Collaborative Farming Providing Options to Improve the Structures of Irish Farming

- **Registered Partnership:**
  - First step to full succession of the family farm.
  - Increased Scale, Improved Labour Efficiency and better Lifestyle
  - Registered Partnerships are open to all enterprises from 2015 onwards.
- **Contract Rearing:**
  - An opportunity for expansion and labour efficiency for the dairy farmer.
  - An alternative to drystock enterprises for retiring farmers, drystock farmers and landowners.
- **Share Farming:**
  - Provides an avenue of entry to dairy farming for young trained people.
  - Option to continue in farming for farmers with no family or no successor
- **Land Leasing:**
  - Strong tax incentives for the landowner
  - Security of tenure, investment return for lessee
- **Restructuring Relief:**
  - Fragmented Farms – Consolidation of holdings, improved viability

Registered Farm Partnerships

A registered farm partnership is essentially a profit sharing arrangement between two or more farmers that is either registered with the Dairy Partnership Registration Office or will be registered on the new Register of Farm Partnerships from 2015 onwards. Milk production partnerships (MPP's) are coming to an end in line with the abolition of milk quota on the 31st of March 2015. However, this does not sound the death knell for the partnership model. The Department of Agriculture, Food and the Marine will operate a new register of farm partnerships from the 1st of January 2015 and this new register will also facilitate all existing milk production partnerships while also being open to new partnership applications. Therefore, Registered Farm Partnerships will continue to operate in two ways, providing a significant contribution to the structures of Irish farming.

Firstly, in the context of the family farm, they have proven through milk production partnerships, to be an excellent transition arrangement, before full succession.

Secondly, in the context of non-family situations, where two or more farmers wish to combine their respective farming operations into one single operation and they each take a share of the profits. In a situation where a partnership has been set up between at least two active partners, the partnership model also allows for the inclusion of non-active partners who wish to make an equity contribution in the form of land or capital.

Registered Farm Partnerships – Family Situations

Transferring the family farm to the next generation can be a difficult process with many questions and concerns that need to be addressed. It is often complex and therefore needs early and careful planning. A registered family partnership is the first step to consider as part of this planning process. In many cases, parents are not in a position to transfer the farm to a son or daughter that has returned home after completing their agricultural education. There are genuine reasons for this and they are often based around concerns such as: family farm income, security for the parents and other family members who 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 succession. There are very strong advantages to forming a partnership for both the parents and the young son or daughter.

Benefits to parents

In a registered partnership, the parents are not giving up control of the farm; they are sharing it with their son or daughter. They retain ownership assets such as land, buildings, quotas and entitlements. These assets are licensed for use by the partnership but only for the duration of the partnership. Assets such as stock and machinery are transferred to the partnership and as a result, they become partnership assets. This structure gives security and reassurance to parents that they are not handing over the farm through a partnership. A partnership gives the parents the opportunity to see how their son or daughter will get on, while working on the farm with shared decision making and management. It also allows the parents to have a “guiding hand” and share their experience and knowledge with their future successor. A profit sharing ratio is agreed between the parents and the son or daughter. It is entirely up to the family to decide what is equitable and fair in their own situation. At the

beginning of the partnership arrangement, the parents generally receive the larger share of the profits to meet with family and financial commitments. As the years go on, this changes by agreement in favour of the son or daughter as they assume more control and take on more responsibility for the farming business.

Benefits to the young farmer

Being a partner in an arrangement where daily duties and management is shared between the parents and a son or daughter is of great benefit to the next generation in the development of their farming career. The key benefit of partnership to the son or daughter is that they have a real input into decision making and the management of the farm. Psychologically, this is very important for the young person in their development as a farmer. The partnership also allows them to put the knowledge and experience that they have gained from their agricultural education into practice on the home farm. It allows them to express themselves and show their ability to their parents. It also increases their confidence and farming ability and gives them experience of running the farm as a business. It helps to make the connection between the outdoor work with the strategic and financial management of the farm. Responsibilities are shared on an agreed basis through the on-farm agreement and a profit share for both the parents and the son or daughter is also agreed as above. This ensures that both parties have a vested interest in the farm business.

Registered Farm Partnership – Non-family

There are a number of key benefits to farmers who farm through partnership. In the context of Food Harvest 2020 and expansion in dairy output, registered farm partnerships can play a significant role.

Partnership with other farmer(s) may offer the opportunity for increased scale but more importantly can offer increased scale in a sustainable way. This involves a number of factors such as: making use of the existing facilities on farm which may reduce the level of capital expenditure; a wider skills mix; greater labour availability and greater labour efficiency.

A key strength of registered partnerships is that it facilitates expansion without having a negative impact on lifestyle. In actual fact, partnership has been shown (through the milk production partnership model) to improve lifestyle on dairy farms even in the absence of expansion through a fair and even distribution of workload between the partners. The real reward for a good work structure is the ability to have a good lifestyle with adequate time for

family and other personal interests. A shared and structured workload creates the flexibility to be able to plan your time off for family events such as holidays. There is also the peace of mind of knowing that the person who is running the farm while you are away is doing so as if you were doing the job yourself. They have as much of a vested interest in the efficient running of the business as you do.

When two or more people come together in a partnership, they each bring a set of skills and knowledge base with them. This means that there is often a better and broader range of knowledge and skills available to the partnership business. These can include husbandry skills, financial management skills, computer skills, machinery expertise, farm buildings expertise amongst others. It generates an ability to make better and more informed decisions on a wider range of subject areas. Discussion among partners often generates better decision making as things are teased out and explored better in this process. In a family situation the partnership can provide the platform to blend the experience of the parents with the youthful enthusiasm and modern thinking of the future successor.

Incentives for the formation of registered farm partnerships

There are a number of incentives in place to encourage individual farmers and farm families to consider partnerships going forward as an interim step to full succession. These are related to grant schemes, the basic payment scheme and taxation benefits.

On-Farm Investment Schemes

Under the present on-farm investment schemes, registered partnerships may receive a number of benefits. Registered partnerships may qualify for a doubling of the grant investment ceiling where there are two partners in the partnership. A young trained farmer who is less than five years farming and under forty years of age with the required level 6 in agricultural education may qualify for a 60% grant in the new on-farm investment scheme (TAMS II) on qualifying farm investment. Other registered partnerships that do not involve a young trained farmer may also qualify for a doubling of the investment ceiling at the 40% grant rate on qualifying farm investment.

Basic Payment Scheme

Under the new basic payment scheme, there is a 25% top-up for young farmers under 40 years of age and who have set-up farming in their own right in the previous 5 years. The payment is made for a maximum of 5 years. Young trained farmers in partnership with their parents may qualify for this top-up on the number of eligible hectares declared each year subject to a maximum of 50 hectares. This 25 % top-up is based on the national average payments and equates to approximately €60 per hectare. This gives a potential of €3,000 per year for 5 years where the maximum of 50 hectares applies.

Taxation Benefits

Stock relief is a pre-tax adjustment to farm profits and can be of great value where stock numbers are increasing on the farm. It is a relief on the uplift in stock values between the opening and closing inventories and is subject to an overall limit of €70,000. The current normal rate for farmers is 25%. Young trained farmers are eligible for 100% stock relief in the first four years after initial set up. A registered partnership allows a young trained farmer to avail of 100 % stock relief for the first four years after the partnership is set up. In addition to this, and enhanced stock relief may be claimed by the other partners in a registered partnership at the rate of 50%. If a son or daughter comes home and works on the home farm as an employee, they cannot avail of stock relief unless they set up on their own.

Where a family goes into a registered partnership, the profit is split between the parents and the son or daughter. This can result in a net tax gain for the family as it maximises the income declared at the lower rate of tax. Both the parents and the son or daughter make separate tax returns and therefore the tax limits apply separately. Due to the profit share with the son or daughter, the parents are not declaring as much profit in the high tax bracket.

Requirements for Successful Partnerships

In order for partnership to work effectively, both parties must clearly understand and be committed to the concept of partnership. The arrangement must be to the benefit of all the parties involved. There cannot be one dominant partner who makes all the decisions. Both parties must have an input into the management of the farm on a daily basis. That is the essence of a good partnership. To achieve this, a lot of preparation work is required by the potential partners and it is during this period that they get to know one another and trust begins to build as they decide that a partnership is what they want. Trust builds continually

even after the partnership begins in the way that each partner conducts themselves. Both parties must be willing to work side by side on a daily and weekly basis.

In preparing to form a partnership or any other collaborative arrangement, the bulk of the discussion will be between the parties involved. However, the process will also require the input of outside help in the form of professionals. The first person to engage with may be your Teagasc advisor or consultant to discuss the issues in relation to your current business, the potential for the partnership and areas such as the impact on scheme payments. Following on from that, each party involved will need to talk with their respective accountants and solicitors. All of these professional people will play a vital role in the bringing together and the formation of the partnership. But, this process must be driven by the farmers themselves and at a pace that they are happy to progress it at.

Forming a farm partnership

There are a number of key requirements when forming a partnership that must be included.

- The partnership agreement. A specimen partnership agreement is available from Teagasc to help with the writing up of the agreement.
- Creation of a partnership bank account in the names of the all partners and through which all the partnership business transactions will take place.
- Legal proof of all lands farmed. This includes folios and filed plans for owned land and a copy of the current lease for any leased land.

Contract Dairy Heifer Rearing

If a dairy farmer wishes to retire from dairy farming, contract rearing of dairy heifers can provide an ideal opportunity to use the skills of rearing replacement dairy heifers in collaboration with another dairy farmer. Contract rearing is an alternative to the traditional beef enterprises such as dry cattle or suckling systems that many retiring dairy farmers fall back into. It may also provide an opportunity for drystock farmers to change to an alternative enterprise with the potential for more profit.

For contract rearing to be successful, it is critical that the rearer gets paid adequately to cover direct costs and make a margin on the enterprise to cover their labour input. The advantages

to the rearer are that cash flow is more favourable as payment is generally paid by direct debit on a monthly basis. Another advantage to the rearer is that there is no money tied up in stock, as ownership does not transfer to the rearer. Essentially the rearing period can be broken down into five stages:

- Calf Rearing
- First Grazing Season
- First Winter
- Second Grazing Season
- Second Winter

The various rearing periods need to be borne in mind when calculating and agreeing a rate of payment between the parties. Rearing the calves to twelve weeks of age and keeping the animals over the winter periods are the most expensive rearing stages in terms of cost and they also require a high labour input. The grazing seasons are by far the least expensive and require less labour. In setting up these arrangements the parties need to agree the start date and finish of the term of rearing. If this is to be extended, then the payment rate needs to be increased, especially where this leads further into the second winter when the heifers are approaching eighty per cent of maturity. Each party should draw up a budget to plan their own finances. A recording system to must be used to monitor costs as the year goes on. This can be done very simply by using a written system or through computers using programmes such as the Teagasc Cost Control Planner. Agreement must be reached at the start on which costs are to be incurred by each party. This will determine the rate of payment per head per day.

The priority for the rearer is to cover costs and get adequately paid for his or her labour, but this comes with responsibilities. The heifers must reach their targets weights (see Table 1) at housing after the first grazing season, at mating and approaching calving after the second grazing season.

Table 1. Target weights for pure bred and crossbred Replacement Heifers at different stages during the 24 month rearing period.

	Month	% Mature liveweight	Holstein Friesian	New Zealand / Br. Friesian	Jersey X Holstein Fr.
Birth	February		41	38	34
6 Weeks	March		63	56	56
3 Months	April		90	80	80
6 Months	July	**30%**	**155**	**148**	**138**
8 Months	September		175	170	160

9 Months	October	40%	220	210	196
12 Months	February		280	267	250
15 Months	March	**60%**	**330**	**315**	**295**
19 Months	September		450	425	390
21 Months	November		490	470	437
24 Months (pre-calving)	February	**90%**	**550**	**525**	**490**

Achieving these weight targets along with getting the heifers in calf are the dairy farmers' priority. The rearer also needs to be aware of the age spread and the average starting weight for the group of heifers and have realistic expectations for weight gain during the rearing period. Regular weighing of heifers is a recommended practice to monitor the progress of the group during the agreed rearing period.

Good communication and trust are essential to the success of contract rearing or any other collaborative arrangement. The parties involved should be in regular contact to discuss the progress of the heifers and make key decisions on issues such as breeding and health.

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Share Farming

The key distinguishing feature of share farming from a partnership is that two completely separate farming businesses operate on one area of land. The concept remains the same across all enterprises. In a share farming agreement, the farm produce (grain, beef or milk) is sold and each person gets an agreed proportion of the sale proceeds. In addition to this, each person in the agreement pays a proportion of the variable costs such as feed, fertiliser, veterinary. Some of the fixed costs may also be divided such as machinery running. For all the people involved, the starting point for this venture is a financial budget to cover potential income and expenditure from the enterprise. The share farmer generally provides all the labour and in some cases, the machinery. The land owner provides the land and the facilities required by the enterprise to be carried out.

The current Irish share farming model was developed to accommodate share farming in tillage and beef enterprises. It is growing in popularity in the tillage sector where it gives security to both the landowner and the share farmer. With the abolition of milk quotas on the 31st of March 2015, a dairy share farming model can now be developed for dairy farming. A specimen agreement is available from Teagasc and a budgeting tool will also be available to help interested farmers to carry out a cash flow budget for the enterprise.

Benefits to Landowners

Share farming provides an opportunity for older farmers who want to continue farming and do not want to retire. They may or may not have family or a successor to the farm. Through share farming, they can enter into an arrangement with a younger person to share the workload, income and costs of production. It is an opportunity for the landowner to get involved in a business arrangement with a young motivated person who will bring attributes that can include new skills, a strong work ethic, modern technology and a desire to develop a profitable enterprise. This comes about as share farming by its nature, means that both parties have a vested interest. Therefore, in this type if arrangement the physical and financial performance of the farm increases rather than winding down.

Benefits to Share Farmers

Share farming opens up the agricultural industry to new talented people who choose to have a career in farming. For the share farmer, this type of arrangement provides a career opportunity or a ladder of entry into farming. It allows a young person to build their own independent business and with the potential to grow their own income from farming. It provides an opportunity to reward ability and efficiency. This in turn provides motivation to the share farmer and will benefit both parties in a successful agreement. When compared to being an employee on a farm, share farming is more tax efficient as the share farmer can benefit from the various income tax measures, for example stock relief, that apply to sole traders.

The share farmer must be a highly motivated individual, with a clear understanding of what this arrangement can deliver for them. This must be supported by a credible business plan, not for the entire farm but for the share farmer's side of the business. In order them to build a business in a tax efficient way they must prioritise the investment of any surplus profit in stock while also having a reasonable and acceptable standard of living.

Long-term Land Leasing

In recent years, the Ministers for Agriculture and Finance have introduced strong tax incentives to encourage long–term land leasing (at least 5 years) as opposed to short-term the 11 month rental system These measures were further strengthened in 2015 Budget and Finance Bill as follows:

- Increased tax-free thresholds
- Removal of 1 % stamp duty
- Confirming that both the annual rent and the SPS entitlement value can be rolled into together
- Ltd. Companies can now qualify the lessor for the tax incentives
- Removal of the 40 year age limit

Benefits to Lessor

The key benefit to the lessor is that the income received from a long-term land lease and the value of any single payment entitlements is income tax free subject to the limits set out in Table 1.

Table 1: Tax Incentives for Long-term Land Leasing			
2014		**2015**	
Term of Lease	Max Tax free Income/year	Term of Lease	Max Tax free Income/year
5-7 yrs	€12,000	5-7 yrs	€18,000
7-10yrs	€15,000	7-10yrs	€22,500
>10 yrs	€20,000	10-15 yrs	€30,000
		>15 yrs	€40,000

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 of sell on the open market. Land may be leased for up to 25 years. 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.

Benefits to Lessee

The key benefit to the lessee is that the long-term lease provides security of tenure. This allows the lessee to plan the farm business with more certainty. For example, a long-term lease may increase the size of the grazing platform and thereby facilitate expansion of the herd (provided the farmer has a good level of efficiency in the business). To do this on a short-term rental involves a higher level of risk as the use of the land is uncertain.

The extended term of lease allowable under the new provisions mean that the lessee can look at investment in the land in a new light. There can be better financial justification for any investment carried out with long-term lease which can be up to 25 years.

Another benefit to the lessee is the inclusion of farmers operating through limited companies to qualify the lessor for the increased tax incentives. This may have been a disincentive to land owners wishing to lease out land.

Restructuring Relief

Restructuring relief is a capital gains tax relief to encourage farmers with fragmented farms to consolidate their holdings. Farm restructuring relief is the sale and purchase of qualifying lands. It should be seriously considered by farmers in areas of the country where farm fragmentation is an issue. It may involve a collaborative effort by a number of farmers to make it work. Essentially it allows parcels of land to be exchanged between farmers to reduce the number of fragmentations by each farmer and potentially increase the size of the grazing platform, depending on the circumstances.

It 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 1 January 2013 and 31 December 2016.

The interaction between the sale and the purchase together must result in the overall reduction in the distance between parcels of land making up the farm, including leased parcels that have been leased for at least 2 years with a minimum of 5 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.

The scheme has been extended in the budget 2015 to include the disposal of an entire farm and its replacement with another farm subject to meeting the original criteria of the scheme in relation to a reduction in the fragmentation of the farm and an improvement in the operation and viability of the consolidated farm.