Teagasc — Agriculture and Food Development Authority

GET FARM FINANCIALLY FIT

Partnerships will yield dividends across the board

Registered farm partnership can deliver considerable financial benefits as well as preparing families for the tricky business of farm succession, writes **Thomas Curran**

THE new CAP has led to a renewed interest in forming registered partnerships.

The 50pc Collaborative Farming Establishment grant has been introduced to help with the set-up costs of establishing these partnerships. These provide farmers with a structure to steer them through succession along a model for sustainable expansion.

Here are five steps to help you form and maintain a good partnership agreement.

1 Your accountant will need to register the partnership with Revenue using the TR1 form and make an annual report to Revenue using the FIRMS 1 form.

2 The accountant should create a capital account for the partnership where the initial capital contribution - value of livestock, machinery and cash - of each partner is recorded and updated on a yearly basis.

3 Template agreements are available from Teagasc. Legal advice should be sought for your particular circumstances.

4 Once the written agreement is completed and signed, it needs to be kept up to date with any subsequent changes.

5 Complete the 'On-farm Agreement' template to cover the day to day practicalities. There are three key areas to this document.

- Responsibilities/Record Keeping
- Structure the work, weekends off/holidays
- Profit Share/ monthly drawings

Bottom Line

Entering into a partnership is not a race; take the time to get sound legal and accountancy advice tailored to your circumstances.

Information and the template agreements for the various collaborative arrangements can be found at www.teagasc.ie/collaborativearrangements/

BENEFITS

There are many benefits to partnership and they can be divided into three main categories.

Structural Benefits

These include: additional labour that leads to better lifestyles where it is fairly structured between the partners. The greater mix of skills can lead to better decision-making. There are more resources available such as land, buildings, machinery and livestock. The benefit in pooling the resources is that is reduces the capital investment required to operate at a larger scale.

Succession Benefits

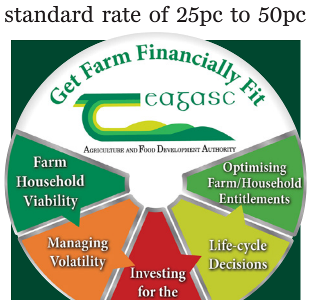
A partnership is the ideal transition arrangement to integrate the chosen successor into the farm business with the parents. When a son or daughter comes home to work on a farm with the parents, the partnership should be formed to give them responsibility and decision-making powers on the farm. This is important for the young farmer's development. Because they are receiving a share in the profits in return for their hard work, it provides them with an incentive to really get involved and take responsibility on the farm.

FINANCIAL INCENTIVES

Financial incentives include taxation benefits and EU scheme benefits. They are the "carrot" for farmers to enter into partnership.

- Profits are shared between the partners and each partner is treated separately for taxation purposes. This means the low rate of tax is maximised. A partnership with two sole trading partners can earn €67,600 at the 20pc tax rate.
- Stock relief is an income tax relief on increasing number of animals on a farm. A young trained farmer who forms partnership with their parents can avail of 100pc stock relief on their share of the farm profits for four years.

There is also an enhanced stock relief scheme available to registered partnerships. This means that the parent's stock relief increases from the standard rate of 25pc to 50pc in a registered partnership. It also means that the son or daughter will be able to avail of 50pc stock relief after the first four years.



CAP INCENTIVES

● Young Farmer Scheme

Where a son or daughter, who qualifies as a young trained farmer, forms a partnership with their parents or an unrelated farmer, they could receive a Basic Payment Scheme top-up of €60 on up to 50 activated entitlements. This equates to a potential €3,000 per year for up to five years depending on the number of years that the young person is eligible for.

●National Reserve Scheme

A new national reserve scheme was introduced with the basic payment scheme and there are two key benefits that it can be availed of.

— New entitlements: where a young farmer owns, rents or leases land that does not carry existing entitlements, he/she may apply to the national reserve for new entitlements at the average payment of €260.

— Low value entitlements: where a young farmer owns, rents or leases in land that has below average value entitlements, he/she may apply to the national reserve to have the low value entitlements topped up to the national average of €260.

● TAMS II

A registered partnership qualifies for a doubling-up of the investment ceiling to €160,000. A father and son/daughter, who is an eligible young farmer, in a registered partnership may qualify for 60pc on the first €80,000 and the parents may qualify for 40pc on the second €80,000. This equates to a potential grant of €80,000 on an investment of €160,000 or greater.

● Collaborative Farming Establishment Grant

This grant is to help farmers with the costs of setting up a registered partnership. It is 50pc grant on a maximum spend of €5,000. This equates to a maximum potential grant of €2,500.

Thomas Curran is a farm structures specialist at the Teagasc Rural Economy & Development Programme email: thomas.curran@teagasc.ie

CASE STUDY

How a farm partnership works

THE FOLLOWING case study details the steps involved in forming the partnership and the benefits available to this family.

John, Marie and David have a 60 hectare dairy farm. They have increased milking cow numbers from 90 in 2014 to 100 in 2015. They carry 55 followers including replacement heifers. The overall farm stocking rate is 2.25LU/ha. In February 2015, they formed a registered farm partnership. This involved a number of key steps.

- Marie and David were added to the herd number which is now in the names of John, Marie and David.
- They created a partnership bank account in all three names.
- A farm partnership agreement was completed under advice from their solicitor and accountant. This was submitted with the required documentation to register the partnership on the DAFM register. A profit sharing ratio was decided at 70pc to John and Marie and 30pc to David. The family are eligible to apply for the Collaborative Farming Establishment grant on the set-up costs.
- John, Marie and David completed on-farm agreement template where duties and responsibilities were shared between the three partners. A structure was put in place to organise the work schedule in terms of weekends off and holidays.

FARM PROFIT: €97,750	David	John & Marie
	€29,325 (30%)	€68,425 (70%)
Young Farmer Scheme	€3,000	
National Reserve	€3,600	
Total Income	€35,925	
Stock Relief	€4,050	€4,725
Taxable Income before Capital Allowances/Credits	€31,875	€63,700
Collaborative Farming Grant	€1,250 (€2,500@50%)	

The monthly drawings for each partner were also agreed.

- David applied for the Young Farmer Scheme in 2015 with a view to receiving a €60 top-up on up to 50 activated entitlements. This scheme will yield a payment of €3,000 for the next five years to David as he is eligible for the full five years of the scheme.
- David also applied for the national reserve scheme as John and Marie's entitlements were previously worth €200 per hectare. He is anticipating a top-up on these entitlements of approximately €60 on all 60 entitlements which will yield an annual increase in payment of €3,600.
- Stock Relief: Cows increased from 90 to 100 and they are valued at €1,350 per head. This is an increase in stock value of €13,500. Stock Relief on the profits is calculated as follows.

—John and Marie: 70pc (profit share) x €13,500 = €9,450 (Enhanced stock relief at 50pc = €4,725).

—David: 30pc (profit share) x €13,500 = €4,050 (Young Farmer Stock Relief at 100pc = €4,050).

TAMS II

If the farmers decide to avail of the TAMS II scheme, they will also be eligible for a doubling of the investment ceiling from €80,000 to €160,000 as a registered partnership. The first €80,000 is available to David at the 60pc rate as a young trained farmer. This could equate to a grant of €48,000 on a total spend of €80,000. The second €80,000, or the balance over the first €80,000, is available to John and Marie at 40pc. The maximum grant here would be €32,000.

In summary, the CAP incentives from 2015 to 2019 are attractive to farm families where they form a registered partnership. A well-constructed partnership can bring about tax saving s for the family through stock relief and the sharing of profits that in turn maximises the low rate (20pc) of tax.