



FACILITATING LAND MOBILITY AND SUCCESSION IN IRISH AGRICULTURE

Discussion Paper

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Executive Summary

Facilitating land mobility and succession in Irish agriculture was the focus of a recent seminar and discussion forum organised by the RDS and Teagasc. A range of issues were discussed including: structure of Irish farming; incomes; diversification; succession process; information and advice; succession risks; encouraging land mobility; and policy measures.

Despite the expansion in dairying, overall there has been little improvement in the age structure in farming. While farming has appeal as a potential career for some young people, many factors deter them including: incomes; lack of opportunities; level of investment required; return available; long hours; and poor quality of life. Many older farmers do not give adequate consideration to stepping back from farming. The lack of new blood entering farming has potential consequences for the wider industry and a range of policy solutions should be considered to encourage generational renewal.

Farm income impacts on the: appeal of farming to young farmers; ability to support two families; ability to meet elder care needs; ability to build up savings for old age; and making financial contributions to other family members. Diversified farm enterprises may potentially provide an opportunity to bridge the farm income gap by boosting the income of either (or both) the younger or older members of a farm family. Diversification has often been dismissed as a hobby but needs to be considered as a real option providing a potential solution to the income problem.

Succession/land mobility is sensitive as it involves a significant change in farm practices, farming dynamic and status. It is often considered as something which can be promptly addressed in the distant future when required. There are many fears and concerns about transferring the farm business between the generations both within and without farm families. The reality is that it takes time and thought to consider the implications and consequences of different options.

Farm families are eager for information and advice on succession/land mobility. The discussion group model was suggested as worthwhile to encourage farm families to consider succession issues. The concept of farm development/succession teams is also worthy of consideration to improve the effectiveness of information and advice provision to farm families.

The main concerns of landowners who are considering stepping back from farming or considering their options include: EU payments; suitable collaborators; care of the farm; stepping back/retiring process; independent facilitation/support during the process; income and tax concerns; and impact on future succession/transition. To be successful, arrangements between farmers must be appropriate, sustainable and fair for all involved.

A renewed focus on succession and land mobility is required to encourage older farmers to consider stepping back and younger people to enter farming. Information, advice and guidance are critically important for farm families to support decision making on succession/land mobility. Policies and supporting measures are required to encourage older and younger farmers in land mobility and inter-generational transition.

Introduction

The slow pace of land mobility, challenges of succession and generational renewal are not new issues in Irish agriculture but they continue to warrant attention and require policy and other supporting measures to encourage and facilitate the transition between those who currently farm and those who want to farm the Irish land. There is an ongoing focus on land mobility issues in Irish and European research, by advisory services, farm organisations and other interested stakeholders. In order to further the discussion and debate on land mobility, the RDS Committee of Agriculture and Rural Affairs and Teagasc recently organised a seminar/working forum¹ to review recent research and to discuss possible actions which could encourage land mobility and generational renewal. This article explores some of the issues raised by speakers and discussed in the round table discussions. Some of the key issues include: the changing structure of Irish farming; farm income; diversification; the succession process; provision of information and advice; succession risks; encouraging & facilitating land mobility; and policy drivers/incentives.

Changing Structure of Irish Farming

The expansion in dairying since the removal of milk quotas has created a false perception that Irish farming has seen a considerable influx of young farmers. While there have been new entrants to dairying, many of these were already farming. Therefore, there has not been an improvement in the age structure in farming. Generally, with the exception of dairying, tillage and the most efficient farms in other sectors, the income prospects on the majority of Irish farms are limited and would not encourage a young person to consider entering farming.

The main deterrents to young people entering farming include: variable and volatile incomes; lack of opportunities in some enterprises; scale of investment; return available from enterprises; long hours and quality of life. Long term leasing has increased the availability of land for young farmers considering entry into farming but not all enterprises are delivering sufficient income to cover the rental costs.

Sean Bell, Department of Agriculture, Food and the Marine highlighted that the Agri-Tax Review (2014) suggested that there is a *'growing consensus that the actual use of land is becoming more of an issue than ownership'*. In the past access was primarily by way of ownership whereas now, long term leases and collaborative arrangements provide greater opportunities to access land without owning it and in turn more options for young people.

Older farmers typically do not give adequate consideration to planning for stepping back from the farm business or actively involving younger farmers in the farm business. Farmers are generally not familiar with the concept of *retirement*. Unlike in other careers, there has not traditionally been a definite date when farmers step back from active farming. It was suggested that the term *'retirement'* has negative connotations for farmers. Some of which may be related to the fact that farming provides a level of social standing and there is a fear

¹ The speakers included: Professor Janet Dwyer, University of Gloucestershire; Dr Brian Leonard, RDS-Teagasc Walsh Fellow; Dr Jason Loughrey, Teagasc; Mr Austin Finn, Macra na Feirme; Mr Tom Curran, Teagasc; and Mr Sean Bell, Department of Agriculture, Food and the Marine. The event was attended by a cross section of industry stakeholders.

that if they are not actively farming, then they effectively do not have a status in the community.

Succession is often considered as a problem/challenge for individual farm families but it is also a challenge for the wider industry. Tom Curran, Teagasc highlighted that the agricultural industry can lose out due to a period of development lag on individual farms when there's a lack of decision, indecision or uncertainty about the future. Farms can stagnate due to a lack of long-term planning, which may last for a period until a decision is made or new blood enters the business or it can spiral into a longer period of decline in investment and economic activity.

Professor Janet Dwyer highlighted that while there is concern about the age structure in European farming, it is no different to many other parts of the world. When compared to the USA, South Korea and Japan, the average age of EU farmers is actually younger than these countries. She highlighted that the three biggest challenges for generational renewal are access to land, capital and knowledge. She suggested that different policy solutions may be required in productive and marginal farming areas to facilitate and encourage generational renewal (what works in a good farming area may not work as well in marginal farming areas).

Farm Income

Farm income impacts on land mobility/succession in many ways including: appeal of farming to young farmers and a career option; ability to provide for two families (even for a transitional period); ability to meet the care needs of the older generation; ability to allow older generation to build up savings for old age; and the possibility of making financial contributions to other family members (non-successor/farm inheritors). These challenges are both real and perceived.

Much of the discussion around income relates to how it can inhibit/deter or delay land mobility/succession. However, income can also drive farmers to consider stepping back from their current level of activity. Currently, there is no financial incentive or benefit for a farmer to consider stepping back or engaging a younger person in the farm business. There is, however, taxation benefits if a farmer enters into a long term lease arrangement. It is accepted that there are incentives in policy measures which favour younger farmers but these are generally not considered as impacting on the older generation.

On-farm efficiency, planning for succession (well in advance) and off-farm/diversified activities can help to address the farm income challenge. An element of the long term planning could be the building of a savings fund (where farm income is sufficient to do so) to provide resources during the succession/transition/retirement phase.

Diversification

Diversified farm enterprises were suggested as possibly providing an opportunity to bridge the farm income gap. Such enterprises could boost the income of younger farmers or may provide potential for the older generation to step back from the main farm enterprises while maintaining an independent source of income. The traditional farm household economic

model was one of a range of farm enterprises including cows, pigs, sheep, vegetables, crops and poultry. This model was based on self-sufficiency (providing for the needs of the family) and on diversified economic activities which provided for a more stable income. The strive towards specialisation in farming has led to a move away from diversified activities.

The perception of diversified enterprises in the past has often been as '*alternative*' or '*hobby*' farm enterprises. This perception serves to discourage farm families from considering new enterprises and to focus on the core enterprises. However, many of the core traditional enterprises do not provide lucrative economic returns. In the absence of other sources of income, the majority of beef farms are unviable and unattractive for young people.

Diversified farm enterprise should be seen as essential enterprises which complement the core enterprises and are important income sources whether long-term or temporary (during a period of transition within the farm family). Diversification should be promoted to farm families as a mechanism for facilitating generational transition and boosting overall farm household income. Potential new entrants into farming should as part of their education/training receive information and guidance on self-employment, enterprise development, innovation and marketing. In the past, specific enterprises have been promoted to farm families as providing an opportunity for them to boost their incomes (e.g. deer, ostriches etc). However, a more worthwhile approach may be to focus on the skills and interests of the family and seek to identify potential enterprises suited to the farm family and with investment/capital requirements which match the resources available within the family. Farm families need support and encouragement to explore, identify and establish suitable diversified enterprises on the farm.

Succession Process

Succession/land mobility is sensitive and challenging for any farmer/farm family as it ultimately involves a significant change in farm practices, farming dynamic, own sense of being, loss of social identity or status. A difficulty encountered in encouraging farmers to plan for succession/land mobility is that farmers often consider it as a task to be addressed at a particular point in time (distant future). There is also a perception that making decisions and implementing changes is something that can be successfully completed in a short period. This will only be the case where the farmer has given the future of the farm ongoing consideration over a long period of time. While succession issues can arise abruptly and need prompt decisions such as in the case of illness, accidents or sudden death, in the majority of situations it can be planned and prepared for over a long number of years. However, this is predicated on the family actually discussing and preparing for succession whether it occurs within the farm family or externally. Typically, when farm families think about succession, they think about transfer of assets and control of finances. However, Tom Curran, Teagasc suggests that other key elements to succession include the transfer of practical farming skills, knowledge, values/attitudes, responsibility and decision making.

Succession Risks

Succession is often perceived as a risky time for the farm business as it transitions between the generations whether permanent (e.g. transfer) or temporary (e.g. leasing). However, the biggest risk to the long-term future of the farm business and the wider Agri industry is when succession does not actually occur. Dr Brian Leonard, Teagasc/RDS explored the issues of risk and perceived risk on land mobility and succession. While tax is commonly cited by farmers and others as inhibiting succession/land mobility, Brian's research demonstrated that the average farm in Ireland is typically unduly burdened by land transfer taxes (when transferring to young trained farmer) due to the availability of exemptions and reliefs. He concluded that taxation is a sensationalised succession risk which relates to a lack of knowledge and a heightened risk perception in the media. A lack of planning for succession results in farm families not being fully aware and inadequately prepared for farm transfer/land mobility taxes. Therefore, possibly the lack of preparation and planning for transfer taxes is more of a problem than the actual taxes.

Provision of Information & Advice

Teagasc is one of the main organisations which facilitates ongoing information events on succession/land mobility. However, there continues to be a hunger among farmers for information and guidance. Possibly, the real issue is the fact that many farm families are aware of the challenges, realise that the future of the farm needs to be addressed but do not take the necessary action or postpone it to a future date. Discussion groups are a successful model of achieving knowledge transfer between farmers and advisors and others. The focus of discussion groups is typically on farm management practices and efficiency/profitability. Discussion groups may be a useful mechanism to explore the options for diversification and land mobility/succession.

There is also the opportunity within existing enterprise (dairy, beef, sheep, tillage) discussion groups to place a focus on land mobility/succession issues on an occasional basis. Discussion groups could be encouraged to engage in a minimum of one session per year on land mobility/succession issues (this could involve inviting professionals to provide advice, focusing on the issues on a specific farm, farm visit or other). The benefit of this approach would be informed decision making but also increasing the awareness of the need to plan in advance of land mobility/succession. Similarly discussion groups could be used as a sounding board for brainstorming on opportunities in new enterprises (where individuals are willing to share possible ideas).

Specific succession discussion groups could also be established which focus on exploring the issues around succession and farmers supporting each other in working through the challenges with expert advice and support provided by Teagasc and others (e.g. solicitors, accountants, financial institutions, mediators, advisors, consultants). Broad approaches could be explored and ideas shared between wider groups of farming peers in a group approach. Individual and specific information, advice and guidance can be provided directly to individual farmers. It is accepted that this group approach would not appeal to everyone but it should have appeal to many of those who are already familiar and comfortable with the discussion group model.

In recent years, Teagasc has proposed the concept of farm development/succession teams (advisor/consultant, accountant, solicitor etc). Such teams currently operate in Canada and they meet on farm to explore, discuss and plan for the critical issues relating to farm succession (whether in-family by way of transfer, lease or collaboration or outside family – sale, lease, collaboration). The benefit of the team approach is that all those supporting/advising the farm have an understanding of the issues affecting the farm family and allow for more effective and informed decision making.

The development of group processes and development/succession teams has the potential to assist farm families with the process of succession/land mobility but also to expose and inform farm families on the range of options available to them both for in-family and outside of the family succession. Once informed, farmers are in a better position to decide on the option which most suits their needs and circumstances.

Encouraging & Facilitating Land Mobility

Austin Finn, Land Mobility Service identified that the main concerns of landowners who are considering stepping back from farming or considering their options include: EU payments; availability of suitable collaborators; care of the farm; stepping back/retiring process; independent facilitation/support during the process; income and tax concerns; and impact on future farm succession/transition. Many of those in contact with the service typically have no farming successor or they have a farming successor but there are farm viability issues. In achieving successful land mobility outcomes, arrangements must be appropriate, sustainable and fair for all those involved. The completion of a successful arrangement does not end the process, farmers need support as the arrangements are implemented as the initial years of a new arrangement can often be the most difficult for the landowner to adjust to the new agreement and their changed engagement in farming.

Land mobility arrangements deliver both financial and social benefits for farmers and the agri industry. Financial benefits include: income and asset protection for landowners; facilitates non-farming or deferred succession; and leads to production and productivity increases. Social benefits include: providing opportunities for young and expanding farmers; and a more vibrant and productive farm and rural population. Evidence from Revenue indicates that the number of agricultural leases doubled between 2012 and 2016.

An interesting question was posed by Professor Janet Dwyer as to how best young people could be attracted into farming: should efforts be placed on specifically encouraging young people to enter farming/take over farm businesses? or on improving the general performance of farm businesses so that they are more profitable and more attractive to young people as viable enterprises?

Jason Loughrey, Teagasc identified that there is a two-tier land market – a dairy farm market and all other enterprise markets. The strength of the dairy farm market is driving the price of suitable land for leasing and purchase. Evidence suggests that a key sector emerging in the land market is *'those who have inherited land and don't want to farm it'*. This sector provides a key to land mobility as they are seeking options for the land which they have inherited.

Policy Incentives/Drivers

Much of the focus in land mobility initiatives have been on facilitating and encouraging the involvement and establishment of younger farmers. The older generation have control over farm assets and must be encouraged (and incentivised) to consider land mobility options. In developing and/or introducing policy measures, there is a need to support and encourage both the older and the younger farmers in tandem. Such policies would support and encourage older farmers to consider their options for land mobility and transition to the younger generation either permanently (transfer, sale) or temporarily (lease, collaborative arrangement). Linked measures should support the establishment of young farmers.

Professor Janet Dwyer suggested that a series of coordinated measures supported with advice could encourage generational renewal and improve rural viability. In addition to EU policy measures, she said that other measures such as those related to legal or tax issues also influence generational renewal.

Some of the policy incentives introduced in Ireland in recent years to encourage long-term leasing include: increasing the income threshold for relief; a new threshold for leases longer than 15 years; removing the lower age threshold for eligibility; and relieving stamp duty on long-term leases of agricultural land.

Concluding Comments

In order to achieve an improvement in the age structure of Irish farming, a renewed focus on both the older and younger generation of farmers is required. Older farmers need to be interested in stepping back from their current level of activity and younger people need to have the desire to enter farming as a career. Smooth intergenerational transition benefits individual farmers but also the wider industry. The capacity of the farm to deliver an income impacts on both the ability of older farmers to step back and on younger farmers to enter. Diversification of farm activities may be worth a renewed focus as an approach to addressing income challenges.

A common mistake made by farmers is to underestimate the time involved in planning and implementing generational transition whether within or without the farm family. The discussion group approach may be worth considering as a mechanism for facilitating discussion and channelling information to farmers. Advice and information could help to overcome much of the perceived risks relating to succession/land mobility. In order to encourage generational renewal, farms need to be profitable and young people need to have an interest in entering farming. Policies need to support and encourage both the older and young generations in tandem to encourage real change in the age profile of Irish agriculture.