Collaborative farming: options to progress the farming business

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Summary

- Partnership provides a sustainable business model for farmers to amalgamate farming businesses and can allow young trained farmers establish a career in dairy farming.
- Share Farming provides an avenue of entry to dairy farming for young trained people and an option to continue in farming for farmers with no family successor.
- Land Leasing gives security of tenure to the lessee and access to income tax benefits to the landowner.

Registered farm partnership — Non-family

In the context of non-family situations, two or more farmers can combine their respective dairy farming operations into one single operation as a partnership. One of the key drivers of these partnerships can be improved work/life balance for a number of reasons. A consolidated larger scale farming business tends to be more labour-efficient, two people working together can get a lot more done than two individuals, there is less need for hired labour and it is much easier for any partner to take time off. This can result in a better lifestyle with more time for family and other personal interests. A partnership must provide the opportunity for increased scale as the farm will have to sustain two incomes. In many cases, partnership affords the opportunity to increase the scale of operation and reduce farm fragmentation. A partnership can allow for lower risk expansion via making use of the existing facilities on farm, which may reduce the level of capital expenditure.

For a young trained farm manager, after having completed the required formal agricultural education and spending a period of time gaining valuable on-farm experience, a registered farm partnership with an existing dairy farmer can facilitate progression to business ownership. Working in partnership means there is often a better and broader range of knowledge and skills available to the partnership business. This facilitates more informed decision making on a wide range of subject areas. Discussions among partners mean that business decisions are teased out further and explored in greater depth. The key challenge for any farmer considering a partnership or any collaborative arrangement is to develop and nurture a strong working relationship with other people. This is the single most important factor in the success of any arrangement. It involves a change of mind-set on the part of the farmer to think in terms of us/we rather than I/me. The relationship must be built on strong core values such as trust, respect, understanding and above all, excellent communication.

Share farming

The key feature distinguishing share farming from a partnership is that two completely separate farming businesses operate on one farm; the business of the landowner, and the business of the share farmer. All receipts and payments are split between both people as set out in their written agreement. They both calculate their own separate profits from the arrangement. The starting point for this arrangement is a financial budget to cover potential income and expenditure from the enterprise. Each person must then complete a financial budget/cash flow plan for their own respective businesses to make sure the venture makes financial sense for themselves. Share farming as a structure could suit where the landowner no longer wants to be involved in the day-to-day running of the farm but will retain an interest in the farm performance. The share farmer generally provides all of the labour and in some cases, the livestock and/or machinery. The landowner provides the land and the facilities required for the dairy enterprise to be successful.

Long-term land leasing

Long-term leasing is a growing feature of Irish farming due mainly to the income tax incentives available to the owner of the land. Changes in relation to Capital Acquisitions tax have also helped to make land available to active farmers under lease rather than the inheritor farming it themselves. The key benefit to the lessor is that the income received from a long-term land lease and the value of any Basic Payment Entitlements is tax-free income subject to the limits. €18,000, €22,500, €30,000 or €40,000 is available tax free for five but less than seven, seven but less than 10, 10 but less than 15 and 15+ years, respectively. These can be doubled where more than one party owns the land. Another key benefit is that the lessor can qualify for retirement relief on capital gains tax when they do transfer the land to a family member or sell on the open market. Capital gains tax is charged at 33%. This is a very valuable relief to farmers and other land owners when transferring land. By entering into a long-term land leasing arrangement with the lessee, the landowners are providing a better incentive to the lessee to make investments in the land such as reseeding, fencing, and possibly infrastructure. The key benefit to the lessee is that the long-term lease provides security of tenure to expand their business and even undertake capital expenditure on the land if term and rental price allow this.

Conclusions

Partnerships, share farming and leasing are attractive options to progress the farming business but they require excellent communication skills, detailed planning and reliable financial and legal advice.