

Fewer fragments, fitter farms

Don't miss these tax reduction measures available for farm restructuring

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Figures from the Central Statistics Office show the average number of separate land parcels per farm in Ireland has increased from 3.1 in 2000 to 3.8 in 2010. So farm fragmentation is actually on the increase. In 2010, 80,000 farms (well over half the total) had three or more separate land parcels.

Fragmentation adds to farm costs and reduces operational efficiency: extra labour, travel time, stock movement and inspection, extra machinery and facilities and crossing roadways.

Over the last number of years, the Irish Government has introduced schemes to assist farmers to consolidate their holdings. These schemes offer a reduction in either stamp duty or capital gains tax (CGT). In the budget for 2018, stamp duty and CGT reliefs were combined into one scheme. This has recently been enacted.

For farmers who qualify for this scheme, the potential tax savings for restructuring a farm are huge.

Farm restructuring

The Food Wise 2025 report set a strong challenge for the industry; land fragmentation is one impediment to achieving the targets. With any land transactions in Ireland a tax return must be completed. The tax cost of selling land is punitive and must be paid even if the money is reinvested in land.

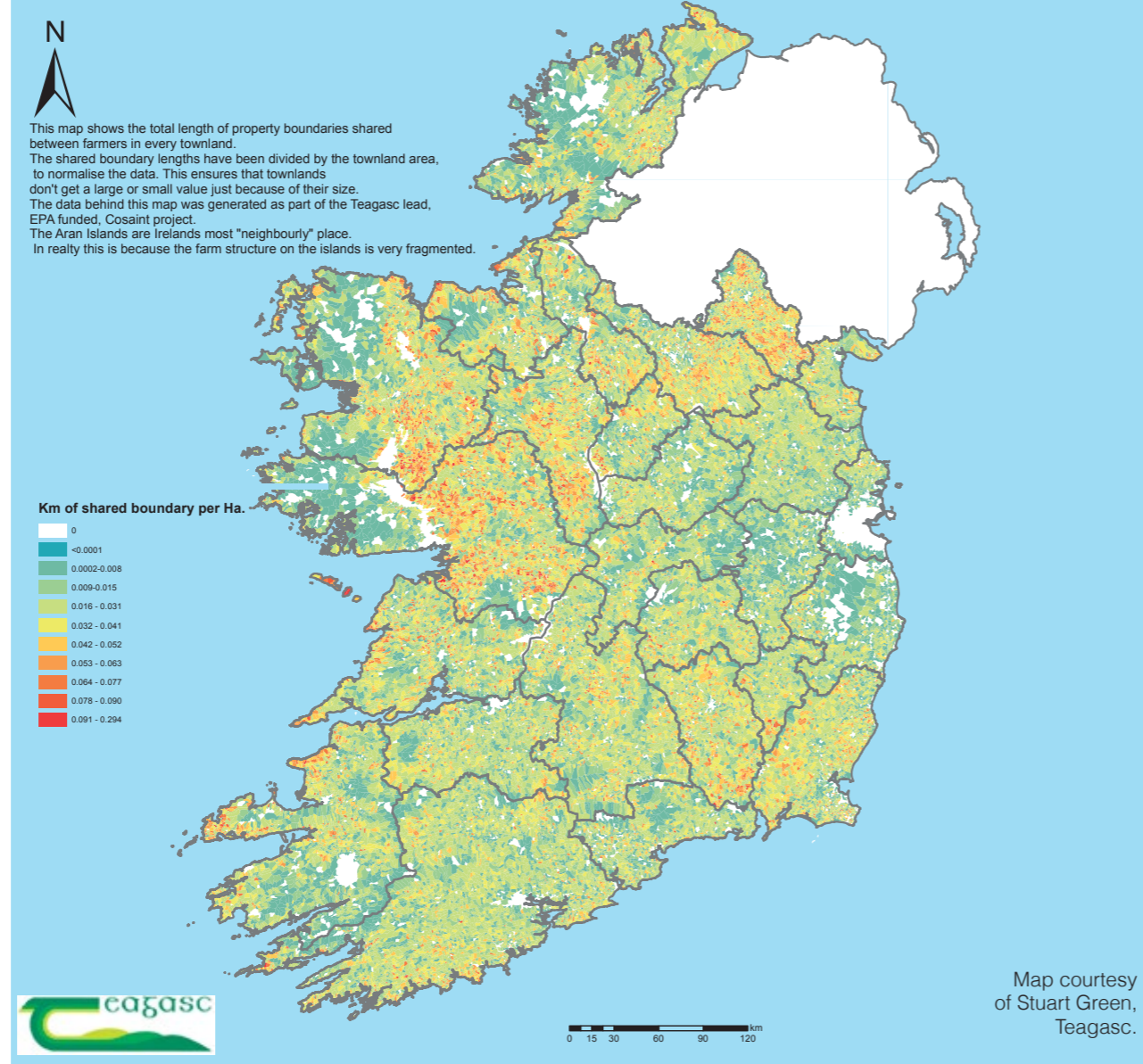
There are two relevant taxes when buying or selling land:

- Stamp duty on land purchased (currently 6%).
- CGT on land disposed of during one's lifetime (currently 33%).

Restructuring your farm may not be as easy as swapping a field with your neighbour. A transaction could

FRAGMENTED FARMSCAPES

Total length (km) of shared farm boundaries per hectare by townland



involve 10 fields with five parties.

This kind of transaction is difficult to organise, and a broker or intermediary could be used to help ensure that the transaction is completed.

It is the individual's responsibility to familiarise him or herself with the amount of tax payable and any relief available for given transactions. Seek taxation and legal advice before

entering into any transaction.

The reliefs, if fully availed of, by a qualifying applicant reduce the CGT liability to zero. The stamp duty rate for a qualifying transaction is reduced from 6% to 1%.

Capital gains tax

When a farmer "disposes of" farmland during his lifetime, by sale,

gift or exchange to another person, CGT rules apply. CGT on the lands disposed of can be substantial if the land is in your ownership for a significant time period.

Farmers over 55 years old may be eligible for CGT retirement relief if they satisfy a number of conditions. Check the CGT calculations with your accountant before disposing of land.

Indexation relief (adjusting the value of the lands for inflation) may also apply for land owned prior to 1 January 2003.

Stamp duty

Stamp duty is a tax that is paid on specific documents or instruments, where property is transferred or leased. It is also paid on bank cards. For the purposes of land transactions, the current rate is 6%. This relief reduces the rate to 1% for qualifying applicants. Young trained farmer relief is also available, but you must meet specific criteria to avail of this relief.

What is farm restructuring for the purposes of CGT relief and stamp duty?

The interaction of the sale and purchase together of qualifying land must result in:

- Where a parcel of land is sold by an individual farmer (or, where sold by more than one individual jointly, at least one of the individuals is a farmer).
- Where a parcel of land is purchased by the same individual farmer (or where purchased by more than one individual jointly, at least one of the individuals is the same farmer).
- Where the sale and purchase occur within 24 months of each other and must be between specific dates.
- The interaction of the sale and purchase together result in an overall reduction in the distance between parcels comprised in the farm, including land that has been leased for at least two years with a minimum of five years to run.
- This leads to a reduction in the fragmentation of the farm and an improvement in the operation and viability of the consolidated farm.

Note that the sale of an existing farm and the replacement of it by the purchase of another farm is not farm restructuring for the purposes of this relief.

What is a parcel of land for the purposes of the relief?

A parcel of land means an entire field or group of fields.

Land sold and purchased as part of a Farm Restructuring must comply with the following conditions:

- The land must be in the State.
- The land must be agricultural land as defined in Section 604B TCA. As the definition of agricultural land does not include afforested land, peat land, or habitable dwellings, the value of these should be deducted by the individual claiming relief when the relevant chargeable gain is being calculated.

Note: land sales under compulsory purchase orders will not qualify.

When applying for farm restructuring relief to the revenue commissioners, the farmer must sign a declaration that it is his/her intention for a period of five years from the date of execution of the deed of transfer:

- To spend not less than 50% of his/her normal working time farming.
- To farm the lands purchased.
- To retain ownership of the lands.

Farm restructuring certificate

The farm restructuring certificate (FRC) is a certificate issued by Teagasc to the farmer restructuring his/her farm where the sale and purchase transactions meet the restructuring conditions.

If the restructuring conditions are not met, Teagasc will give reasons why it cannot issue an FRC and there is scope to appeal.

The farmer applies to Teagasc, filling out the FR1.2 application and supplying supporting documentation for existing lands owned and farmed and the sale and purchase transactions. Documentation required includes legal documentation, maps of the lands, LPIS numbers under the Single Payment System, etc.

Farmers who are purchasing/selling land parcels to restructure their farms may be eligible for valuable tax relief under the Farm Restructuring Relief Scheme. If you are planning to restructure your farm, the first transaction must be completed by the 31 December 2019.

Contact

Contact your local Teagasc office or www.revenue.ie for copies of the scheme documents.

POTENTIAL SAVINGS ON CGT AND STAMP DUTY

Example

• John sold a parcel A which is five miles away (10ha) for €260,000 with disposal costs of €6,000, giving a net disposal value of €254,000.

• John purchases parcel B across the road from his farmyard (12ha for €270,000). Both parcels are qualifying land.

• Parcel A was acquired in February 1982 for a cost (including expenses) of €30,500.

• This acquisition cost is adjusted upwards for inflation (indexation relief) using the CGT multiplier €30,500 x 2.678 = €81,679.

• Capital gain: €254,000 - €81,679 = €172,321.

• Deduct annual CGT allowance: €1,270.

• CGT saving = €172,321 - €1,270 = €171,051 @ 33% tax = €56,447 tax due.

• He now qualifies for restructuring relief (less distance between land parcels) and obtains a farm restructuring certificate from Teagasc.

• The value of land sale exceeds the purchase all proceeds were invested.

• The CGT saving in this case is €56,447.

• John must also pay stamp duty on the sale. The relief reduces this to 1%. €270,000@1%=€2700. The saving here is a further €13,500.



Potential tax savings for restructuring a farm are huge