Irish Cooperative Organisation Society

Mr. Charlie McConalogue TD
Minister of Agriculture, Food and the Marine
Department of Agriculture, Food and the Marine
Agriculture House
Kildare Street
Dublin 2

20th of September 2020

ICOS Priorities for Budget 2022

Dear Minister,

I am writing to outline the key priorities for Budget 2022 on behalf of the Irish Co-operative Organisation Society Ltd (ICOS).

As you will know, ICOS is the umbrella body for the Irish co-operative movement – representing farmer owned and controlled co-operative businesses including multi-purpose dairy processing and milk purchasing co-ops, livestock marts, breed and animal health societies and a range of rural based enterprises and services.

Over the past year and a half, the Government has dealt with the serious implications of the Covid-19 pandemic, and since the beginning of this year, the roll out of the national vaccination programme, which has been a remarkable success and provides confidence that a greater sense of normality will return to our daily lives.

Post pandemic there are many competing challenges facing the economy and our society including housing, healthcare and education. Equally, agriculture will require appropriate support through taxation and public expenditure from the Government under Budget 2022, due to the environmental sustainability challenges facing the sector.

The agri-food sector is a vital part of Ireland's domestic economy and supports balanced regional development. The agri-food sector is Ireland's largest indigenous exporting industry, contributing 6.7% (€14.4bn) of Modified Gross National Income and accounting for 9.5% of all merchandise exports in 2019. The agri-food sector also makes a significant contribution to employment across rural and coastal areas, accounting for 7.1% of total employment or some 164,400 jobs in 2019.

The introduction of the Government's Climate Action Bill represents a significant challenge for all sectors of the economy, especially agriculture which accounts for over one third of Ireland's national greenhouse gas emissions. In addition, the renegotiation of Ireland's derogation from the Nitrates Directive and the proposed new measures outlined in the second stage consultation paper will require significant new supports at farm level for slurry storage and Low Emission Slurry Spreading Equipment (LESS).

The agri-food sector has responded and is well placed to address the sustainability challenges facing agriculture. The sector has developed a number of sustainability programmes such as the internationally recognised, Origin Green sustainability programmes, the Teagasc Signpost Farm Initiative and the Agricultural Sustainability Support and Advisory Programme by way of example.

The agri-food sector recently agreed a comprehensive plan for the next decade - Food Vision 2030, which will chart the future direction of the sector based on the principles of environmental, economic and social sustainability. However, greater supports will be needed for the sector including industry and Government related supports in the area of sustainability to ensure compliance with our responsibilities related to climate change, water quality, air quality and biodiversity. The completion of Ireland's CAP Strategic Plan will also play a central role in shaping the future of agriculture and protecting the family farm model.

ICOS believes that Budget 2022 is a vital opportunity to support farmers and their co-operatives along the journey of sustainability – economic, social and environment. ICOS would like the highlight the following measures, if implemented in Budget 2022 we believe would support the agri-food sector, farm families and rural communities:

- **Accelerated Capital Allowances for Slurry Storage & LESS Equipment:**

Currently there is a capital allowance available at 12.5% p.a. over 8 years for agricultural equipment generally. The capital allowances are made over a 7-year period to a farmer who incurs capital expenditure on the construction of farm buildings. The expenditure must be incurred by the farmer for the trade of farming land occupied by the farmer. The 7-year writing-down period begins with the chargeable period related to the expenditure. The rate of the allowance is 15% of the capital expenditure for each of the first six years of the 7-year period with the 10% balance allowed in the final year. Only net expenditure qualifies for farm buildings allowances – any State or other subsidy is excluded.

There is also a new accelerated capital allowances for farm safety equipment (Introduced in Finance Bill 2020). The accelerated capital allowances of 50% p.a. over two years for certain eligible equipment. This eligible equipment includes, for example, chemical storage cabinets and anti-backing gates, as well as adaptive equipment to assist farmers with disabilities.

The current supports available for farm equipment, buildings and farm safety are welcome. However, given the challenges related to water quality and the proposed measures contained in the draft Nitrates Action Plan, we believe that the introduction of accelerated capital allowances over a two-year period should be introduced for LESS Equipment and new investments in slurry storage and soiled water capacity.

- **Slurry Storage Capital Investment Package:**

We equally believe that the on-farm capital investment scheme (TAMS II) should be reviewed to include a new investment ceiling for slurry storage under the new CAP, which is currently provided for LESS equipment. This will further incentivise farmers to invest in their slurry storage and soiled water capacity, while enabling additional investment in new technologies and infrastructure under the €80,000 ceiling that will improve the economic and social sustainability of family farms.

The ICOS submission to the Nitrates Action Plan Consultation outlines a number of measures we believe are needed to support investment in slurry storage capacity. These include the following:

- 60% grant aid for all farmers investing in slurry storage/soiled water.
- Grant aid permitted for farmers currently non-compliant using national funding, subject to 20% safety net.
- The introduction of a new tax relief measure, similar to the benefits provided by Stock Relief for slurry storage/soiled water investments.
- Plus, the two measures we have particularly highlighted in this submission; Slurry storage and soiled water investments should be allocated outside the €80,000 investment ceiling.
- And, accelerated capital allowances through taxation for slurry storage and soiled water investments.

- **Milk Recording Capital Investment Support:**

ICOS together with the Milk Recording Organisations have made a detailed submission to the Department of Agriculture, Food and the Marine following the establishment of a working group with industry and DAFM participation. The submission calls for capital investment support to enable the upscaling of milk recording services. Without State support, the industry will not be in a position to meet the increased demand for milk recording services. The upscaling of milk recording is critical to the sustainability of the national dairy herd, animal health and responsible use of antibiotics. The provision of support by DAFM will complement the objectives of Food Vision 2030, Ag Climatise and the One Health Approach under Ireland's national action plan for antimicrobial resistance (iNAP).

- **ICOS "5-5-5" Income Stabilisation Tool:**

The Programme for Government "Our Shared Future" commits the Government to consider further taxation measures to manage evolving issues such as market volatility and this objective is repeated in the Food Wise 2030 Report.

Over recent years, ICOS has strongly called on the Government to introduce a new strategic risk management tool for primary producers especially sole traders. The measure proposed by ICOS, would be made available to enable a farmer to use periods when market returns are higher to create a modest "rainy-day" fund, to support them during periods when market returns are weaker. The measure will permit a farmer to voluntarily defer up to 5% of their gross receipts in any one year. The deferred funds can be drawn down at any time within 5 years and subject to income tax at the time of draw down, but in any case, must be drawn down within 5 years.

A joint economic study by Teagasc, CIT and UCC, has stated that the proposed measure has the potential to significantly reduce the volatility of after-tax household disposable income and support farm investment, without greatly affecting the overall tax contribution. This measure will benefit farm businesses that remain as sole traders as opposed to incorporation, and will directly serve to protect the family farm model, which is a key goal of the Food Vision 2030 Report.

We ask the Department of Agriculture to continue its support for such a measure and appeal to the Department of Finance to consider the proposal in the context of delivering economic sustainability for farm families affected by global volatility.

- **Share Standard – Transfer of Agricultural Property**

ICOS calls on the Minister for Finance to amend the legislation to classify co-operative shares as qualifying assets for the purpose of calculating the CAT agricultural relief ("agricultural property") and CGT Retirement Relief ("qualifying assets") on the transfer of the agricultural property. In addition, ICOS proposes that co-operative share be made eligible for appropriate capital allowances similar to that for "Milk Quota" in the past. The co-operative share has become in many instances a requisite asset to sell milk, comparable to the previous obligation to hold a Milk Quota certificate. Accordingly, it is appropriate what where the holding of a certain number of Co-operative shares is a condition of a Milk Supply Agreement (MSA), or terms of supply, or a requirement of the co-operative's Rulebook, that number of shares should be classified as qualifying assets for the purpose of agricultural and retirement relief. In addition, the capital expenditure incurred on the purchase of the qualifying shares should be eligible for capital allowances. Milk Quota qualified for capital allowances, the cost was written off over a 7-year period, at a rate of 15% per annum over 6 years and 10 per cent in year 7. ICOS would propose similar treatment for the qualifying shares. In summary, ICOS calls for the inclusion of qualifying co-operative shares to be classified as qualifying assets for the purpose of calculating CAT agricultural relief and CGT retirement relief. In addition, the qualifying shares to be eligible for appropriate capital allowances. We look forward to discussing these proposals with you in more detail.

Yours sincerely,

Jerry Long

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President

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ANNEX 1: ICOS "5-5-5" INCOME STABILISATION MEASURE – PROPOSED BROAD CONCEPTS

ICOS proposes that the income stabilisation measure would operate based on the following broad concepts:

1. A milk, grain or livestock supplier can enter into a voluntary agreement with their co-operative (or approved purchaser of primary agricultural produce) to defer up to 5% of their gross annual income in order to stabilise their annual farm income.
2. The deferred income shall not exceed 5% of annual gross receipts.
3. The deferred income can be drawn down at any time, with the provision of a reasonable notice period, and subject to income tax at the time of draw down.
4. The maximum period that the deferred income can be retained in the scheme is 5 years from the date the deferred income is introduced to the scheme (the scheme will operate on a 5-year rolling, first in-first out basis).
5. The scheme is flexible and can operate with or without income averaging.
6. The accumulated or combined funds will be retained in a bank account kept for the specific purpose of the scheme.
7. As part of the annual audit, the auditor would verify the bank balance and ensure it reconciles to the deferred creditor account.
8. As a Revenue approved scheme, the funds must be protected and secure.
9. In a scenario where a farmer is not trading with a co-operative or where co-operatives are not active in that production sector, so as not to disadvantage farmers, it is appropriate that an alternative model should be provided through financial institutions.
10. EU state aid rules would apply with respect to the interest value of any deferred taxation associated with income deferral. ICOS, having examined the matter, is quite satisfied that the sums involved are extremely modest and should comfortably come under the De-Minimis threshold.