Collaborative farming:options to consider within the family farm

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Summary

- Succession is the transfer of management responsibility and should begin initially at an early age in the farm family. A registered family partnership is an integral part of succession planning of the family dairy farm.
- Capital Gains Tax Restructuring Relief can be used to consolidate fragmented farms but careful planning is needed.

Registered farm partnerships

A registered farm partnership is a profit sharing business arrangement between two or more farmers that are registered on the Register of Farm Partnerships managed by the Department of Agriculture. In the context of the family dairy farm, registered farm partnerships are an excellent transition business arrangement that facilitate the succession process. Succession is the transfer of management from one party to another and is often linked to, but is different from, inheritance, which is the process of transferring assets between parties. Succession planning on Irish dairy farms is a vital process and is covered in detail in another paper in this book.

Teagasc research has highlighted that succession is an on-going process that can begin early in the life of a son or daughter. A registered farm partnership is a central step as part of an advanced succession plan. It is an ideal structure to formally involve the next generation in the farm business and in doing so facilitate the gradual transfer of responsibility and decision making on the farm. Effective succession planning allows the family to approach farm operation as a team to achieve the family's goals. The partnership can provide the platform to blend the experience of the parents with the youthful enthusiasm and modern thinking of the future successor.

A gradual approach is important to succession as in most cases parents are not immediately in a position to transfer either the farm or full management responsibility to a son or daughter that has returned home after completing their agricultural education for a number of reasons. Firstly, the young person is relatively inexperienced and there are other genuine reasons usually linked to concerns about the implications for family income; security for the parents and other family members that still have to be provided for. These concerns can be alleviated by forming a registered partnership between the parents and the son or daughter as an interim step before considering full transfer of the farm at a later date.

There are financial advantages to forming a registered partnership for both the parents and the son or daughter. Splitting farm profits between multiple parties helps to reduce the income tax liability. Registered partnerships are eligible for more than one TAMS grant for farm development. Succession farm partnerships are a new structure which began in 2017, where an annual income tax credit of €5,000 is available for up to five years. To avail of this credit the partnership must complete a business plan in the form of the Teagasc My Farm My Plan booklet and complete a separate legally binding succession agreement in which it is agreed to transfer 80% of the farm assets within 3–10 years.

Capital gains tax - restructuring relief

This scheme provides Capital Gains Tax (CGT) relief to encourage farmers with fragmented farms to consolidate their holdings and thereby improve their viability. The relief is only available on the sale and purchase of qualifying lands that meet the key criteria of the scheme. Capital Gains Tax restructuring relief should be given serious consideration by farmers in parts of the country where farm fragmentation is an issue. It may involve a collaborative effort by a number of farmers to make it work in practice. Essentially, it allows parcels of land to be exchanged between farmers to reduce the number of fragmentations farmed by each farmer, and potentially increase the size of the grazing platform.

Restructuring relief operates where a parcel of land is sold by an individual farmer (or joint owners) and where another parcel of land is bought by the same farmer (or joint owners) and both of these transactions occur within 24 months of each other. The initial sale or purchase must have taken place in the period before 31st December 2019. The combination of the sale and the purchase together must result in an overall reduction in the distance between parcels of land making up the farm, including leased parcels that have been leased for at least two years with a minimum of five years to run. The entire transaction must lead to a reduction in the fragmentation of the farm and an improvement in the operation and viability of the consolidated farm. Since 2015, the scheme includes the disposal of an entire fragmented farm and its replacement with another farm that is less fragmented, subject to meeting the original criteria of the scheme.

Conclusions

Family partnerships are an excellent way to formalise the succession process and Restructuring Relief should be considered by those with a fragmented farm. Specimen template agreements for all the collaborative arrangements featured in this (and the next) paper are available in the Collaborative Farming section of the Teagasc website.