Think, Plan, Do

Save tax while planning your business

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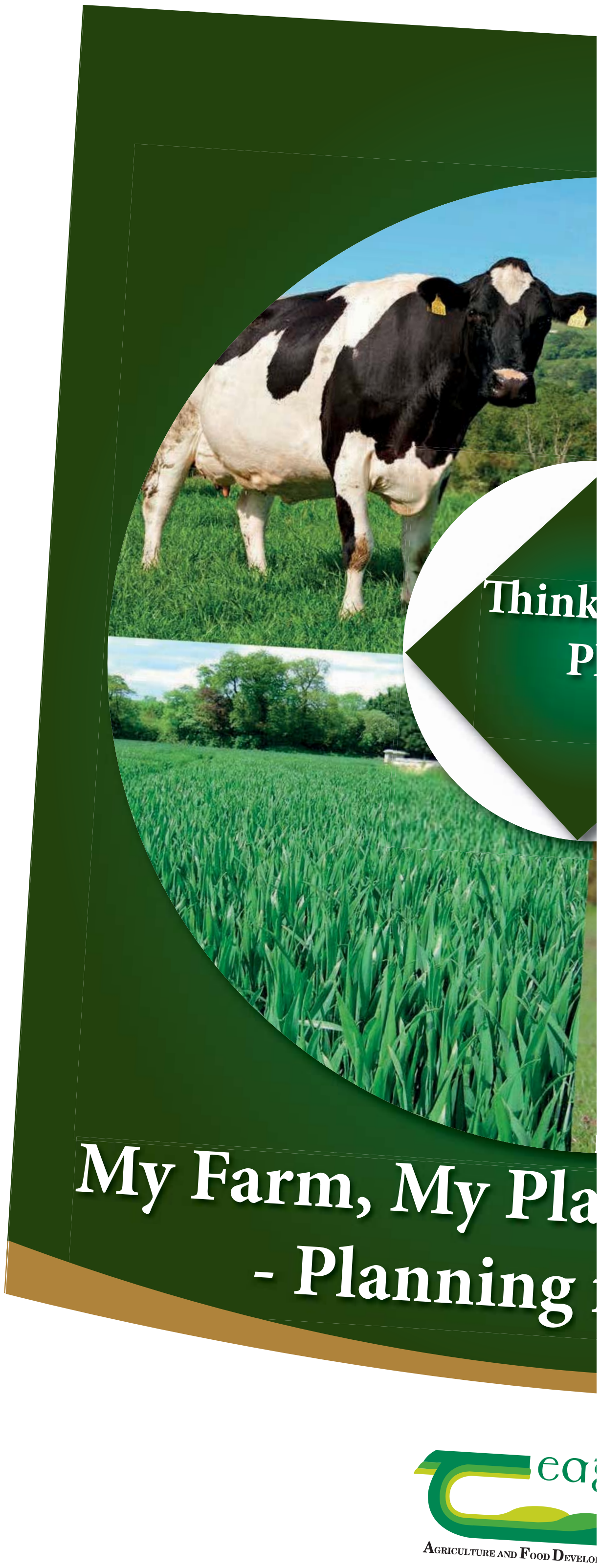

Business planning is a good way to plot your way forward and refine your business goals. These are increasingly demanded by people looking at your business from the perspective of a lender. The process also allows you to complete preliminary checks, to spot any pitfalls in the plan and to examine alternatives.

It is far better to identify any mistakes in the planning phase rather than realising they were made at a later stage when costs have already been incurred. This article will outline the new requirement to complete a business planning workbook to avail of some existing and new tax reliefs.

Farmers should not be afraid of business planning and it should become a regular part of the efficient running of the farm. In most cases, the only time that a farmer comes into contact with the concept of formal business planning is when applying for new loans and sometimes, during a credit review, a financial institution will look for a business plan.

Of course, all farmers have a business plan, but this is seldom written down – it may be just to keep doing what we have been doing or to make alterations to enterprise mix or stock numbers. When asked for a business plan, the farmer generally contacts their advisor and/or their accountant to do the job. This is where we have identified a problem, as, in most cases, this is where the farmer loses ownership of the business plan – it is no longer the farmer's plan, but the advisor's or accountant's plan.

While these plans may do the job that is required, they can fall down when the farmer is asked to explain them. In addition, the work that is done in preparing them is lost, as the farmer does not use or review the plan once credit has been secured. To make progress on this "ownership" issue, Teagasc has developed a workbook, called *My Farm My Plan – Planning for my Future*, that is designed for completion by the farmer with input from their family as the first step to a more formal business plan.

The workbook is divided into three main sections, which are:

- Thinking about where I am going.
- Thinking about what I have to do.
- Extra costs, extra revenues and extra risks.

There is also a fourth section, which outlines the next step after completing the workbook, which is a full physical and financial plan. It is important to involve all of the people affected by the farm plan in its development.

This may include parents, spouse or children, depending on your stage of life. They may have other goals that are not in line with your own, so it is important to scope these out. An example of this is a dairy farmer may want to expand to pass on a larger business to their successor, but the successor may not be interested in dairying – it is important to have these conversations, but also remember that circumstances and opinions can change over time.

The workbook, as previously stated, was designed for use by the farmer. There is no problem if you make a

mistake, as it is your document. We have made it available on the Teagasc website, so you are free to download and print out as many copies as you wish. The big change with this type of business planning is that it gives you a format to come up with your own plan.

The most important question, included in section one 'Thinking about where I am going', is 'why am I farming?' Some answers to the question may include maintaining or increasing income, to build a bigger farm business, to match input price inflation, for retirement, to cope with volatility in sale prices, for farm transfer/succession, to employ labour/free-up time, for family life, etc. Too many people start with the what, then the how and leave out the why until last, or ignore it altogether.

So you have worked through the book and have done the most difficult part, the thinking part of a business plan. You are now in a strong position to go to your advisor or accountant to develop a full physical and financial business plan. At this stage, some of your plans and assumptions could and should be challenged, with a resultant alteration to the plan – this may involve a phased roll-out of the plan to reduce the initial borrowing, financing and risk involved.

In the end, though, it is your plan and should at all stages be informed by the answers to your "why" question as discussed above. When the full business plan is completed, you should be in a strong position to explain and defend it to any outside person.

In a survey of farmers completed as part of his Walsh Fellow Masters study, *An analysis of the use of financial planning tools by dairy farmers and advisers*, John Greaney surveyed a selection of farmers who completed the cash plan programme. This was a programme that was supported by the Department of Agriculture in 2014.

The programme highlighted the importance of managing risk around farm development planning and cashflow management. It was targeted at recent entrants to dairying, i.e. those who commenced supplying milk on or after 1 April 2008 and involved the completion of three relevant tasks:

- Complete *My Farm, My Plan-Planning for my Future* strategic planning workbook.
- Record the monthly cashflow for 2014.
- Prepare a monthly cashflow budget for 2015.

In his survey, most of the farmers spoke positively about the financial planning book, with 72.4% of all respondents believing the book was of benefit to their business.

As part of the rules to claim some tax reliefs, it is now a requirement to complete a *My Farm My Plan*. Teagasc has been requested to issue certificates to farmers outlining that the workbook has been completed. The reliefs are:

1. Stock Relief for Young Trained Farmers. This relief is available to young trained farmers in the first four years after first setting up in their own right as farmers. It allows them to claim full relief from tax for the increased stock value during the year for those first four years, while they are establishing themselves as farmers.

2. Young Trained Farmer Stamp Duty Relief. This is again for young, trained farmers under the age of 35 years who purchase or receive a gift of land. The normal rate of stamp duty is 2%, but this relief allows the farmer pay no stamp duty on the transaction.

3. Succession Farm Partnership Tax Credit. This is a new tax credit that was announced in last year's budget and should be available early next year. These are a particular type of partnership and the tax relief is against income tax.

Continued on p32

SURVEY QUOTES

"Had it in my head, but to write it down focused my mind. Only realised when I had it on paper how much I wanted to improve roadways and water troughs."

"I had suckler cows and went in with my father before taking over the herd of cows. Booklet is good – it reiterated I needed greater numbers of replacements to get to where I wanted to be. Hard to get a lot of replacements on the ground so focusing on buying more in may be my only option. If I had filled out the book two or three years ago, I might not have made the same mistakes."

"Very good, puts things into perspective. We've a young family and they are a big part of what's going on here at home. Family life is very important."

"Eye-opening I suppose more than anything. It hits the basic points on the head, giving you a clear road map. I often look back on it, relevant at the minute as I look to see whether I want or need a shed and whether I'll go for the TAMS scheme."

"It's a simple book. Completing a SWOT analysis should be done for every farm, weaknesses always exist. In relation to our own farm, we're probably stocked to the limit as it is. We need to decide whether to purchase land in the next few years or continue to just rent parcels."

Some of the requirements to avail of the credit are:

• Form a registered farm partnership.

• Have a certificate of completion for the *My Farm My Plan* business planning workbook.

• Complete a succession agreement.

The income tax credit available is up to €5,000 per annum for five years – amounting to a maximum potential €25,000 saving in income tax. This is shared between both parties in the partnership in the same ratio as the profit share agreement in the partnership.

The succession agreement is a legally binding agreement where at least 80% of the farm assets must be transferred within three to 10 years after registering the new agreement. Great consideration is required before signing up to avail of this tax credit as penalties of up to €125,000 will apply where the farm assets do not transfer as specified in the succession agreement.

After the farm asset transfer, the partnership can continue for as long as the partners desire. It is important to state that this is an additional option open to partnerships from now on, but is not a requirement. Existing partnerships or new partnerships formed are not required to avail of this option. Further details of this new type of farm partnership will be included in future editions of *Today's Farm*.

There are further conditions that must be adhered to in order to benefit from these tax reliefs – consult your accountant for further details.

While the tax incentives will drive farmers to complete the *My Farm My Plan* business planning workbook, it will only be of long-term benefit to your business if you put some thought into it. All businesses in a development phase should complete a business plan and the workbook provides the vehicle to get this process started in a real way.

Any business plan is only as good as the assumptions made. In this time of volatile prices and risks to external markets, it is important to review the plan regularly and update it as required with new assumptions. So the business plan, once completed, is not set in stone, but a live document that is adapted over time. remember that:

"A goal without a plan is just a wish" – Antoine de Saint-Exupéry

To get a copy of the workbook, go to Teagasc.ie /rural-economy/farm-management

Where am I now?

Stock

Breeding stock numbers (cows, sucklers, ewes)		
Output milk, beef, sheep (kg milk solids, kg beef, etc)		
No. of replacements	**(0-1)**	**(1-2)**
No. of cattle	**(0-1)**	**(1-2)**
No. of replacement ewe lambs		
No. of animals (and value) to sell to finance plan		

Land

Land – owned (ha)		
Leased land and length of lease(s)	**Ha**	**yrs**
Conacre land (< 5 years) and length farmed	**Ha**	**yrs**
Share farmed land and length of agreement	**Ha**	**yrs**
Whole farm stocking rate (LU/ha)		**LU/Ha**
Milking platform - dairy (ha) & stocking rate	**Ha**	**LU/Ha**

Soil Health (tick)

	Unknown	low	avg.	high
% farm soil sampled in last four years				
Soil P, K, pH status				
Soil type / drainage requirements				
% farm reseeded in last four years				

Facilities & equipment (tick)

	short	ok	excess
Housing for current stock			
Slurry storage for current stock			
Dairy - Parlour for current cow numbers			
Handling facilities for stock on farm			
Grazing infrastructure			
Machinery & equipment			

Labour and farm information

Number of years you will continue farming	
Labour units on the farm	
Discussion group member (Yes/No)	
HerdPlus member(Yes/No)	
Annual cash flow budget/monthly recording (Yes/No)	
Teagasc Profit Monitor completed (Yes/No)	
Written action plan(s) completed (Yes/No)	

Financial

What is current total cost of production per unit?	
How much cash is available for future investment?	
What is current and future level of direct payment?	
Current farm repayments per year and finish date?	
What is current debt per hectare?