974	72,395	64,706	98,363	65,236	62,177	63,418	61,789	13,010
Expense												
Accountancy fees	0	0	0	0	0	0	0	0	0	0	0	2,500
Agricultural contracting	0	0	0	1,218	620	11,000	0	7,150	3,700	3,500	2,650	1,200
AI straws	0	0	95	201	0	8,862	0	0	0	0	0	0
Bank interest	0	0	0	6,362	0	0	6,821	0	0	6,900	0	6,900
Calf Feed	0	0	0	0	0	308	0	0	560	0	0	0
Calf Rearing	3,262	76	0	0	0	5,130	0	0	0	0	0	0
Casual labour	193	0	0	700	0	0	0	0	0	0	0	0
Consultancy fees	0	0	0	450	0	0	0	0	0	0	0	0
Cow contract feeding	2,500	0	0	2,140	0	240	0	0	0	0	0	0
Cow welfare	28	450	0	654	330	0	225	0	0	0	0	0
Dairy feed	2,411	0	2,496	2,962	0	5,460	0	0	0	2,500	0	2,500
Dairy supplies	904	551	190	987	0	279	0	681	3,033	681	681	681
Electricity	1,468	0	1,391	16	1,424	103	0	0	0	150	0	800
Farm machinery pares and repair	350	0	0	0	59	295	0	0	0	0	0	0
Fertilisers	6840	0	5,130	6,510	4,725	8,370	0	8,500	0	0	0	0
Grass seed	0	0	490	0	0	0	0	1,000	0	0	0	0
Grass sprays	0	0	0	474	0	0	0	0	0	1	2	3
Heat detection/breeding expense	0	0	365	165	280	0	0	0	0	0	0	4
Heifer rearing	0	0	4,573	6,047	0	0	0	20,517	5,339	5,517	5,517	5,517
Insurance	5,000	190	0	0	0	0	0	0	0	0	0	550
Land rental	26,399	0	0	0	0	26,399	0	0	0	0	0	0
Milk levies	0	2	76	440	755	703	998	641	565	454	298	64
Milk recording	0	0	0	0	0	435	0	0	0	0	0	0
Milking machine parts and serv	0	1,360	53	0	0	448	0	0	0	0	0	0
Minerals	795	768	416	2,494	1,664	0	0	0	0	0	0	0
Pad woodchip	5,294	3,253	0	0	2,200	55	62	5,000	0	0	0	5,000
Relief Milking	0	0	110	147	0	194	0	0	0	0	0	0
Repairs and maintenance,	1,140	1,478	183	17	533	445	0	2,500	0	0	0	0
Revenue commission	2,112	3	16	0	6,370	5	5,355	0	0	0	0	0
Silage expenses	0	0	0	0	1,209	0	0	0	0	0	0	0
Soil test	0	0	490	0	0	0	0	0	0	0	0	0
Telephone	93	20	81	53	76	58	61	120	120	120	120	120
Uncategorized expenses	0	0	0	0	51	0	0	0	0	5,000	0	0
Motor expenses	73	1,022	982	1,155	932	154	30	1,006	151	1,652	153	1,010
Vaccines	0	630	4,182	0	80	0	167	0	0	0	0	0
Total veterinary	514	1,108	1,098	450	556	4	14	2,000	2,000	2,000	2,000	2,000
Wages	4,951	5,792	5,160	0	9,249	4,779	6,582	5,800	5,800	12,170	5,800	12,100
Total Expense	63,811	16,321	35,925	24,329	35,787	76,044	14,173	56,777	31,182	31,461	24,909	35,312
Surplus Cash/Deficit ()	(63,811)	(14,838)	(26,441)	15,645	36,608	(11,338)	84,190	8,458	30,995	31,957	36,879	(22,302)
Running Total	(63,811)	(78,649)	(105,090)	(89,445)	(52,837)	(64,175)	20,015	28,473	59,468	91,425	128,304	106,002

Section 2

Planning for Retirement and Farm Succession

by John Norris, James Ryan



Introduction

Retirement from farming is a big step for both the farm owner retiring and the young successor taking over the business. The farm succession process needs to be adequately planned for, well in advance. This is important to maintain family cohesion and good family relationships.

- ① What are the main issues in retirement and farm succession planning?
- ② How can I prevent or minimise strife between family members?

Planning for Retirement and Farm Succession

① What are the main issues in retirement and farm succession planning?

- Ensuring adequate income during retirement.
- Lifestyle changes and using your time.
- Potential future costs for health care and nursing home care.
- The farm dwelling and provision of living accommodation.
- The successor taking over the farm business.
- Farm transfer options.
- The main capital taxes.
- Provision for other family members.
- Making/updating a will.
- Other farming related schemes/issues.
- Future budget changes.

1. Ensuring adequate income during retirement

People are now healthier and living longer and will need enough income to provide them with an acceptable standard of living. The following are the main potential sources of income or additional funds:

A. The state contributory pension

- This is the Contributory Old Age Pension (COAP) which is payable from the age of 66.
- Farmers are self-employed and pay Class S PRSI. Check with your accountant and the Department of Social Protection that your contribution record is adequate to qualify for pension.
- The national pensions framework proposes that the qualifying age for old age pensions will increase to:
 - Age 67 in 2021
 - and 68 in 2028

Younger and middle-aged farmers need to be aware of this.

B. Private and occupational pensions

- Some farmers have paid into/built up private pension funds to provide extra income in retirement as a top up to the old age pension.

- Farmers should start contributions to pensions from early in life to build up a worthwhile pension fund at retirement.
- Farm spouses who work off-farm in the professions e.g. teaching, nursing and other occupations will be eligible for their own occupational pensions.

C. Saving and investments

- Some farmers can top-up their retirement income with interest income from their savings/investments, rent/lease income from property and dividends from shares, and using up savings.

D. Land lease/rental income

- Some farmers may have no direct successors or their children may not wish to take over the farm for some time. Some farmers may have an out-farm which is a good distance away from the main farm base and it is not practical/economical to farm it.
- These farmers can generate income from renting or leasing out their land and any EU Basic Payment Scheme entitlements to go with it.
- Good tax relief is available on income from longer term leases to non-related persons (not family members) at market value. The following amounts of lease income are tax-free, depending on lease duration for leases made on or after 1st January 2015:
 - 5 or 6 year lease (up to €18,000/year)
 - 7 years and under 10 years (up to €22,500/year)
 - 10 year and under 15 years (up to €30,000/year)
 - 15 year lease or longer (up to €40,000/year).
- However the lease income is subject to the universal social charge (USC) and PRSI.
- Leases to companies are eligible but the lessor must not be connected with the company.
- Where farms are large and made up of perhaps a number of separate folios, the retiring farmer may decide to retain ownership of some land for life and lease it to the successor to generate supplementary income. It also provides security as a valuable asset. It can then be transferred after death as an inheritance to the successor or another family member.
- Nieces or nephews qualify as eligible transferees
- Note - more detailed information is available in the new Teagasc publication "Guidelines for long-term land leasing" (Nov. 2015).



E. Forestry

- Some farmers will have some poorer quality land on the farm or on a more distant out-farm. If this is planted in forestry, it can generate a tax-free income for 20 years. Also the growing trees are a valuable asset.
- The investment in forestry could eventually be useful towards meeting family settlements.

F. Sale of sites/land

- Some farmers may wish to retain ownership of sites or a valuable piece of land which provides security and could be sold at any stage to provide a cash lump sum.
- Check the capital gains tax (CGT) implications and possible retirement reliefs with your accountant.

G. Maintenance payments from farm

- Retired farmers will sometimes get some support payments from the younger successor who takes over the farm. It is important to have a written agreement in place. This area needs careful assessment and the farm must be generating enough profit/cash flow to support any maintenance payments made.

2. Lifestyle changes and using your time in retirement

- Farmers should develop other suitable activities and leisure interests well in advance of planned retirement.
- Some retired farmers may continue to work on the successor's farm as an employee part-time while their physical health is good and earn a wage to supplement their income. Discuss the tax implications with your accountant.

3. Potential future costs for health care and nursing home care

- Health-related costs become more important as people get older. Sickness and ill health is more prevalent and some people will require nursing home care.

A. Medical cards and GP cards

- Retired farmers under the age of 70 will find it difficult to qualify for a medical card.
- It is easier to qualify for a GP (family doctor) visit card.
- For persons over age 70 income limits are €700 for single persons and €1,400 for married couples.
- It becomes easier to qualify for the medical card over the age of 70 if gross income in 2015/2016 is:
 - Under €500/week (€26,000/year) for a single person
 - Under €900/week (€46,800/year) for a married couple
- For more details, contact the Community Care Section of your local HSE office or download form from www.oasis.gov.ie/health.

B. Nursing home costs

- As people live longer, it is more likely that at least some will require nursing home care which is very expensive.
- The new Nursing Home Support Scheme (The "Fair Deal" Legislation) which came into effect on 27 October 2009 can help towards the high costs. A person's income and assets are examined in detail to decide the level of contribution which they must make towards the costs. Farmers should be aware that there is a 'five year look-back' rule for assets, including the farm, which have been transferred for up to five years before entry to a nursing home and these assets are included in the means test calculations. This rule has important implications for the timing of asset transfers and the retention of assets for old age.

4. The farm dwelling and provision of living accommodation

- Some farmers will retain ownership of the farm dwelling house for life when the farm is transferred. The successor will then need to provide their own house.
- In other cases, the successor will take over the farm dwelling with the farm and the retiring parents may build a new house or purchase a house.

Planning for Retirement and Farm Succession

- Get advice from your solicitor on issues such as rights of residence, maintenance payments, help towards paying a mortgage etc.

5. The successor taking over the farm business

- The successor to the farm business will normally have been identified well in advance of the actual date that the farm is legally transferred.
- Succession requires a high degree of understanding and discussion between the parents and the successor as both parties have their own aspirations and worries about the process.
- Other family members also need to be kept aware of what is planned to avoid misunderstandings and maintain harmony in the family.
- It is important to have a transfer plan in place for the identified successor well in advance of final farm transfer.

The main elements of a transfer plan

A. Education

- Plan an agricultural education and training programme for the successor. The minimum qualification certifying capacity to farm is the Level 6 advanced certificate in agriculture or its equivalent. This was previously known as the certificate in agriculture (The 'Green Cert').

For more information talk to your local Teagasc education officer, agricultural adviser or the local agricultural college.

- Becoming a trained and qualified young farmer has important advantages e.g. claiming stamp duty relief on farm transfers and other grants/incentive schemes which may become available in the future.

B. Wages

- Make provision for the payment of an adequate wage to the successor for the years he will work on the farm in the lead-up to eventual transfer.

- It is also tax efficient to pay a wage (up to €16,500 in 2016) based on the value of the single person's tax credit and PAYE credit. (See more details in the chapter on farm taxation).

C. Handing over responsibility

- Find a mechanism to involve the successor in the decision-making process relating to farm investments/expansion, changes in farm enterprises and borrowing. The successor could be given responsibility to manage one of the farm enterprises (e.g. let them run some of their own stock on the farm), he could get some leased land to farm in his own right, or he could become part of a farm family partnership.
- Succession planning is as much about management, financial training, personal development and education as it is about property transfer.

D. Making/updating a will

- Parents should make a will if they have not already done so, or review an existing will and make provision for the successor and other family members.

E. Timescale

- Give the successor a broad indication of the succession time-scale and strategy. This allows the successor to plan.

F. Other considerations

- Most importantly, the successor needs to ensure that he will have a viable ongoing income when he takes over the farm. If not, he needs to find other ways of supplementing the farm income.
- Also he needs to identify if there is scope to further develop/expand the farm and improve efficiencies, and the level of borrowing required to achieve this.
- The successor should not be overburdened with debt due to excessive family settlements or excessive lease/support payments to parents relative to the income generated by the farm.



6. Farm transfer options

Every farm family situation is different. The following are the type of farm transfer options which arise and get implemented.

- Full farm gifted to successor.
- Part gift/part sale to successor.
- Part gift/part leased or rented to successor.
- Partnership and part transfer.
- Full farm leased to successor.
- Retain ownership for life and only transfer farm to successor by inheritance after death.
- Gift of main farm but some sites or outside land sold.
- If no suitable successor, the farm may be sold and proceeds used for living and for relatives.

7. The main capital taxes on farm transfers

- The transfer of farming assets are subject to a range of taxes which need to be carefully checked in advance.
- A valuable range of tax reliefs are available to farmers to eliminate or minimise the potential tax bills but they must meet certain conditions.
- High tax bills can result if a farmer fails to meet the conditions for the reliefs or if the assets are very big and for transfers to more distant relatives and non-related persons.

For farm transferred by gift (while owner is living)

Young person receiving farm must check:

- stamp duty
- capital acquisition tax (gift tax).

Older farmer transferring must check:

- capital gains tax on the disposal.

For farm transferred by inheritance (after death of owner)

- Capital acquisition tax (inheritance tax) for person receiving.
- No stamp duty or capital gains tax on inheritances.

Rules for income tax

- Retiring farmer subject to cessation rules.
- Young successor subject to commencement rules.

A. Stamp duty (for successor receiving the asset by gift)

- Stamp duty is a tax charged on the legal documents (instruments) transferring fixed assets by gift or purchase. The fixed assets include farmland, buildings, farm dwelling also milk quota (abolished on 31 March 2015).
- Stamp duty does not apply to the value of mobile assets such as livestock and machinery and the EU Basic Payment Scheme.
- A single rate of 2% stamp duty applies to all transactions executed from 7th December 2011. This is a good reduction in stamp duty from the previous higher rates.
- A 'half-rate' of 1% applies to transfers between closely related family members (i.e. 'consanguinity relief').

For transfers executed from 1st January 2016 and before 1st January 2018 the half rate (1%) will apply where the following conditions are met:

- The transferor must be under the age of 67 years at the date of transfer or sale.
- The transferee must from the date of transfer, farm the land for a period of not less than six years or alternatively lease it for a period of not less than six years to another farmer who will farm the land.
- Young trained farmers can claim 100% relief on stamp duty on the gift or purchase of farmland where the following conditions are met on the date of transfer:
 - must be under 35 years of age,
 - have the educational qualifications required (check with Teagasc education advisers or agricultural college),
 - relief applies on transactions up to 31/12/2018

Planning for Retirement and Farm Succession

- for a period of five years from the date of transfer, the young trained farmer must:
 - spend not less than 50% of normal working time farming the land (don't let it out)
 - retain ownership of the land and replace any land sold within one year.
- If education requirements are not met at the time of transfer, stamp duty is payable upfront, but a refund can be claimed if qualifications are achieved within four years.
- Note – No stamp duty applies on relevant farm assets received by inheritance after the death of the owner.

B. Capital acquisitions tax (CAT)

- CAT applies to assets received as a gift (gift tax) or an inheritance (inheritance tax).
- The tax rate for CAT is 33% on the value of any assets received in excess of the generous reliefs available.
- Two important CAT tax reliefs are available to successors taking over farming assets as follows:

1. Agricultural relief

- This special relief for farmers allows for a 90% reduction in the market value of agricultural assets for CAT purposes.
- The successor receiving the assets by gift qualifies as a farmer if at least 80% of their 'gross property' is agricultural property after receiving the gift (i.e. the 80% agricultural asset test).
- A new condition of "Active Farmer" has been introduced for transfers from 1st January 2015.
 - the farmer must hold an agricultural qualification similar to that required for the Young Farmer 100% Stamp Duty Relief Scheme or spend at least 50% of his/her normal working time farming the land for at least six years from the date of transfer.
 - or alternatively, lease the land for at least six years to another farmer who meets either of the above conditions.

- The property, qualifying for agricultural relief must be retained for six years (The six-year rule).

Business asset relief (BAR)

- If farmers fail to qualify for agricultural relief they may qualify for an alternative relief called BAR - various rules apply

2. Tax-free thresholds for CAT

- The second relief available for capital acquisition tax are the tax-free thresholds for gifts/inheritances allowable against the values of assets remaining after the agricultural relief is claimed.
- There are three categories of tax-free thresholds, depending on the relationship of the beneficiary to the donor. The amounts which can be received tax-free from 14 October 2015 are:
 - **Class A (Group 1) = €280,000**
Son/daughter, favourite nephew/niece, foster child, adopted child, minor child of a deceased child (orphaned grandchild).
 - **Class B (Group 2) = €30,150**
Brothers/sisters, parents, grandparents, nieces, nephews, grandchild.
 - **Class C (Group 3) = €15,075**
All others (cousins, distant relatives and non-related people).
- The above tax-free thresholds are lifetime allowances and various rules apply. All gifts or inheritances received since 5 December 1991 are aggregated and taken into account.

3. Capital gains tax (CGT) for landowner disposing of land during lifetime

- The increase in the value of land from the date it was acquired up to the date of disposal is a capital gain, subject to CGT.
- A 'disposal' of land (by gift or sale) triggers capital gains tax at the current rate of 33% in 2016.
- Capital gains can arise on farmland/other assets (e.g. sites/Basic Payment Scheme entitlements/ various property/shares).



- CGT retirement relief is available to farmers who meet three main conditions at the date of farm disposal:
 - farmer must be over 55 years of age,
 - must have owned the land for 10 years or longer,
 - must have farmed (not rented out/leased out) the land for 10 years or longer before first letting.
- There are certain exceptions and concessions in cases where land has been rented/leased out before transfer.
- From 1st January 2014, farmers aged over 66 who transfer agricultural assets will have a limit of €3 million on assets which qualify for retirement relief.
- The rules and calculations for capital gains tax are complex - consult your accountant.

Transfer of farming assets after death of owner (by inheritance)

- Make a will to specify who gets the various assets after death.
- No stamp duty applies on fixed assets transferring by inheritance after death.
- Capital acquisition tax (CAT) – inheritance tax for the successor receiving the assets and the main reliefs available are same as already outlined above for gifts.
- Capital gains tax (CGT) does not apply on farming assets disposed of by inheritance.

8. Making provisions for other family members

- Sometimes one or two younger children may have to complete their education and provision needs to be made for this at the date of transfer.
- Parents can transfer one site up to a maximum of one acre to each child for to build a principal private residence. Various conditions apply to the relief for CGT. This is a very useful mechanism for family settlements.
- Family settlements should be realistic and not overburden the farm with debt for the successor.

9. Making/updating the will

- Farmers have very valuable property and it is essential to have a will in place - review/update as tax laws/family circumstances change.
- The will should clearly specify who is to get the Basic Payment Scheme entitlements.
- Before getting legal work done, get an estimate of the likely costs involved from the solicitor in what is known as a Section 68 letter.

10. Other farming related schemes/issues

- On the income tax side, the retiring farmer needs to check with the accountant about any adjustments required under “the cessation rules”.
- The successor will be starting in farming and will be subject to “commencement rules” for income tax.
- Contact the district veterinary office (DVO) for the changeover of the herd number.
- Ownership of the Basic Payment Scheme entitlements must be transferred from the retiring farmer to the successor. A transfer of entitlements form must be completed and returned to the DAFM Single Farm Payment Unit in Portlaoise before the closing date for Basic Payment Scheme Applications.
- Farmers in the GLAS or AEOS environmental schemes need to check with their adviser/planner about the procedures/paperwork to be completed for the transfer of the contract.
- Arrangements need to be made with the bank and other financial institutions for any outstanding loans, leases and hire-purchase agreements on the farm.

11. Example case for farm transfer and the relevant tax calculations

- This example case illustrates the calculations involved for a farm and related assets being transferred from a father aged 66 to his son who is a young trained farmer under 35 years old in 2016.

(Please note that every farm transfer case is different and no two cases are the same. Each farmer needs to do their own calculations).

Planning for Retirement and Farm Succession

Table 1: Example Family Farm Assets and Market Values

Land and buildings (45 hectares at €25,000/hectare)	€1,125,000
Livestock	€100,000
Machinery and equipment	€30,000
Single Farm Payment (market value)	€30,000
Total agricultural assets	€1,285,000

A. Stamp duty (the son)

- The son in this case meets all the conditions for a young trained farmer so he can claim full 100% relief (on 1% rate). Therefore, nil stamp duty - saving is €11,250.
- If 2% Stamp Duty rate applicable, then the saving would be €22,500.

B. Capital acquisition tax (CAT) – (the son)

- The value of the gift after 90% agricultural relief is €128,500 and this is well under the Class A (Group 1) tax-free threshold for a son/daughter of €280,000. Therefore no gift tax is payable, but also check any previous gifts/inheritances since 5/12/1991.
- If no agricultural reliefs were available, the CAT bill would be very high = €424,050 (i.e. 33% of the total assets).

C. Capital gains tax (the father)

- Capital gains tax (CGT) applies to the father who is disposing of his farm by gift to his son.
- In this case the father meets the conditions for retirement relief as described earlier and he can claim 100% relief on this bill, estimated at €110,000.

D. Legal costs for transfers

- In general solicitors will quote fees in the region of 1% of the value of the property being transferred.
- Get an estimate of the likely costs involved from the solicitor in what is called a section 68 letter and negotiate to get the best deal.
- Note that legal charges are subject to VAT at 23%.

E. Dates for filing returns for capital acquisitions tax

- If the valuation date for the gift or inheritance is in the period 1st January to 31st August then the CAT tax return must be filed and tax paid by 31st October in the current year using form IT38. For gifts/inheritances received 1st September to 31 December, the file and pay deadline is 31 October of the following year.

F. Future budget changes

- Additional changes may be made in future budgets.

Sources of Additional Information

1. The Revenue website – www.revenue.ie
2. The local tax office.
3. Relevant articles in the local press.
4. The annual budget statement in October.
5. A range of family finance books available in local shops.
6. The Land Registry – www.landregistry.ie
7. The Law Society – www.lawsociety.ie
8. Citizens Information Bureau – www.oasis.gov.ie
9. Accountant/solicitor/adviser.
10. A Guide to Transferring the Family Farm - published by Teagasc (December 2014)
11. Farm Succession and Transfer Guide - Published by Teagasc (September 2015).

② How can I prevent or minimise strife between family members?

What are the risks:

- Inexperience and frustration for the young person.
- Conflict between both parties.
- Not transferring ownership and leaving it for too long can result in missed opportunities or non-development of a worthwhile enterprise on the farm.
- The worst-case scenario is that the young person will leave the farm and seek employment elsewhere.

How can conflict be resolved?

1. If there is a complete breakdown in communications, a mediator will be necessary.
2. The mediator can be a professional i.e. an adviser or a mutually agreed family friend.
3. The help of a family member should be also encouraged as it can be kept in-house.

How can the change in ownership be harmonious for both parties:

- Not interfering with the running of this enterprise gives the young person a strong sense of responsibility.
- Having a fortnightly meeting on the running of this enterprise will be beneficial to both parties and all grievances can be aired here. Do not discuss it at any other time.
- Partnerships are an ideal way of ensuring the change of ownership is managed successfully for both parties.
- Once an agreement has been made, stick to the rules, meet regularly and discuss how the process is progressing.
- If targets are not met, don't apportion blame and discuss it with outside parties – discuss it internally, agree another target/course of action and move on.
- Allowing the younger party to manage an enterprise and have complete responsibility for it should be the starting point.



