Policy Drivers of Land Mobility in Irish Agriculture

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Paper prepared for presentation at the 150th EAAE Seminar

“The spatial dimension in analysing the linkages between agriculture, rural development and the environment”

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Policy Drivers of Land Mobility in Irish Agriculture

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Abstract

This paper compares financial returns deriving from a range of agricultural land use options in order to examine the effectiveness of agricultural land mobility policies in Ireland. Irish agriculture is characterised by a lack of land mobility despite a number of policy initiatives designed to address the problem, most notably tax exemptions on income derived from the long-term leasing of land. Using socio-economic data from the Teagasc National Farm Survey, a number of hypothetical farms are created using a microsimulation approach to compare incomes across farm systems and land use options. Tax and subsidy policies are applied to derive rates of return for the hypothetical farms under a variety of land use scenarios. The analysis finds that in numerous hypothetical scenarios, leasing out agricultural land on a long-term basis can prove more profitable for cattle and tillage farmers than farming the land. Only dairy farmers derive consistently higher disposable incomes from farming their land as opposed to leasing it out. However, despite these results, 66% of Irish agricultural land is used for cattle and tillage farming. Further work is required to determine the reasons why many Irish farmers prefer to farm land unprofitably rather than lease the land out at a profit.

Key Words: Land Use; Land Tenure; Tax; Subsidies; Microsimulation

JEL Code: Q15; H24; C63

1. Introduction

Land is a fundamental requirement for pastoral agricultural systems. Productivity gains in these forms of agriculture can be highly dependent upon the quality of the land or the facilities present on the land area. Substantial investment can be required to improve land quality or to construct new farm infrastructure. In order to derive an acceptable return on these investments, farmers need to be able to retain the use of their land for a reasonable period of time. Therefore, length of land access and well-functioning land markets are key issues for land mobility, incentivising agricultural investment and increasing productivity.

Institutional factors play an important role in determining rates of land mobility. The primary institutional factors of concern in this paper are tax and subsidies. Generally, tax policy affects land markets by imposing transaction costs during land transactions. Taxes on land transactions (purchase, sale or land rental) can affect land supply and demand, thus influencing the price of land (Ciaian et al., 2012a). Subsidies can be capitalised into agricultural land values or rents, distorting the price at which agricultural land can be accessed (Goodwin et al., 2005; O’Neill & Hanrahan, 2012). Subsidy policy can also influence land markets more subtly as farmers may avoid land markets for fear of forfeiting current or future subsidy entitlements (Raggi et al., 2011). Other institutional factors may also influence the demand and supply of land such as land market institutions (Attwood, 1965; Cianian et al., 2012b, 2012c), planning regulations (OECD, 2007) and credit market constraints (Blancard et al., 2006).
Socio-cultural drivers can also provide an important context to land mobility. In agrarian countries, land not only acts as the main means of generating a living but also as the primary channel to transfer wealth between generations (Deininger & Feder, 2001). Land owners’ attachment to the land can also affect land mobility, with cultural and social norms dictating how farmers acquire and dispose of land (Donnellan et al., 2008). Supply and demand of land is not determined solely by economic factors but also the social and cultural framework in which land exists (Robinson & Flora, 2003).

Rates of land mobility vary greatly from country to country. Ciaian et al. (2012d, 2012e) and Cianian, Kancs and Swinnen (2010) analyse land rental and sales markets in the European Union (EU). A large amount of variation in the amount of rented utilised agricultural area (UAA) is identified, with the share of rented land ranging from 17% in Romania to 89% in Slovakia. Land sales markets are typically thinner than rental markets, with less than 2% of UAA typically being sold every year in EU member states. Ciaian et al, (2012e) identify transaction costs and credit market imperfections as reasons why agricultural land sales markets are thin and sales prices do not necessarily evolve in concert with rental prices.

Previous studies addressing institutional factors affecting land markets have concentrated on the influence of agricultural subsidies on the purchase or rental price of agricultural land (Barnard et al., 1997; Killian et al., 2008). This study focuses on an alternative aspect of agricultural subsidies: how do institutional factors (including subsidies) drive the decision-making of farmers in regards to making land available? Since it is generally assumed that prices will adjust so that supply matches demand in land markets, most studies focus on how these prices are determined. However, a gap in the literature exists in terms of how institutional factors may act to prevent either supply or demand channels from functioning properly. Ireland is an example of how this may occur. Additionally, tax policy usually affects land markets as part of land sale/purchase through taxes on capital gains or stamp duty. This study focuses on how tax policy affects the land rental market. Ireland is unique in terms of encouraging the long-term leasing of land with income tax relief, making it a good case study in this area.

Irish agriculture is characterised by pastoral, grass based systems with a high land requirement (Geoghegan & O’Donoghue, 2014). With the removal of dairy quotas in the EU in 2015, a rapid expansion in dairy farming is expected (DAFF, 2010). This expansion of the dairy sector is predicted to lead to an increased demand for land (DAFF, 2011). As a result, agricultural land mobility is of increasing interest to Irish policymakers.

However, Ireland suffers from very low levels of agricultural land mobility with one of the lowest shares of rented land in the EU at 18% of utilised agricultural area (UAA) and land sales of less than 1% of UAA per year (Ciaian et al., 2010). Additionally, the main land rental channel is through the 11-month “conacre” system, which provides little security for farmers and is unsuitable to the long-term investments expanding dairy farmers are required to make.

This paper employs a microsimulation model using hypothetical data to look at how tax and subsidy policy affects land mobility in the Irish context. It is difficult to determine the direct impact of policy on farmer behaviour due to the complexity of tax and subsidy policy, as well as their overlapping nature. The microsimulation approach allows us to abstract from this complexity and consider the institutional pressures that
may influence behaviour. Our model simulates the impact of tax and subsidy policies on land use choices using a series of hypothetical farms. This allows us to compare levels of financial return from different land uses based on the prevailing tax and subsidy environment. This will give us an insight into the institutional forces that may influence farmer behaviour in terms of land mobility.

The rest of the paper is laid out as follows. Section 2 describes the theoretical basis of the paper and justifies the modelling scenarios. Section 3 outlines the research methodology, specifically microsimulation, as well as the hypothetical data that is used. Section 4 outlines the tax and subsidy scenarios that are considered and details the results of the modelled scenarios. Section 5 provides some conclusions and policy recommendations.

2. Theory and Research Question

There is a wide literature on how agricultural subsidies and tax policy affect land markets. However, we must also examine how these high level policy drivers function in the Irish context. These theoretical underpinnings influence how policy measures impact choices for farmers, as well as the paper’s hypotheses.

Agricultural Subsidies

Studies of agricultural policy measures designed to support farmer income have found that a second order impact of these income supports has been to influence land prices and land rents (OECD, 2007; Ciaian et al., 2012a) A support payment coupled to production, such as an output price support, is likely to lead to greater production than would otherwise occur. The subsequent increase in demand for inputs (such as land) pushes the price of these inputs up. Floyd (1965) shows that coupled payments influence input prices, with a more dramatic effect discernible for inputs with inelastic supply (such as land).

Models of the impact of decoupled agricultural support payments on land values (Guyomard et al., 2004; Ciaian & Swinnen, 2006, 2009) find that fully decoupled payments have no impact on land values if markets are perfect. However, decoupled policies may affect land values if market imperfections such as transaction costs or credit constraints exist. Many factors can determine the impact of subsidies on land values such as policy type, supply and demand elasticities, accompanying policy measures, market imperfections, land use opportunity costs, institutions and expectations (Ciaian et al, 2012a).

Empirical studies on the impact of agricultural subsidies on land rents and land prices can be divided in to two broad groups: land value/price studies and land rent studies. Studies analysing the impact of agricultural subsidies on land rent include Kirwan (2005), Killian et al. (2008) and Ciaian and Kancs (2012). Studies examining the impact of agricultural subsidies on land values include Barnard et al, (1997), Duvivier et al., (2005) and Taylor and Brester (2005). These studies find that land prices and land rents respond positively and significantly to agricultural subsidies. The magnitude of the response varies across studies but the price elasticity has consistently been shown to be less than one (OECD, 2007).
**Tax Policy**

Tax concessions to farmers and landowners often represent an alternative to policy programmes that require direct government outlay. A 2005 review observed a number of tax concessions in relation to agricultural land in OECD countries (OECD, 2005). In terms of capital gains, several examples of concessions on gains from agricultural property were found. Special treatment of agricultural land and buildings for taxation on transfer (inheritance and gift taxes, stamp duty) is common, especially for intergenerational transfers. Agriculture also commonly receives concessions on annual property taxes in the form of exemptions for agricultural land and buildings, special valuations at less than market price or unique starting thresholds. The study concludes that the impact of these concessions is to delay exits, raise impediments to new entrant farmers and hamper the structural adjustment in the industry that other polices are trying to promote.

**High Level Policy Drivers in Ireland**

Over time, policy attention in Ireland has switched to the usage rather than the ownership of land, making land access an increasingly important issue. Historically, there has been a preference for 11 month, or conacre, renting of land in Ireland (Drudy, 1982; Conway, 1986). One of the main policy planks in terms of increasing the length land access has been the introduction of measures to incentivise the leasing of land over longer periods of time than 11 months. These measures have focused on tax incentives designed to stimulate greater activity in the rental market. Under these incentives, income derived from the long-term leasing out of land is exempt from income tax up to specified limits. In contrast, the income from conacre renting is treated as regular income and is taxed as such. Over time, these exemption limits have increased, with higher limits being added for leases of longer periods. By 2015, up to €40,000 per year can be earned free of income tax for leases of 15 years or longer.

Subsidy policy changed with the most recent reforms to the Common Agricultural Policy (CAP). A new payment scheme for farmers called the Basic Payment Scheme (BPS) was introduced, replacing the old Single Payment Scheme (SPS). Under the BPS, a new set of entitlements are allocated to farmers in 2015. The BPS operates in much the same way as the current SPS, with an application submitted each year in which the farmer declares all of his land, specifying which hectares are eligible for payment.

In the Irish context, the implementation of the BPS system illustrates how the links between land access, entitlements and subsidy payments may influence farmer behaviour. Ambiguity surrounding the details and conditions of the BPS led to uncertainty regarding leasing entitlements in 2014 and the validity of these entitlements from 2015 onwards. Under the new BPS rules, if a farmer leased out the entirety of his land in 2013 and did not farm himself in that year, he would not be allocated entitlements under the new scheme in 2015. This effectively forced farmers in this situation to sell their SPS entitlements before they became void in 2015. The penalisation of farmers who had entered long-term lease arrangements by the CAP reforms highlights how subsidy policy can foster uncertainty and encourage short-term thinking amongst farmers.
Measures of Impact

Of primary importance in the discussion of how tax and subsidy policy affect land access is how these policies impact the financial return an area of land provides for a farmer. In the context of a given set of policy and socioeconomic conditions, would a farmer derive a greater financial reward from farming the land themselves or through allowing their land to be accessed by other farmers? The measure of financial return we will use is net farm income, by which we mean the farm's total gross output (including subsidies) less total net expenses (including tax). This measure allows us to incorporate changes in subsidy and tax policy into a single figure, which can then be used to compare financial outlooks for different land use scenarios. The differences in terms of financial return under alternative land access arrangements will provide insight into how different policy initiatives impact farm incomes and in turn, access to land.

Hypotheses

This paper examines the effect policy initiatives have on agricultural land availability. Given the static nature of the Irish land market, especially in the light of increasing demand for land, we must look at possible constraints on the supply side of the market. One possible constraint is that farmers make a better financial return from farming their land compared with the possible return from leasing out their land. If this was the case, it would be rational for farmers to maintain their land rather than let others access it.

Initiatives such as tax incentives for the long-term leasing of land are specifically designed to increase land mobility. However, the inability of long-term leases to achieve common usage in Irish agriculture despite the fact that these tax incentives have been in place for three decades suggests that the effectiveness of the policy initiative warrants deeper investigation. Due to the low income of many farmers and the progressivity of the income tax system, numerous farmers may end up paying little or no income tax each year. As a result, incentives that offer income tax reduction would be irrelevant to these individuals.

Access to land is also affected by policies where land access is a prerequisite for availing of the policy, such as the ability to claim agricultural subsidies. In a situation where subsidies are required to cover losses at a market level, as is the case for the average Irish cattle farmer (Hanrahan et al., 2014), any action which may endanger the receipt of these subsidies will not be taken lightly. Therefore, although rental income may surpass farm income (including subsidies), the guaranteed nature of subsidy payments (subject to meeting minimum guidelines) means that farmers may be wary of making decisions that could put their future subsidy income at risk.

3. Methodology and Data

Methodology

Due to the heterogeneous nature of farm households and the complexity of the policy instruments involved, it is difficult to capture the direct impact of tax and subsidy policy on farmer behaviour. The actual behaviour of farmers in terms of land mobility only informs us indirectly about the policy pressures on farmer behaviour due to the presence
of numerous factors both related and unrelated to the overarching policy structure affecting farmers’ land mobility decisions. Therefore, in order to assess these policy pressures directly, we require a model that simulates policy at the farm level but that can also deal with the complexity of the policy instruments.

This paper uses a hypothetical microsimulation model to compare farm income for a number of hypothetical farms in order to simulate how alternative tax and subsidy policies can influence land mobility choices. Burlacu et al. (2014) describes the contexts in which hypothetical models are used. These include illustrative purposes, validation, cross-national comparisons, replacement of micro data and communication with the public. A hypothetical model is used in this paper for data and illustrative reasons. Firstly, the lack of land mobility in Irish agriculture means that there is a lack of data on the incomes of farmers who allow others to access their land. The hypothetical model allows us to create such data. Additionally, the hypothetical model allows us to abstract from the complexity of the relevant tax and subsidy policies in order to provide illustrative examples of how these policies impact the financial return of farmers.

Data and Model Assumptions

In order to examine the range of Irish farm systems, and, in turn, farm incomes, we look at representative farms of the main farm systems in Ireland: dairy, tillage and cattle finishing. We use data from the Teagasc National Farm Survey (NFS) to build our hypothetical farms. All farms are the same size, 40 hectares, which is the same as the average NFS cattle finishing farm in 2013. This is to prevent farm size effects from impinging on the net income results. The average family farm income (net income before taxes) per hectare differs across the farm systems since farm incomes differ greatly across systems. For dairy farms, it is €1,137 per hectare; for tillage farms it is €460 per hectare; and for cattle finishing farms it is €389 per hectare. Other key prices used in the model are contained in Table 1. All prices are derived from the 2013 NFS (Hanrahan et al., 2014). The tax rates and lease income exemptions used in the model are from 2015 and are listed in Table 2. It is assumed that the farmer is married and less than 65 years of age for the entire period studied and that tax/exemption rates remain the same from 2015 onwards. All monetary amounts used in the paper are nominal. A discount rate is not used since all comparisons made in the paper are between future incomes generated over identical periods of time.

### Table 1. Key prices used in model scenarios, 2013

<table>
<thead>
<tr>
<th>Item</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lease price</td>
<td>€350/ha</td>
</tr>
<tr>
<td>Conacre price</td>
<td>€333/ha</td>
</tr>
<tr>
<td>Dairy Entitlement value</td>
<td>€300/ha</td>
</tr>
<tr>
<td>Tillage Entitlement value</td>
<td>€368/ha</td>
</tr>
<tr>
<td>Cattle Finisher Entitlement value</td>
<td>€349/ha</td>
</tr>
<tr>
<td>Silage value</td>
<td>€75/ha</td>
</tr>
<tr>
<td>Disadvantage Area Scheme payment</td>
<td>€82.27/ha (30ha max)</td>
</tr>
</tbody>
</table>

### Table 2. Key tax figures used in model scenarios, 2015

<table>
<thead>
<tr>
<th>Item</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income Tax (Low Rate)</td>
<td>20%</td>
</tr>
<tr>
<td>Income Tax (High Rate)</td>
<td>41%</td>
</tr>
<tr>
<td>PRSI</td>
<td>4%</td>
</tr>
<tr>
<td>Universal Social Charge (USC)</td>
<td>1.5% – 8%</td>
</tr>
</tbody>
</table>
4. Scenarios

We model four scenarios to examine how fiscal rules, such as tax incentives, affect farms differently depending on the policy context and the decisions of individual farmers. Farm incomes are compared to potential incomes derived from alternative land use choices. Incomes are compared across a 7 year period as leases must be at least 5 years long to qualify for income tax exemption. The scenarios are as follows:

- Baseline Scenario – Farm income without leasing out land and entitlements over a 7 year period.
- Lease Scenario - Income derived from leasing out land and entitlements over a 7 year period.
- Entitlements Sale Scenario – Compares farm income to income derived from leasing out land over a 7 year period and selling entitlements after the first year of the lease following CAP policy change.
- Active Farmer Scenario – Compares farm income to income derived from leasing out land and entitlements over a 6 year period following CAP policy change.

Lease Scenario

In order to look at the effect tax-based lease incentives can have on net income, we firstly compare baseline farm income with lease income without the complication of the 2015 CAP reforms. This allows us to see how farm and lease incomes compare before a new policy change is enacted.

In this baseline scenario, the following assumptions are made:
- A seven year time period from 2016 to 2022 is modelled. This scenario avoids the issues posed by the CAP reforms to be introduced in 2015 by starting in 2016.
- Income from dairy, tillage and cattle finishing systems on a 40ha farm is compared with potential lease income from the same time period.
- The lease side of the scenario has the farmer signing a seven year lease in 2016, running until 2022 where both land and entitlements are leased out.
- We assume the farmer is married and less than 65 years of age throughout the seven year period for tax purposes.

The results are shown in Table 3. Over the seven year period, the hypothetical dairy farmer would have net earnings of €245,000 from farming, the tillage farmer €118,000 and the cattle finishing farmer €103,000. With the ability to lease out both land and entitlements over the entire seven year period, potential net lease and entitlement income is €164,000 for the dairy farmer, €188,000 for the tillage farmer and €183,000.
for the cattle finishing farmer. Despite the amount to be made from leasing out, dairy farmers would still be better off farming the land, earning 44% more from farming over the seven year period. On the other hand, tillage farmers are worse off farming compared to leasing out, earning 37% less from farming as opposed to leasing out their land and entitlements. The cattle finisher is worse off farming compared to leasing out his land and entitlements over the seven year term. He would earn 44% more from leasing out.

Table 3. Farm Income vs. Lease Income, 2016-2022

<table>
<thead>
<tr>
<th></th>
<th>Baseline Scenario</th>
<th>Lease Scenario</th>
<th>Difference Net Farm Income versus Net Lease Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Farm Market Income</td>
<td>Dairy 318</td>
<td>Lease 0</td>
<td>Entitlements 84</td>
</tr>
<tr>
<td></td>
<td>Tillage 129</td>
<td>Lease 0</td>
<td>Entitlements 103</td>
</tr>
<tr>
<td></td>
<td>Cattle Finisher 109</td>
<td>Lease 0</td>
<td>Entitlements 98</td>
</tr>
</tbody>
</table>

All farms 40ha. Income reflects average per hectare farm income for farm system in 2013. Entitlement income reflects average per hectare entitlement income for farm system in 2013. Farmer is married and less than 65 years of age for entire time frame. Net income reflects income after relevant taxes and tax credits are applied.

Entitlements Sale Scenario

In this scenario, we look how the rules governing access to subsidies can affect the income of farmers. Since CAP payments are accessed based on land use in previous years, new rules in this area can adversely affect farm incomes, depending on the farmer’s land use decisions. A seven year time period from 2013 to 2019 is modelled incorporating the CAP reference year of 2013. Income from dairy, tillage and cattle finishing systems on a 40ha farm is compared with potential lease income from the same time period. In the lease portion of the scenario, the farmer signs a seven year lease in 2013 to rent out his entire 40ha land area at €350 per hectare until 2019. Entitlements are also leased out at face value (€300/ha) in 2013. Due to the CAP changes being introduced in 2015, all entitlements are sold in 2014 as the owner of the land is not an active farmer in 2013 and so will not be granted new entitlements under the BPS in 2015. The entitlements are sold at 1.8 times face value. Only the land is leased out from 2014 onwards. We assume the farmer is married and less than 65 years of age throughout the seven year period for tax purposes.

Table 4 shows the results for the Entitlements Sale Scenario. As in the Baseline Scenario, the dairy farmer has net earnings of €245,000 from farming over the seven years, the tillage farmer €118,000 and the cattle finishing farmer €103,000. If the three farmers decided to lease out their land from 2013 to 2019 and sell their entitlements in 2014 for 1.8 times face value, the dairy farmer would earn €122,000, the tillage farmer €128,000 and the cattle finisher €126,000 after tax over the seven year period. As can be seen in Table 4, the dairy farmer would be better off continuing to farm over the seven
year period rather than leasing their land out and selling his entitlements. The dairy farmer would earn 100% more over the period, while the tillage farmer would be 8% worse off by farming over the seven years. The cattle finishing farmer would be 18% worse off farming the land from 2013 to 2019 than he would be if he leased out the land for seven years and sold his entitlements in 2014. Additionally, all three farmers would earn more from leasing both their land and entitlements, as described in the Lease Scenario, than from selling the entitlements and leasing the land. The dairy farmer earns 48% more from leasing in the Lease Scenario, the tillage farmer 47% more while the cattle finisher is 45% better off.

### Table 4. Farm Income vs. Lease Income, 2013-2019 (€000’s)

<table>
<thead>
<tr>
<th></th>
<th>Baseline Scenario</th>
<th>Entitlements Sale Scenario</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Farm Market</td>
<td>Lease</td>
</tr>
<tr>
<td>Dairy</td>
<td>318</td>
<td>0</td>
</tr>
<tr>
<td>Tillage</td>
<td>129</td>
<td>0</td>
</tr>
<tr>
<td>Cattle Finisher</td>
<td>109</td>
<td>0</td>
</tr>
</tbody>
</table>

All farms 40ha. Income reflects average per hectare farm income for farm system in 2013. Entitlement income reflects average per hectare entitlement income for farm system in 2013. Farmer is married and less than 65 years of age for entire time frame. Net income reflects income after relevant taxes and tax credits are applied.

**Active Farmer Scenario**

Farmer decisions surrounding land use can have positive effects on farm incomes, depending on the timing of the decisions and how they feed into subsidy rules. This scenario incorporates additional subsidy payments and models a different option for farmers in relation to the 2015 CAP reforms. In addition to the SFP/BPS payment, the farmer also receives a Disadvantage Area Scheme (DAS) payment of €82.27 per hectare on 30 hectares of his land (the maximum allowed). Income from dairy, tillage and cattle finishing systems on a 40ha farm is again compared with potential lease income. In 2013, the farmer, uncertain of what the future CAP reform will entail, decides to cut silage on his 40ha and sell it at €75 per hectare. He also receives his SFP of €300 per hectare and DAS payment of €82.27 per hectare. With greater knowledge of the CAP reforms in 2014, the farmer enters into a Private Contract Clause and leases out 39 of his 40 hectares on a seven year lease, along with 39 of his entitlements. He holds one hectare and one entitlement to be eligible as an “active farmer” to receive entitlements under the BPS in 2015. He continues to lease out the land and entitlements until 2020 but we only compare his income until 2019 in order to mirror the first two scenarios.

Compared with the Entitlement Sale Scenario, where the farmer had to sell his entitlements rather than lose them, all three hypothetical farmers earn more by holding onto one hectare of land and remaining eligible for entitlements than if they sold their entitlements outright. The dairy farmer earns 30% more, the tillage farmer 38% more and the cattle finisher 37% more. Comparing farm income to lease income in the current scenario, the tillage farmer would earn 33% more than if he cut silage and leased the
land over the seven year period, while the cattle finisher would be 40% better off by leasing. Only the dairy farmer remains better off farming, earning 54% more over the seven year time frame.

Table 5. Farm Income vs. Lease Income, 2013-2019 (€000’s)

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Farm Market Income</th>
<th>Lease</th>
<th>Entitlements</th>
<th>Tax, PRSI</th>
<th>Net Farm Market Income</th>
<th>Lease</th>
<th>Entitlements</th>
<th>Tax, PRSI</th>
<th>Net</th>
<th>Difference Net Farm Income versus Net Lease Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baseline Scenario</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dairy</td>
<td>318</td>
<td>0</td>
<td>84</td>
<td>73</td>
<td>245</td>
<td>5</td>
<td>82</td>
<td>83</td>
<td>11</td>
<td>159</td>
</tr>
<tr>
<td>Tillage</td>
<td>129</td>
<td>0</td>
<td>103</td>
<td>11</td>
<td>118</td>
<td>5</td>
<td>82</td>
<td>103</td>
<td>13</td>
<td>177</td>
</tr>
<tr>
<td>Cattle Finisher</td>
<td>109</td>
<td>0</td>
<td>98</td>
<td>6</td>
<td>103</td>
<td>5</td>
<td>82</td>
<td>98</td>
<td>13</td>
<td>172</td>
</tr>
</tbody>
</table>

All farms 40ha. Income reflects average per hectare farm income for farm system in 2013. Entitlement income reflects average per hectare entitlement income for farm system in 2013. Farmer is married and less than 65 years of age for entire time frame. Net income reflects income after relevant taxes and tax credits are applied.

5. Conclusions and Policy Recommendations

With the removal of the dairy quota in 2015, land mobility is a key priority for policymakers. However, in the Irish context, the lack of land mobility remains an issue. As part of our examination of the factors affecting land mobility, we asked are institutions to blame for this problem? The results show that while policy uncertainties may inhibit land mobility, the financial rewards available for those wishing to make their land available are substantial. In most cases, leasing out land on a long-term basis can be more profitable than farming for a wide selection of farmers. In all the examined scenarios, leasing out land and entitlements provides a better return for cattle finishing and tillage farmers than farming. Separate sensitivity analysis shows that this situation persists even for higher earning cattle farmers.

Nevertheless, the role of policy as an inhibiting factor on land mobility should not be discounted. The difference in lease income observed between the Entitlements Sale and Active Farmer Scenarios shows policy change can pose a risk to future income. As a result, farmers may have some justification for maintaining control over land to ensure flexibility in the case of future policy change.

These results pose the question as to why these sorts of long-term land access arrangements are not more widely used by Irish farmers. One issue may be the size of the exemptions limits on tax free lease income. As the length of the lease increases, the amount of lease income that is free of income tax increases in turn. However, maximising the tax free exemptions requires the farmer to lease out unrealistically large amounts of land. Since less than 1% of Irish farms are greater than 100ha (CSO, 2012), there may only be a negligible amount of farmers with enough available land to maximise the tax exemptions. On the other hand, farms of less than 20ha make up 42% of farms in the country (CSO, 2012). However, if these farmers leased out their land, the amounts involved would not be enough to make a significant impact for them in
terms of tax relief. Additionally, sensitivity analysis shows that adjusting the tax exemption limits according to lease length does not change the percentage income differential between farming and leasing. Other aspects of the leasing regulations, such as the inability of those who lease their land to close relatives (e.g. son, daughter, siblings) to take advantage of the tax relief may also inhibit its usage.

Uncertainty in the area of subsidies may also inhibit land mobility. As shown in the Entitlements Sale and Active Farmer Scenarios, small rule changes in the area of subsidy policy can make a big difference in terms of farm income. On average, farmers who are forced to sell their entitlements before they expire are worse off over a seven year period than farmers who hold onto one hectare of land to remain eligible for entitlements under the new BPS. Rule changes such as these send out mixed signals to farmers, undercutting national policies promoting long-term land arrangements.

The leasing of entitlements is also an important issue going forward. Leasing out land without simultaneously leasing out entitlements substantially reduces the returns from leasing over the long term. With the ability to rent out entailments without leasing out land from 2016 onwards, as well as the need to use 100% of entitlements in one of every two years (DAFM, 2014), the market for leased entitlements should be more fluid in the future.

We have shown that for many farmers, leasing out their land can be more profitable than farming the land themselves. Despite this fact, many farmers continue to farm while making a market loss (Hanrahan et al., 2014) when they could be earning substantially more through leasing. These results show that although institutional factors may influence land mobility, other factors must also be considered. Howley et al. (2014, 2015) highlight the potential importance of non-pecuniary benefits to farmers such as quality of life or the ability to be productive. Attitudinal issues may influence farmers’ decisions on land use and land access as much as economic rationale (Willock et al, 1999; Key & Roberts, 2009). Policymakers may need to pay greater attention to these attitudinal issues in order to facilitate greater land mobility in the future.

References


