

Irish Farm Report 2019

55% of farmers are interested in pursuing renewable energy sources

86% of farmers do not have a clear succession plan in place

Beef farmers

before subsidies lost €116 per ha.



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Foreword



John Donoghue,
CEO

Welcome to *ifac*'s Irish Farm Report 2019. This Report contains the results of one of the most comprehensive farm surveys ever undertaken in the history of the State with the views of over 2,133 Irish farmers reflected in its pages. The Report also contains a detailed analysis of 21,755 sets of farm accounts. The results give us a fascinating insight into the lives of Irish farmers in 2019; the challenges they face and the opportunities they see ahead.

At *ifac* we have been supporting and advising farm families for over 40 years. We have made a habit of listening closely to what our clients have to say. We work hard to anticipate their needs and we make sure that our people are ready with the kind of advice and support that farmers need to help their farms face the challenges ahead. With a hard Brexit looking more likely, uncertainty around CAP reform, the potential for significant environmental taxes, and changing dietary trends; farmers need to be at the very top of their game.

While 2018 was a challenging year for Irish farmers, our survey shows just how resilient farmers are and how despite the challenges, many remain optimistic about the future. It's clear from what we found, however, that significant government support and European funding will be necessary to help farmers thrive over the coming decade. Many farm families require off-farm income to support their household; a trend that is steadily growing year on year. Most farmers recognise that their farm business must evolve and nowhere is this more pronounced than in the beef sector.

Farm families
are the very heart
of rural Ireland.
They have carried
this country through
good days and bad.

We found that 86% of farmers surveyed do not have a clear succession plan in place with many arguing that their farms are not viable for the next generation. We also found a growing trend in female farm ownership.

Some of the fascinating insights that we have gleaned from this report are already fuelling our future planning as we work hard to stay ahead of client needs. At *ifac* we will always give the right advice and support to farmers as they continue to grow and build, or consolidate their farm enterprises. Farm families are the very heart of rural Ireland. They have carried this country through good days and bad. Global economic trends are putting farmers under pressure on multiple fronts in a way never before experienced. Together we will meet the challenges head on.

Anticipating future shocks, making farms more efficient, helping families with financial planning; *ifac* will be with farmers every step of the way.

Contact John:
johndonoghue@ifac.ie

Introduction



Philip O'Connor,
Head of Farm Support

Any cut to subsidies would have a direct impact on the viability of many Irish farms.

Our 2019 Irish Farm Report represents data from over 21,755 sets of farm accounts paired with the views of farmers engaged in all types of farming from large dairy and tillage enterprises to small, part-time operations. More than 2,000 farmers participated in our survey, touching on all of the key issues farmers currently face—from sectoral and environmental challenges to pensions, labour management and succession planning.

Performance and profitability

Our findings show that 2018 was a difficult year for all sectors with profitability adversely affected by a combination of factors including pressure on farm gate prices, late spring and fodder shortages, followed by drought in the summer months. Tillage farmers experienced lower yields although the impact was offset by strong grain and straw prices. All livestock farmers had to cope with increased costs for feed. Sheep and beef farmers experienced negative returns before BPS and even the traditionally profitable dairy sector saw profits down when compared to 2017. Interestingly, our findings show a significant gap between the top 10% and the average farmer in each sector with the difference partly accounted for by better cost control and more effective spending. There are lessons here for the average farmer.

Environment

Our survey respondents indicate a willingness to embrace a variety of options to support the environment from using more renewables (55%), to planting more trees (44%) or de-stocking (28%). Although agriculture contributes over 30% of Ireland's carbon, it is important to remember that we are one of the world's most efficient producers of beef, lamb and dairy products due to our grass-based agriculture systems.

Succession

Our survey revealed some worrying attitudes towards succession. Only 14% of farmers have a clear succession plan in place. This is alarming given that the age profile in farming is rising— 55% of farmers are over 55. A significant percentage (43%) of survey respondents cited concerns about viability as their reason for failing to plan for succession. It is important to realise that regardless of viability, a farm is a valuable asset and failure to plan for succession can have substantial tax consequences for you and your successors.

Similarly, many farmers do not have a pension plan or life assurance leaving themselves with no option but to continue to work on the farm past the age of 65 in order to maintain a household income.

Outlook & Brexit

Our survey reinforces a growing trend that farm businesses are no longer viable without off-farm income. Likewise, CAP continues to be an important support for many farmers. Any cut to subsidies would have a direct impact on the viability of many Irish farms. With the UK a net contributor to the EU, it is hard to see how a reduced EU budget due to Brexit won't have a knock-on effect on the CAP budget. Our survey shows just 12% of beef farmers believe they will be unaffected by Brexit. With recent developments making a hard Brexit look increasingly likely, it is important that farmers step up preparation for a worst-case scenario. Recognising

that Ireland’s beef sector is particularly exposed, the EU Commission has agreed a €50m package to alleviate the impact of Brexit for Irish beef farmers with the Irish Government to provide matching funding, bringing the total package to €100m.

Other trends reflected in our report include increased use of farming technologies. We anticipate more agtech products and services will become available over the coming years however these products will only gain traction if they improve your farming life.

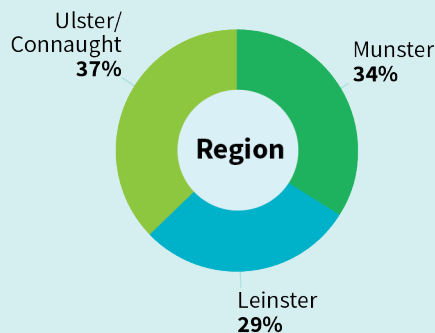
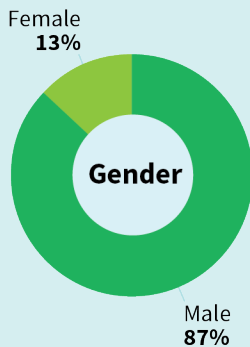
This year’s findings are supplemented with *ifac* insights and advice based on the expertise we have built up supporting Irish farmers over the last 40 years. We hope that you find the insights interesting and useful and we look forward to discussing them with you over the coming months.

Contact Philip:
philipoconnor@ifac.ie

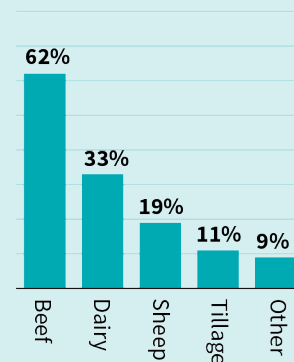
ABOUT THIS REPORT

ifac commissioned iZest to conduct independent research for this report. The findings are based on the results of a survey which took place between March 21st and April 8th 2019. They represent the views of 2,133 survey respondents supplemented by *ifac* financial data drawn from 21,755 sets of accounts for the years 2016–2018.

Profile of survey respondents

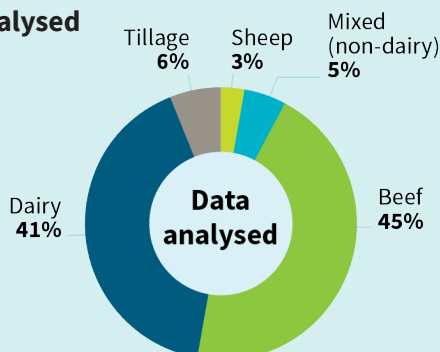


Sector



Accounts analysed

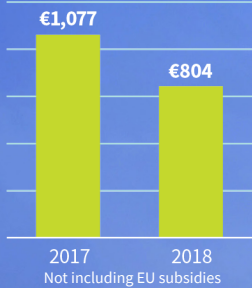
Based on *ifac* financial data 21,755 sets of accounts (2016–2018)



1. Total exceeds 100% as some respondents are in more than one sector.

Key Findings

Profit per ha



Between 2018 and 2017 average dairy farm profits were down

25%

Average tillage profit per ha is

€252

TILLAGE



DAIRY



11%

of dairy farm turnover is accounted for by BPS

Since 2015, net dairy farm profits per ha have increased by

15%

Average dairy farm profit per ha is

€1,236

PEOPLE



6,000

extra employees needed for dairy farms over the next decade

BREXIT



45%

of Irish farmers don't know how Brexit will affect them

ENVIRONMENT

68%

of Irish farmers are very concerned about environmental legislation



Ireland has lowest carbon footprint per litre of milk in EU

Average beef farm loss per ha excluding EU subsidies is

€116

38%

of beef farmers are unsure if they will still be farming in 5 years

Since 2011, total ifac beef farm gross output has increased by only



BEEF



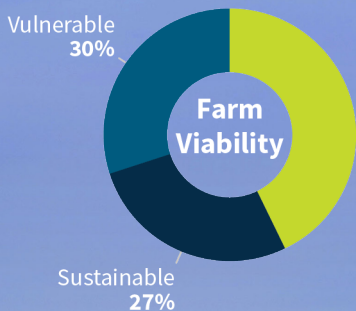
of beef farmers didn't make a profit before EU subsidies

SUCCESSION



86%

of Irish farmers do not have a clear succession plan in place



43%

believe viability is the main challenge to succession

FINANCIAL WELLBEING



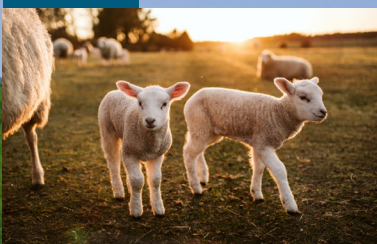
32%

of over 65s say they have no household pension

30%

have a pension for one family member only

SHEEP



Over the last 4 years the total turnover has increased by

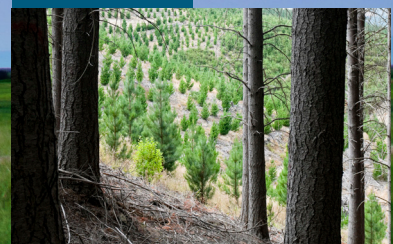
5%

PIGS



Pig farmers made losses in **3 of the last 4 years**

FORESTRY



Over the last 3 years forestry planting declined

30%

Dairy

Dairy farms are continuing to perform well with most consistently generating positive returns.

That said, there is a considerable gap between top performers and other farmers in this sector. *Ifac* data shows that over the last 10 years, the top 10% achieved a turnover 38% above average while maintaining costs at only 13% above average. Their ability to drive output and control costs allows top performers to retain more profit each year. Effective cost management does not necessarily mean cutting costs. Over the last 3 years, top performers spent on average 14% more per hectare on fertiliser/lime and 20% more on feed than other farmers.



SECTOR FACTS



There are **16,100+** dairy farmers in Ireland today¹



The average farm size increased by 12ha between 2005 and 2019 to 59 ha



The average herd size is 75 cows, with 16% of farms having 100 cows or more²



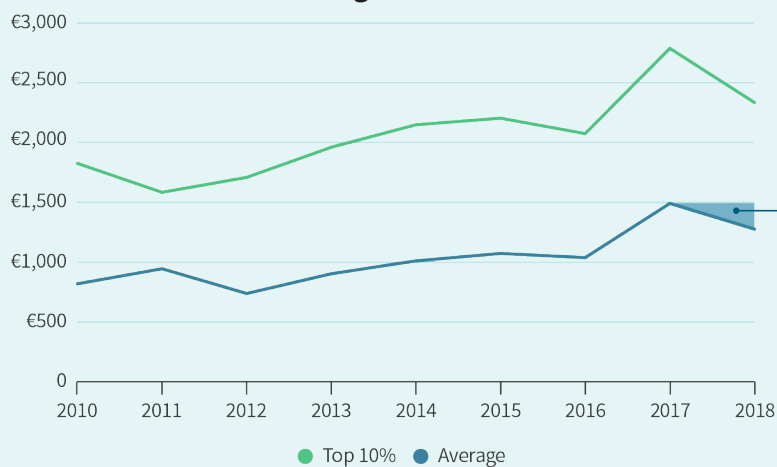
Between 2005 and 2018, dairy cows increased by 12.9%³

PROFITABILITY

During the last 4 years profit per hectare is up by

15%

Total Average Profit Per Hectare



In 2018, the total national average profit per ha (excluding EU subsidies) across all dairy farms in *ifac* dropped by

25%

1. CSO.
2. Teagasc National Farm Survey 2019.
3. ICBF.

Profitability factors¹ cent/litre

	2016		2017		2018	
	Avg.	Top 10%	Avg.	Top 10%	Avg.	Top 10%
Price	29.1	31.7	37.4	38.2	35	36.6
Costs²	20	16.9	22.7	17.3	23.6	19.1
Profit	9.1	14.8	14.7	20.9	11.4	17.5

KEY VARIABLE COSTS

Fertiliser	2.25	1.89	2.37	1.99	2.37	2.06
Feed	7.06	6.02	8.49	6.03	10.05	7.97
Vet	1.57	1.35	1.63	1.41	1.55	1.37

> Between 2017 & 2018 average profit per litre dropped by

22%

Profit dropped on all dairy farms in 2018. This was due to a number of factors: lower milk price, fodder crisis and drought.

In 2018, overdrafts increased by **5%**

In 2018, creditors increased by **11%**

**TOTAL OUTPUT PER HECTARE
V TOTAL COSTS PER HECTARE**



Output per ha of the top 10% is greater than the average farm by



Cost per ha for top 10% is greater than the average farm by only



Top performers are spending 19% less to produce a litre of milk

38% **13%** **19%**

**AVERAGE NET PROFITS RETAINED
(2015-2018)**

Top 10%

44%

Average

33%

**TOTAL TURNOVER GROWTH
(2015-2019)**

Top 10%

39%

Average

28%

1. Figures do not include either loan interest or directors' wages or land lease costs on incorporated farms.

2. Loan interest repayments not included in direct costs.

DEBT

The average borrowing per farm in 2018 was

€116,102

CAPITAL INVESTMENT

Average capital Investment in 2018

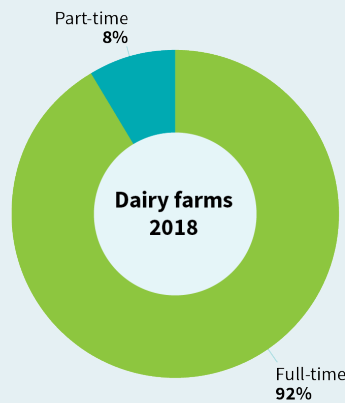
€32,940

€28,380
Average annual capital investment over the last 4 years

INCOME SOURCES

92%

of dairy farmers work full-time on the farm



70%

of dairy farm households have an off-farm income source

IFAC INSIGHTS FOR DAIRY FARMERS

COST CONTROL

The ifac data shows that while output is a key driver in profitability, it must operate in tandem with tight cost control. Although the top 10% spend more per hectare (ha) than the average farm, they spend 19% less on a cost per litre basis. The top 10% are spending 14% more per ha on fertiliser/lime and 20% more on feed per ha. However, this is helping to reduce their costs per litre as output increases. Good grassland management is the cheapest form of feed for cows.

PRODUCTION SYSTEM

Farmers in the top 10% use a variety of farming systems, with different levels of input and output. Our data shows the top 10% of dairy farmers consistently retain 45% of their gross income. The key profitability driver is not necessarily your farming system but rather your ability to convert gross income to net profits using your chosen production method.

PROFIT RETENTION

Our figures show that profits have increased over the last 10 years. Average dairy farm profit was €853 per ha in 2009, and €1,236 per ha in 2018. The increase in profits has been driven by increased production. Interestingly, the average margin per litre has not changed significantly in the last 10 years.

INVESTMENTS

Ifac farmers are consistently investing in their farm with an average of €32,940 of capital investment in 2018. Over the past four years dairy farmers have invested an average of €28,000 per annum in capital development. Many dairy farmers have discovered that investment using cashflow can actually have a negative impact on performance figures. Based on our findings, capital investments should be funded/structured appropriately to continue growing profits. It is also important to take cognisance of tax implications when funding capital investment from cashflow.

Beef

Profitability in the beef sector remains volatile with most farms struggling to achieve a profit before EU subsidies over the last four years. Excluding subsidies, in 2018, 61% failed to achieve a net profit while the average beef farm made a loss of €116 per ha. *Ifac's* latest research shows, however, that the top 10% are achieving positive net margins excluding EU subsidies. Cost control is key with actual output not showing any increase among the top 10%. *Ifac* figures are not inflation adjusted so, in reality, the top 10%, and other profitable beef farmers, are cutting costs to retain profits.



SECTOR FACTS



Over 951,000 suckler cows in Ireland today



Average beef farm is 48ha



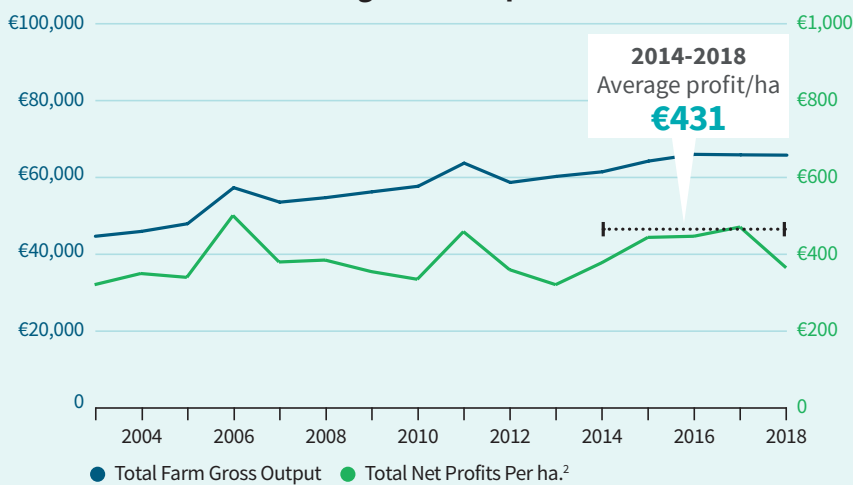
Between 2015 and 2018 beef calf registrations dropped 6.7%



1.89 million cattle slaughtered in 2018. This is the highest kill for over 15 years

PROFITABILITY

Beef Farming Gross Output & Profits¹



Since 2011 total farm output excluding subsidies has increased

3%

1. The above figures based on average farm size of 48 ha.
2. Drawings, taxation, capital expenditure and full loan repayments are deducted after net profit.
3. Gross Output includes all sales before costs plus EU payments

Farm Profitability excluding EU Subsidies¹

	2015		2016		2017		2018	
	Avg.	Top 10%	Avg.	Top 10%	Avg.	Top 10%	Avg.	Top 10%
Total Gross Output	€42,721	€68,275	€43,020	€74,432	€43,094	€63,158	€42,784	€60,701
Gross Output/ Ha	€791	€1,517	€877	€1,519	€897	€1,468	€891	€1,411
Cost / Ha	€844	€879	€890	€935	€901	€866	€1,007	€936
Profits / ha	-€53	€638	-€13	€584	-€4	€602	-€116	€475

2018

Average beef farm loss per ha excluding EU subsidies is

Beef farms who in 2018 failed to make a profit excluding EU subsidies

2015-2018

Beef farms who failed to make a profit excluding EU subsidies over the last 4 years **59%**

DEBT 2017-2018



Between 2017 and 2018 creditors rose by

36%



The average borrowings per beef farm in 2018 was

€44,345



Overdrafts increased by



INVESTMENT

Average capital investment on beef farms in 2018

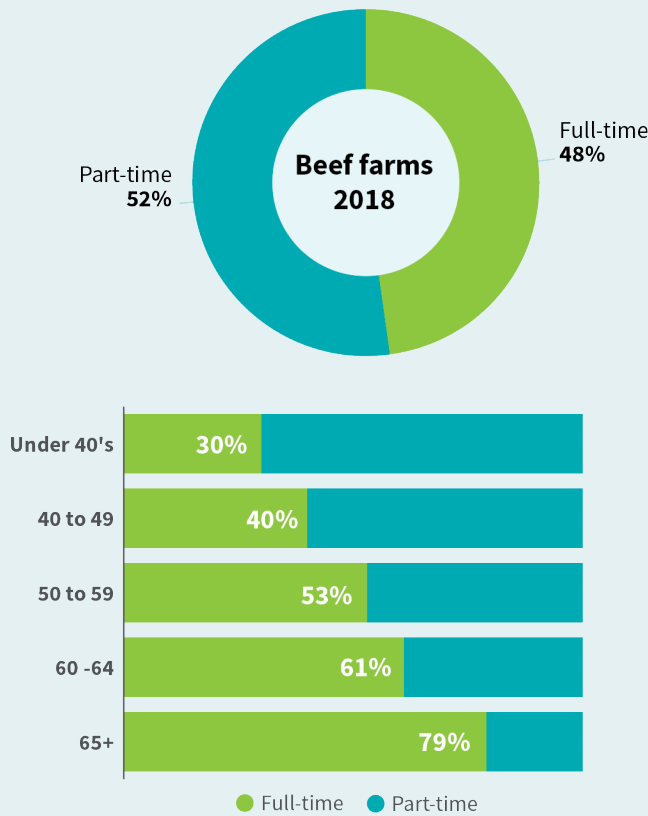
€9,113

“ Production-based beef farming no longer generates the profit required to drive farm development. A lack of viable alternatives is all that is preventing a sharp decline in beef-producing family farms.”

-Farmer, Co. Offaly

1. Average Farm Size 48Ha

INCOME SOURCES



85%

of beef farm households have an off-farm income source

58% have a PAYE income

50% of farm spouses have a PAYE income

12% have a second trade/business

IFAC INSIGHTS FOR BEEF FARMERS

PROFITABILITY

When looking at beef farm data over a long period of time there has been little increase in profitability. The average beef farmer's total income in 2003 (based on 48ha) was €13,801 compared to €17,520 in 2018 (ifac's figures are not inflation adjusted). A deeper dive into the data shows that over the last 4 years 59% of beef farms were losing money before EU subsidies. It is not surprising, therefore, that so many beef farms require off-farm income.

EU SUBSIDIES

CAP review is underway. With EU subsidies effectively the profit for circa 61% of beef farms in ifac, any cut in these subsidies will have a devastating impact on farm income.

COST CONTROL

The top 10% of beef farms have seen their cost base rise by 6.5% since 2015. While beef farms excel at keeping costs down, they are not rewarded for this in terms of profit.

INVESTMENT

The outlook for beef farmers is vastly different to that of their peers in the dairy sector. The average dairy farm is investing 150% more per ha. There is little increase in output on beef farms. Indeed, amongst the top 10% of beef farms, investment actually decreased over the last 4 years. With debt levels remained at an average of €44,345.

Sheep

Much like beef, profits are low in the sheep sector and farmers rely on EU subsidies to support farming income. Most Irish flocks are small (average 102 sheep) by comparison with Scotland where the average flock is 200 or New Zealand where it is 1,400. Mid-season lowland lamb is the main system of production and 60% of our survey participants have a beef or tillage enterprise in addition to their sheep business. The price for Irish lamb has steadily increased in recent years. With the price up 6% on average in 2018 when compared to 2017. With exports going mainly to the UK and France (60% of total exports). Globally, New Zealand and Australia account for 70% of lamb exports.¹ This has remained fairly consistent since the 1990s. The EU is a net importer of lamb, consuming 1.2m tonnes but producing only 0.9m tonnes.



SECTOR FACTS



72% of Irish lamb is exported¹



3.7 million sheep in Ireland in December 2018, down 6% on 2017²



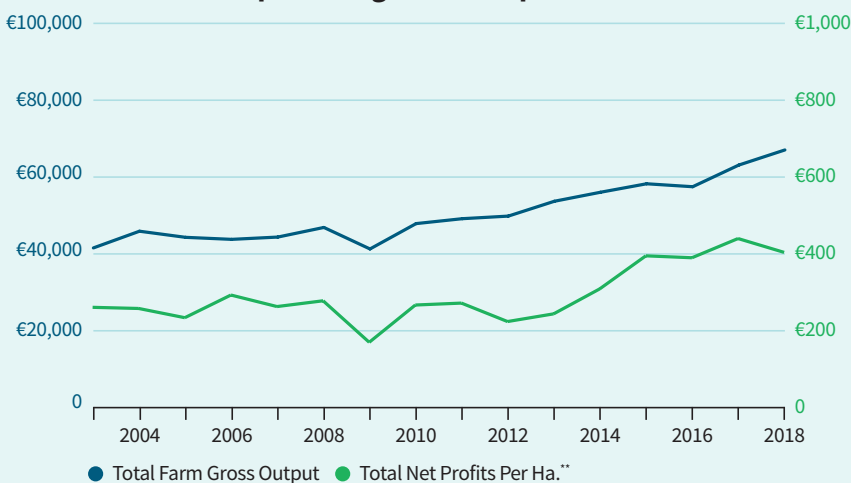
36,313 flock owners in Ireland (average 102 sheep per flock)³



Donegal, Galway, Mayo and Kerry are the top four counties for sheep²

PROFITABILITY AND OUTPUT

Sheep Farming Gross Output & Profits



In the last 4 years the total output (not including subsidies) has increased

5%

* Note: Min of 50% of total gross output was from sheep/ lamb sales in order for the financial data to be used.
Turnover includes all sales before costs plus EU payments

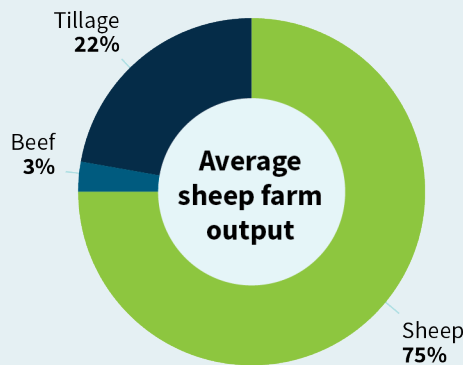
1. Bord Bia.
2. DAFM National Sheep & Goat Census undertaken on 31st December 2018.
3. Teagasc Outlook 2019 Economic Prospects for Agriculture.
4. Gross Output includes all sales before costs plus EU payments

Farm Profitability excluding EU Subsidies

	2015		2016		2017		2018	
	Avg.	Top 10%	Avg.	Top 10%	Avg.	Top 10%	Avg.	Top 10%
Total Gross Output	€32,435	€64,199	€29,645	€61,742	€33,750	€64,824	€34,028	€66,727
Gross Output/ha	€540	€1,167	€559	€1,164	€602	€1,246	€567	€1,259
Cost/ha	€625	€798	€715	€903	€728	€840	€717	€876
Profits/ha	-€85	€369	-€156	€261	-€126	€406	-€150	€383

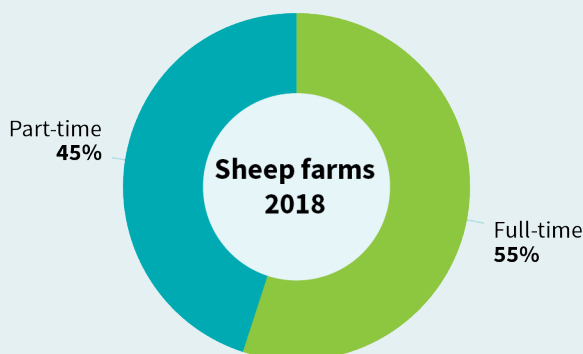
2018
 Sheep farmers who failed to make a profit excluding EU subsidies **75%**

The total percent of gross output over a 4 year average is broken down as follows



INCOME SOURCES

55%
 of sheep farmers work full-time on the farm



83% of sheep farms have off-farm income sources

60% of these indicate that more than 40% of their household income is from non-farm sources.

52% of farmers indicate that they have a PAYE income.

46% of farm spouses have a PAYE income.

14% have a second trade/business

DEBT 2017-2018



Between 2017 and 2018 creditors rose by

12%



The average borrowings per sheep farm in 2018 was

€19,520



Sheep farms with no business related debt

30%

INVESTMENT

Average capital investment on sheep farms in 2018

€7,355

“Not many beef or sheep farmers can say their farm income is enough to provide for their family without an off-farm job.”
-Farmer, Co. Mayo

IFAC INSIGHTS FOR SHEEP FARMERS

PROFITABILITY

Like their peers in the beef sector, sheep farms are heavily reliant on EU subsidies. A sheep welfare scheme (€10 per ewe) introduced in 2016 and due to run until 2020 has improved profitability and increased output. Nevertheless, profits remain low. The top 10% are achieving almost double the output of the average farm and with better cost control. Output was €642 per ha better than the average farm for the top 10% of farms.

CAP

While total farm gross output excluding EU payments has been steadily increasing over the years, this is mainly due to subsidies. In 2018, average gross output excluding EU payments was €34,028. When we look at gross output excluding EU payments excluding subsidies the increase is more modest — just 5% for the top 10% of farms. Clearly, any cut to subsidies will hit profitability directly. Likewise, the continuation of the sheep welfare scheme is of vital importance.

INVESTMENT

Investment in this sector remains low, just €7,355 on average per farm in 2018 or €7,493 on average over the last four years. 30% of farms had no business related debt in 2018.

DEMAND

Demand for lamb is seasonal, partly driven by religious holidays such as Easter and Eid al-Fitr. Interestingly, over the next six years the gap between Easter and Eid will shorten to two weeks. This may see lamb prices spike ahead of the two holidays.

Tillage

Ireland is a price taker when it comes to cereal production with prices largely dictated by global markets. This is one of the biggest challenges for farmers in that they have little or no control over their prices. Consequently, many are turning to set contracts and forward selling. Just over half (52%) of tillage farms failed to achieve profit excluding EU subsidies in 2018. The year saw the smallest harvest in over 20 years with only 1.8 million tonnes produced, down 21% on 2017.¹ While prices were significantly higher than in 2017, the real story was the weather. Higher prices per tonne were offset by low yields, with spring barley worst affected. Straw yields also dropped although the resulting scarcity triggered higher prices.



SECTOR FACTS



4,700 specialist tillage farmers in Ireland.



3.9% decrease in cereal crop area to 261,000 hectares. Overall drop in yields in 2018 was 19%.²



2018 winter wheat yield down by 14% on 2017. Area sown in 2018 was 54,400 hectares, a decrease of 9.7% on 2017.³



Spring barley was the biggest crop in 2018 - 127,400 hectares being an increase of 10.6% on 2017. However average yields were only 5.6 tonnes /ha, down 22% on 2017.³

STATS

52%

< 150 acres

20%

>250 acres

67%

Full-time farmers

33%

Part-time

60%

rely on family labour

21%

rely on part-time labour

60%

also engaged in beef production



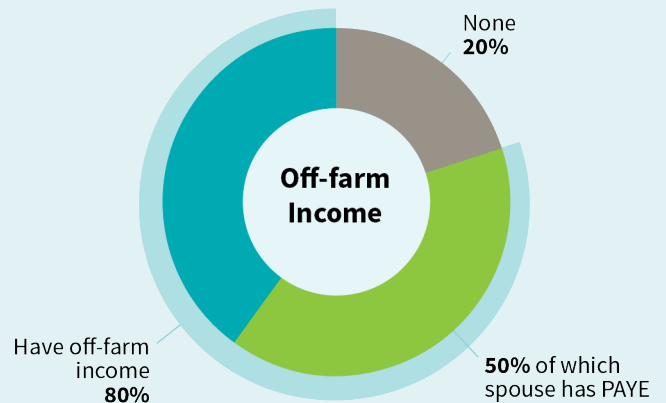
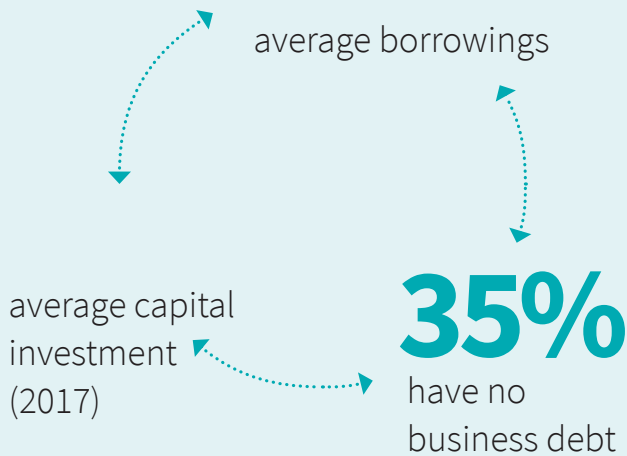
20% sheep
13% dairy

1. Teagasc National Farm Survey
2. Department of Agriculture CSO
3. 'Area, yield and production of crops 2018,' CSO statistical release, 30 April 2019

Farm Profitability excluding EU Subsidies

	2015		2016		2017		2018	
	Avg.	Top 10%	Avg.	Top 10%	Avg.	Top 10%	Avg.	Top 10%
Gross Output/ha	€1,135	€1,418	€1,107	€1,238	€1,146	€1,492	€1,324	€1,617
Cost/ha	€1,243	€1,016	€1,164	€945	€1,095	€1,087	€1,072	€1,151
Profits/ha excluding subsidies	-€108	€402	-€57	€293	€51	€405	€252	€466
Profits/ha including subsidies	€243	€754	€291	€640	€380	€743	€581	€795

INVESTMENT & DEBT



“It is getting more difficult to turn a consistent profit year on year ...This is making modern farming life a struggle and less attractive to future generations.”

-Farmer, Co. Carlow

IFAC INSIGHTS ON TILLAGE

PROFITABILITY

Profitability in the tillage sector has fluctuated over the last four years. The average farm experienced an improvement of just under €360 per ha between 2015 and 2018. Cost variances over the last four years are less pronounced at just over €170 per ha on average. Farmers are price takers in the cereals markets while weather influences yield. Prices were healthy last year however yield was affected by late spring planting and drought.

CAP

In 2018, fewer than half (43%) of tillage farmers achieved profit excluding subsidies. CAP continues to be an important support in this sector without which many farms would find themselves in boom-to-bust scenarios. A year of poor prices and low yields could potentially push the entire tillage sector into losses.

INVESTMENTS

Tillage farmers are investing heavily in their businesses. *Ifac* data shows the average farm in this sector has €88,137 of farm debt and is making capital investments of €36,000 per year. To service their debt, farmers need to achieve healthy profits after drawings, tax and capital repayments. Repayments on an €88,000 loan over 7 years at an interest rate of 4% come to €14,661. Without CAP, it would not be possible for tillage farmers to service debt, pay taxes and provide a family income.

Poultry

Poultry farming is an integral part of Ireland's rural economy, especially in the border regions. The sector is currently going through a growth phase with almost 70 new planning applications for poultry housing in the Cavan/ Monaghan region in 2018 alone. The split between poultry meat and egg producers is roughly 60:40. *Ifac* experience shows that many businesses in this sector start out as an additional source of income on beef or dairy farms. Traditionally, they were small enterprises (circa 20,000 to 30,000 birds) with relatively small profits and a low level of borrowing. However, scale has been increasing in response to tightening margins with the result that the average house is now approaching 50,000 birds.



SECTOR FACTS



610 producers in Ireland (370 meat, 240 eggs)¹



85% increase in layer numbers over 10 years²



70 new bird housing planning permissions lodged in 2018



Average price per kg remained flat at €5.56 in 2018

RECORD PRODUCTION

Irish production reached record levels in 2018, with

98m

birds slaughtered in export approved plants

..... This represents an increase from 2017 of

2.6%

Most of this increase is accounted for by broiler and duck production. Data for the period to the end of September 2018 shows production has continued to rise, increasing by 1.8m birds, or 2.6% when compared to 2017.

EXPORTS

The value of Irish poultry exports in 2018 increased

8% **€316m**

The UK market accounts for 67% of poultry exports from Ireland in 2018, of which 87% went to mainland UK. The second largest market for Irish poultry is South Africa at 11%, however this market could be affected by imposition of levies on EU chicken since Oct 2018. In contrast, EU markets look positive as EU placed restrictions on Brazilian chicken plants are affecting their imports.

1. Bord Bia.
2. DAFM.



BROILERS

Margins per house 2018



EGGS

Margins per house 2018



IFAC INSIGHTS ON POULTRY

INVESTMENT

Poultry farming requires significant capital investment. With an estimated cost of €12 per bird, a 50,000 poultry house will cost circa €600,000. Banks like to see owner equity at up to 30% of investment. Loans are typically structured over a 10 year term. A typical loan of €400,000 - at 4% over 10 years, with the capital repayments based on 350,000 throughput of birds (7 flocks) - would equate to repayments of circa 14 cents per bird.

PROFITABILITY

Ifac figures show that profits vary. The two key factors influencing profitability are (1) efficiency (low death rates, high growth rates, throughput of birds/eggs); and (2) age of unit. Newer units have higher numbers of birds (50,000 per house compared to 25,000-30,000 in older units). Higher numbers allow for greater efficiency. Estimated average net profit per bird is 20-22 cents but depends on price.

TAX

For new entrants starting in poultry farming, the tax capital allowances on the initial house is usually sufficient to shelter profits for up to 8 years. However, issues start to arise in year 9. Poultry farms find themselves with increasing tax bills as a result of decreasing capital allowances. Cash is still needed to service large loan repayments. Often the long term solution for this issue is to incorporate the business. This allows the farmer to retain a large portion of the profits in the business to service the debt. The farmer then only needs to withdraw and pay tax on their living expenses. However, going this route isn't for everyone, and it is very important to speak to your accountant before going the limited company route.

Pigs

At present, pig farms have turned a corner in terms of profitability, following 18 months of poor pig prices, a massive rebound now evident. Profitability depends on cost structuring and efficiencies. Feed costs amount to roughly 70% of the total cost of rearing a pig, the relationship between feed and price is the key driver of profitability in this sector. The accepted industry margin over feed (MoF) is 50 cent per kg to cover all costs plus financial commitments. Looking back over the last 8 years, this target was only achieved in 2017. Teagasc data shows pig farmers made losses in 3 of the last 4 years. 2017 profits were, this was not sufficient to offset losses carried forward from 2015 and 2016 and the substantial losses in 2018.

SECTOR FACTS



2018 sow population; 147,000. Currently 300 producers—down from 3,000 in 1989

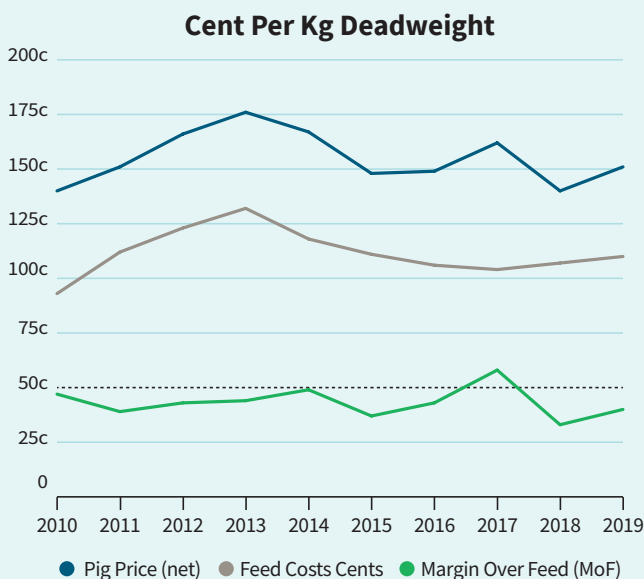


3.8 million pigs estimated to be slaughtered



Live exports 463,000 head in 2018

PROFITABILITY



Source: Teagasc Pig Development Department

IFAC INSIGHTS ON PIGS

PROFITABILITY

Because of African Swine Fever in many Asian countries, there is a massive demand for pork on the international market. Irish pig farms are benefiting from the massive rise in pig prices. This, coupled with a decrease in feed prices, should leave pig farms in a profitable position during 2019. Pig farmers now have an opportunity to paydown feed creditors and carry out necessary capital investment – the latter having been postponed due to poor pig prices and tight cash-flow.

Pig producers in Ireland have either had to scale up to dilute costs or exit the sector.

19% of pig farms produce 45% of national output.

Horticulture

Horticulture in Ireland has a farmgate value in the region of €350m.

Ifac has seen consolidation in this sector in recent years with high levels of specialisation in some niche-sectors. Horticulture is labour-intensive. However, advances in agtech are beginning to impact on the sector. Estimates suggest around 6,600 people are directly employed full-time in the sector which also has a knock-on impact across the broader economy through indirect employment. Farm-based roles include growing, harvesting, preparing and packing for market, quality control, marketing and selling. Farmers struggling to hire are looking to Poland, Romania, Latvia and Brazil to find workers. The buying power of the multiples and commoditisation is putting pressure on many producers. It is leading to many operators looking to diversify and add value to their products.

SECTOR FACTS



212 commercial field vegetable producers growing around 4,600ha of crops.



Strawberries account for 90% of Irish berry production with most of these grown in Wexford.

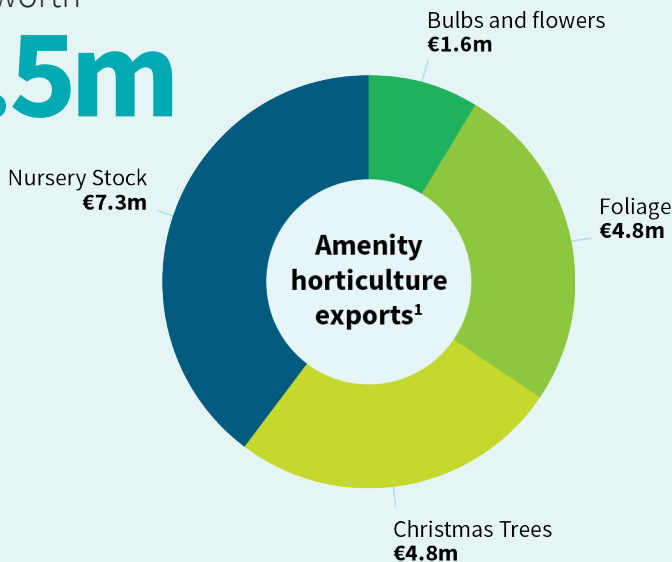


75% of mushrooms grown in Ireland exported to the UK. The UK market is valued at €115m annually, making currency fluctuations a major risk factor.

VALUE

In 2018 amenity horticulture exports were worth

€18.5m



IFAC INSIGHTS ON HORTICULTURE

TECHNOLOGY

Keeping pace with changing industry trends is vital to the horticulture sector. Food Wise 2025 highlights that technology and advances in plant genetic research offer the potential for new products. New production methods and new approaches to the market will drive growth and opportunities. However, there is a need to assist commercialisation of the sector and adoption of developing horticultural technology to take advantage of these opportunities. Food Wise suggests these new technologies could potentially grow Ireland's horticulture output value to over €500m in the medium term.

1. Bord Bia Performance and Prospects

Forestry

Forestry and commercial woodland can provide an additional source of farm income. Significant tax incentives are available provided you operate on a commercial basis with a view to realising a profit.

Around 11% of Ireland's land area is currently under forestry, with over 75% of timber processing output and 80% of wood based panels going to export markets. Our survey found strong interest in forestry with 44% of respondents saying they would consider planting more trees as an environmental measure. The planting of forestry is vital to Ireland meeting carbon emissions targets set by the EU. The delivery of a sustainable increase of forestry post 2019 is a key challenge for the farming sector.

SECTOR FACTS



11% of the total land area of Ireland is occupied by forestry¹



44% of respondents would consider planting more trees



Brexit is a concern as the UK is a key export market for forestry products.

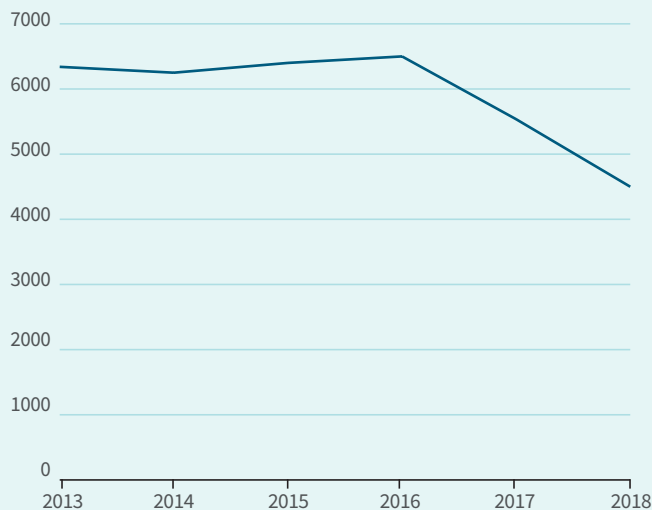
IFAC INSIGHTS ON FORESTRY

INCENTIVES ARE VITAL

While *ifac's* survey shows a clear willingness among farmers to plant trees, the number of hectares being planted has actually decreased. A recent IFA report suggests farmers are holding off planting until DAFM removes restrictions on planting marginal land. Despite their willingness to plant, and the potential to generate a positive return per ha, farmers need appropriate incentives to continue to invest in forestry.

FORESTRY ALLOCATION DECLINE

National forestry allocation (hectares)



30%

decline in hectareage allocated to forestry since 2016. This is partially due to legislation.

1. Department of Agriculture, Food and the Marine

Is this the future?



Martin Clarke,
Mayo Partner

In May 2017, a group of farmers joined forces to set up a large dairy enterprise on a block of leased land west of the Shannon. Today the group has 420 cows on a 420-acre farm. *Ifac's* Mayo Partner, Martin Clarke spoke to the farmers on how the operation came about and the lessons others can learn from it.

The process began when the landowners engaged Macra's Land Mobility Service and Aurivo to draw up a shortlist of suitable applicants for the collaborative venture. Following a vetting process which included financial and technical due diligence, the next step was to put in place the legal measures needed to protect all of the participants in the project. This was quite complex due to the size of the operation and the on-farm capital spend involved. The lease was signed in May 2017.

Soon after signing the lease, a Chairman, Vice Chairman and Treasurer were elected by the Board for a three-year term. This Officer Group makes day-to-day decisions in conjunction with the Farm Manager. The Chairman briefs the Board on performance on a monthly basis.

Farm budgets were drawn up by *ifac* in conjunction with Teagasc. The projected cost to establish the operation to a standard that reflects modern dairy farming standards with an emphasis on labour efficiency came in at €3,650 per cow excluding cow cost. A contingency of 12% was added bringing the projected cost to

€4,106 per cow. The completed costs came in at €4,165 per cow.

The Partners targeted a high EBI crossbred herd and milking started in February 2018. The ICBF Dairy Performance Herd Report for 2018 shows the herd averaged 40.7c per litre with an EBI of €147 — an impressive Year 1 result for a herd of heifers.

In drawing up the farm plan with the assistance of Teagasc, the Partners drew on their previous experiences trying to expand their own operations. A green field yard design was decided on comprising a 50-unit rotary parlour, flood wash, and cubicles for 480 cows with slurry storage which included a 1 million gallon over ground storage tank. The entire farm was re-seeded under Teagasc grass-seed guidance.

Ifac provided corporate finance advice for the project. As the farm was leased, and therefore not bankable as security, the funding came from a number of different sources —Partners' equity, bank debt, HP finance, private equity, EIS funding and landowner's capital.

Many onlookers wonder how a group of farmers work successfully together. In this case, the farmers come from similar farming systems and share a similar ethos. In addition, each is a member of a WAD discussion group facilitated by Matt Ryan and each is involved in either a co-operative board or farming organisation so they understand how a Corporate Board should run.

Many onlookers wonder how a group of farmers work together. In this case, the farmers come from similar farming systems and share a similar ethos.

Ifac provided corporate finance advice for the project. As the farm was leased, and therefore not bankable as security, the funding came from a number of different sources —Partners' equity, bank debt, HP finance, private equity, EIIS funding and landowner's capital.



Speaking to the Partners about their experience, they highlighted the following learning points:

- Obtaining the right advice from the outset is vital. *Ifac* were engaged at the outset to provide tax, corporate finance and structuring advice, legal support and assist with forming a company. Other experts consulted included Teagasc, co-op profitability advisors and financial consultants.
- The transfer of knowledge through discussion groups and visits to farms of a similar size around the country was an important aspect of the learning experience.
- A good relationship and clear communication with the land owner helps put the development process, commercial and environmental expectations, and farm practices on a sound footing.
- The farm is labour-efficient with adequate facilities for employees and a safe working environment. This is an advantage when recruiting.
- Working together as a group and delegating duties and research enabled the Partners to establish the business in a relatively short period of time. It would be very challenging for an individual to deliver a project like this on their own in addition to running their existing farm.
- The Partners understand that surplus cash will not be distributed as dividends or salary in the initial 7-10 year period. Instead, surpluses will be used to pay down debt. This is a key aspect of the farm's financial model. Anyone considering a similar venture needs to appreciate the financials and initial return on the investment. Understanding difference between profitability and cash flow is vital.
- The next logical question for the group is 'Would they undertake another similar venture?' The Partners believe that the learning experience from this farm development was invaluable so they would consider another project.

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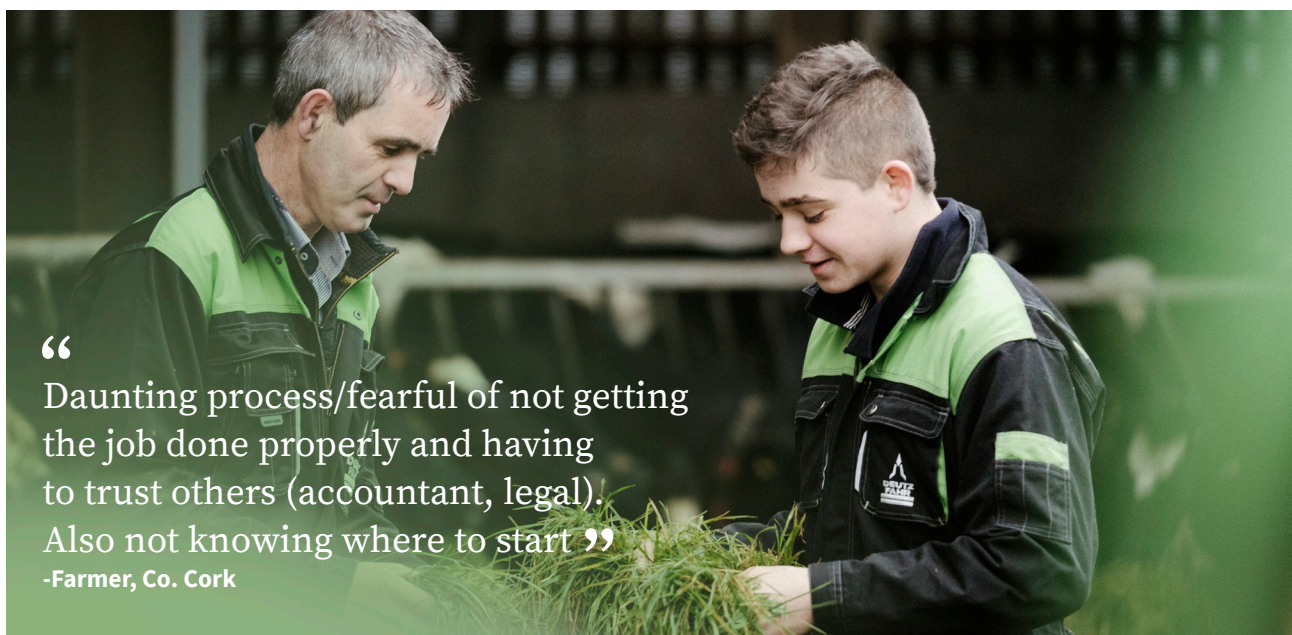
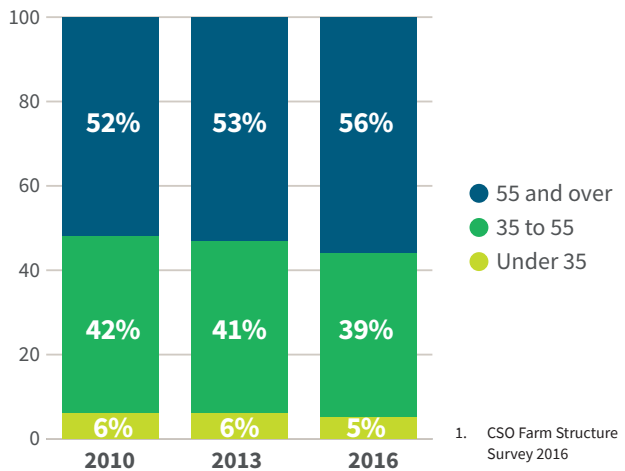
Succession Planning

Every farmer should have a succession plan. Regardless of your age and whether your farm is viable or not, having a plan is the best way to protect your family's future.

While you may not intend to hand over your farm for many years to come, your family could be left in difficult circumstances if unexpected events such as accidents or ill health occur and you have failed to think ahead. It is somewhat alarming that *ifac's* survey found one in three farmers aged over 65 do not have a formal succession plan. While you may have an idea in your head about what you want to happen to your business when you make your exit, unless this is properly documented, there is every chance of creating expensive legal and tax problems for your successors as well as missing out on financial planning opportunities for yourself.

AGEING FARMING POPULATION (2016)

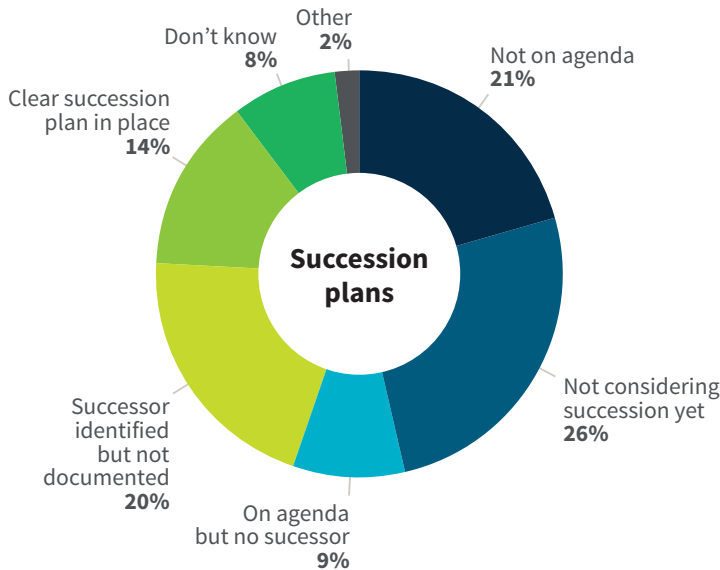
55% of farmers are over 55 years old¹



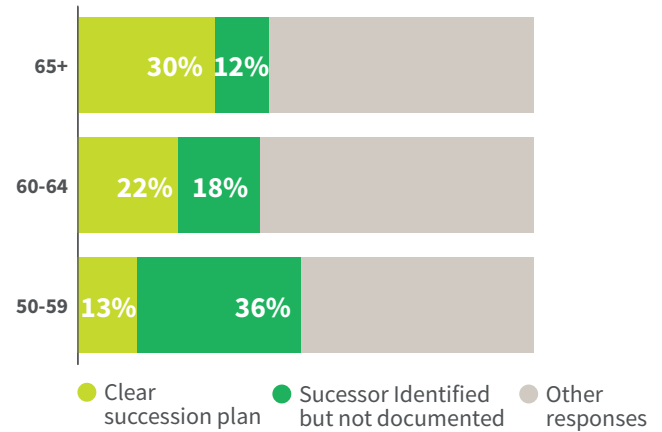
“
Daunting process/fearful of not getting the job done properly and having to trust others (accountant, legal).
Also not knowing where to start ”
-Farmer, Co. Cork

PLANNING

86% of farmers do not have a clear succession plan in place



Succession plans by age category



KEY CHALLENGES

43% believe their business is not viable enough

- No clear successor in family **18%**
- Too sensitive a topic **12%**
- No Interest from next generation **18%**
- Business not viable enough and won't encourage next generation **43%**
- Haven't put any thought into it **21%**
- Other **6%**

“Have successor but would rather he do something else”
-Farmer, Co. Cork

IFAC INSIGHTS ON SUCCESSION

AGE
Succession is an issue across all sectors represented in our survey. Overall, 1 in 3 farmers do not have a successor and only 1 in 8 of those in the 50-59 age bracket have a formal succession plan in place. The picture improves if we look at the numbers who have identified a successor but do not yet have a plan, however it is vital that proper planning is put in place. Farmers are often cash poor but asset rich. Failing to plan for succession could lead to significant tax bills.

FARM VIABILITY
Common reasons cited by survey respondents for the lack of a succession plan include concerns about viability, no clear successor and/or lack of interest among potential successors. Nevertheless, regardless of viability the farm is a high value asset. Average land value across Ireland is €9,072 per acre according to a recent Farmers' Journal land report. That puts the average farm value at circa €740,000 based on a farm size of 33ha although this varies depending on the county and land type.

TAX & PLANNING
Given that average farm value is potentially €740,000, it is important farmers take the first steps to formalise their succession plan. At a minimum it is vital that all farmers have a Will in place. Have a family meeting to clarify wishes and meet with your accountant/solicitor to discuss options. Seek feedback on your plan from your agri advisor or a trusted family friend. Your plan must be written down.

Succession- the issue that affects all farms



Declan McEvoy,
Head of Tax

Regardless of income and/or farm viability, succession is the one issue that affects all farms, says Declan McEvoy.

Most farmers are asset rich and cash poor. The value of land and farm assets means tax can become a major issue for farm families if you fail to plan ahead. The table below lists the main tax and non-tax issues to consider.

TAX ISSUES	NON-TAX ISSUES
Income Tax	Protecting your future
VAT	Fair deal scheme
Capital Gains Tax	Banking issues
Capital Acquisitions Tax	Other family members
Stamp Duty	Charges on the land, etc
Corporate taxes <i>(if your business is a limited company)</i>	Living expenses

Before you begin tax planning, preliminary steps to take include:

- Hold a family meeting. Know your thoughts ahead of this meeting and prepare an outline of the issues to be discussed. Remember to consider not just your intended successor but also other family members and their requirements for sites, etc. A key objective for the meeting is to get agreement where possible.
- Calculate your own requirements regarding income security. How will you fund your living expenses over and above pensions? What about repairs/maintenance of the farm house? What about motor expenses and ongoing costs eg. ESB, phone, insurance?
- Contact your bank to clarify what, if any, charges are outstanding on farmland/assets.
- Identify any other outstanding charges and seek legal advice on how to get these removed.
- Seek information on legal issues including the implications of availing of the Fair Deal nursing home scheme.

The value of land and farm assets means tax can become a major issue for farm families

There is no point in looking at tax until you have considered the above issues and clarified your intentions. When you are ready to look at tax, the key questions to ask are:

- **Income Tax:** Have you examined your income tax position and that of your successor? Plan ahead to minimise your tax liability.
- **VAT:** Are you registered for VAT and, if so, have you examined the consequences of transferring the business? If you are not VAT-registered, beware VAT clawbacks.
- **Capital Gains Tax:** Do you have a complete list of when you acquired your properties, what you paid for them and what you spent on them? Ask your tax advisor what reliefs are available and check which, if any, have already been claimed.
- **Capital Acquisition Tax:** Have you weighed up the pros and cons of transferring assets by way of a lifetime transfer versus via your Will? Ask your tax advisor about CAT reliefs. With proper planning, family members can receive €3.2 million of agricultural assets tax-free. Children can receive €320,000 tax free. Anyone can receive a gift from you of €3,000 per annum. Gifts and inheritances since the 5th of December 1991 are aggregated.
- **Stamp Duty:** Is your successor a Young Trained Farmer? If so, have you examined the stamp duty reliefs that are available? Has your successor claimed stock relief? Have you considered how the new €70,000 cap

could affect your successor? Draw up a farm business plan for the next few years and bring your successor in on these discussions.

- **Corporation Tax:** Is your farm business incorporated? If yes, have you considered how you will pass on your shares? What are the tax implications and what reliefs are available?

Basic Payments also need to be looked

Farm succession is a specialised area and it is very important to get proper legal, financial and tax advice. An advisor dealing with agribusiness on a day to day basis is the best person to use.

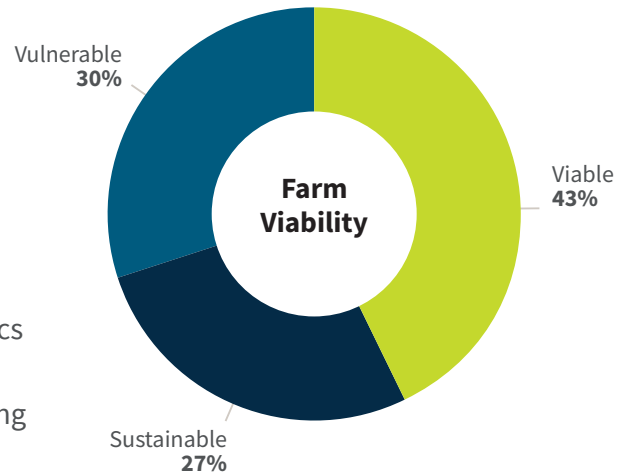
at. If they transfer with land, Capital Gains Tax and Agriculture/Business relief will be available.

Finally, remember to update your Will and ask your legal advisor about Powers of Attorney. Farm succession is a specialised area and it is very important to get expert legal, financial and tax advice. An advisor dealing with agribusinesses on a day to day basis is the best person to use. Contact your local *ifac* Partner/office in the first instance to help put your succession plan in place.

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Business structure

It is clear from our survey that a lot of farm businesses reliant on off-farm income. Most farmers recognise that their businesses must evolve to survive, and nowhere is this more pronounced than in the beef sector. CSO statistics show that average farm size in Ireland has more than doubled over the last century, so it is perhaps not surprising that many respondents in this year's survey observe that rural Ireland is changing. 'Bigger farms are needed to make a living,' commented one beef farmer. 'Get bigger or get out,' said another. Succession is a huge issue with 43% of survey respondents saying their farm is not viable and that they won't encourage the next generation to take on the business. One positive way to address the challenges posed by viability and succession can be to change your business structure. The Register for Farm Partnership was launched in April 2015 by the Department of Agriculture to help address these issues.



One positive way to address the challenges posed by viability and succession can be to change your business structure.

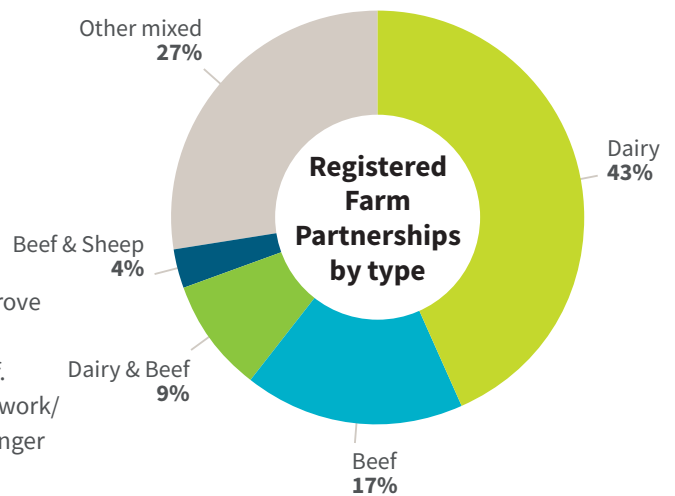


REGISTERED FARM PARTNERSHIPS

2,482

Registered Farm Partnerships in Ireland¹

Forming a partnership can be a good way to achieve scale, improve efficiency and combat rural isolation by sharing the workload with someone as committed to the business as you are yourself. Partnership can also provide access to capital and skills, better work/life balance and improved succession planning by allowing younger farmers to participate in farm management earlier than might otherwise be possible. Before deciding to enter into a partnership, however, it is essential to obtain legal and tax advice to guard against any potential future pitfalls such as partnership disputes, accidents or the death of a partner. Having a written registered farm partnership agreement is also essential. This should include a dispute resolution mechanism that you can rely on if problems arise.



PARTNERSHIP FAQs

Should I draw up a Partnership Agreement?

Yes. The Partnership Agreement sets out the rules of the partnership and in the event of dissolution the Agreement will determine how assets are distributed.

What happens assets bought by the partnership?

Each partner gets a share of those assets in line with their profit sharing ratio.

What happens if I take more out of the partnership than I put in?

In this situation, you will get less out when the partnership ceases.

IFAC INSIGHTS ON PARTNERSHIPS

REGISTERED FARM PARTNERSHIP

If you enter into a registered farm partnership with another farmer, you may be able to claim tax relief on your share of the profits. This relief is by way of enhanced stock relief at a rate of 50% for farmers in a partnership compared to the 25% general rate. There is a further incentive if you subsequently transfer from a registered farm partnership to a succession partnership.

SUCCESSION FARM PARTNERSHIP

The Succession Farm Partnership Scheme is an incentive to encourage farmers to transfer farm assets to their successor. To avail of this scheme, you must first register as a farm partnership. Once registered, you can transfer to the Succession Farm Partnership Register. The incentive takes the form of a €5,000 per annum tax credit for up to five years during the Succession Agreement term or until your successor reaches age 40.

PARTNERSHIP GRANT

Under the collaborative farming structures there is a grant available to cover part of the legal, advisory and financial services costs incurred in the drawing-up of partnership agreements between farmers.

1. Dept of Agriculture, Food and the Marine

The Limited Company Option



Margaret Balfe,
Senior Tax Consultant

Choosing to incorporate a farm business is usually the last option in tax planning. There are many other tax planning options for farmers before making the big decision to incorporate, says Margaret Balfe, Senior Tax Consultant.

If you decide that incorporation is the right choice for your business, you will need to carefully plan the timing of the change, keeping a close eye on how this will affect your current and future tax affairs. You should ideally take a 5 year look at what the savings will be and then decide.

Benefit

Bear in mind that while forming a limited company can help profitable farm businesses to retain cash, accelerate loan repayments and expand, the structure is not necessarily suitable for everyone. Farms currently paying the lower rate of income tax are unlikely to benefit from incorporation.

Rising profits can be a reason to consider forming a limited company if other tax planning opportunities have been exhausted. Likewise, on large scale beef and tillage farms where profit on a per animal/acre basis may be low, overall profit can be high, incorporation may be worth considering. On profitable farms and/or where you are in the higher income tax band, forming a limited company can be a way to reduce your tax bill. However, this option should only be considered if you have taken advantage of all available tax saving opportunities within your current structure and have explored the potential benefits of a partnership.

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Questions to Consider

Before making your decision ask the following -

- Will you continue to be liable at the top rate of income tax on an ongoing basis?
- What investment are you planning?
- Do you envisage any future expansion or ownership changes?
- Are you claiming all relevant individual and/or partnership allowances?
- Are family wages being maximised?

Current and potential future profits, capital investment plans, pension requirements and succession planning also need to be taken into account. Remember that you will need to update your Will if you decide to change your structure. This is very important because the change in business structure can affect ownership of assets. It is essential to take professional advice when contemplating incorporation as this is not a short-term option.

Rising profits can be a reason to consider forming a limited company if other tax planning opportunities have been exhausted.

Financial wellbeing

Our survey shows most farmers have off-farm income, but what happens when this stops? The likelihood is they will have to keep on farming because they will not be able to afford to retire. Only 32% of those aged over 65 have a pension in place for themselves and their spouse. In this age bracket, most farmers also have no life insurance. While the picture is somewhat better for younger farmers, one in five of those aged 40-65 do not have a pension plan and less than half (43%) have mortgage and life cover. The majority are neglecting the life cover aspect of personal financial planning.

30%
of full-time farmers have no pension cover

PENSIONS



Public sector has 100% pension coverage.



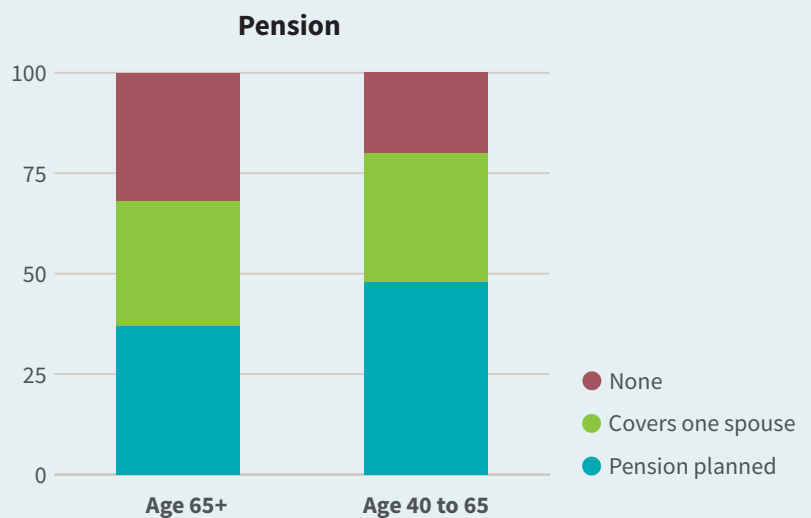
51% of self-employed have pension coverage.



State pension is currently a maximum of €248.30 per week (depends on the PRSI contributions paid).

62%
of farmers over 65 have no pension

52%
of 40–65 year-olds have no pension plan or have a pension for one spouse only.



LIFE COVER

58%

of over 65s have no life cover for either themselves or their spouse

43%

of 40 - 65s have mortgage and life cover while...

20%

have no life cover for the household

“A lot of older farmers are in beef where profitably is very low and farms are almost 100% reliant on subsidies. For these farmers, the low levels of pension coverage means that if their off-farm income ceases, they may have to either continue farming into their later years or rely on the state pension, neither of which is likely to provide an adequate income.”

-Farmer, Co. Galway

81%

of ifac survey respondents have off-farm income (19% farming)

RETIREMENT PLANNING

You work hard for your money so when you invest for your retirement, it is important to choose your pension wisely. Factors to consider include premium and fund charges, and risk.

Ensure that your retirement plan covers any gap between your intended retirement date and the date when you can draw your pension.

Questions to discuss with your pension advisor include:

1. What charges apply to my premium and fund?
2. How much risk is being taken with my money?
3. When can I access my money?
4. How can I access my money?

IFAC INSIGHTS ON FINANCIAL WELLBEING

HEALTH INSURANCE

Make sure that you are getting the best deal available. You can compare the various plans on the Health Insurance Authority website, www.hia.ie

LIFE INSURANCE

Work out what life insurance cover you need and what you can afford. Remember that the life cover you require changes over time so you need to review your policy from time to time.

EDUCATION

Financial planning isn't just about planning for retirement. You also need to plan for future costs such as third level education fees. This is often one of the biggest drains on family income. Setting up a small savings fund can help offset this cost if/when it arises.

MAKE A WILL

As well as minimising the future tax liability for your successors, making a Will forces you to think about your assets. This can help identify opportunities to enhance your personal finances.

Protecting Your Financial Wellbeing



Martin Glennon,
Head of Financial
Planning

It is difficult to overstate the importance of pension planning — not just as a protection for your future financial wellbeing but also as a tax planning tool, says Martin Glennon.

Overall, only a third of farmers who participated in *ifac*'s latest survey have a pension plan in place for themselves and their spouse. While younger farmers are better prepared than the older generation, 52% of the 40-65 age group do not have a pension plan. Contributing to a pension not only protects your future financial wellbeing, it can also reduce your tax bill.

Pensions and tax relief

If you are self-employed and contribute to a personal pension plan, the value of the benefits that you receive will depend on the level of contributions you pay into the plan and the investment return achieved. The tax advantages of contributing to a personal pension are that your benefits in the plan grow tax free and, subject to certain age-related limits, you can claim back 20% of the premium if you are a standard rate income tax payer, or 40% if you are in the higher income tax band.

When choosing your pension plan, pay attention to the charges as these can have a significant impact on the benefits you ultimately receive. Ask your advisor what charges will apply to your premium and fund, now and in the future.

Make sure that you understand the level

of risk that you are undertaking. Your age now, and how far you are from retirement, will influence your attitude to risk. Ask your advisor to check whether your investment is diversified and what risk management procedures are in place to protect it against market fluctuations.

Accessing your pension

There are two main options when it comes to accessing your pension fund. You can either purchase an annuity which provides a guaranteed income for life, or you can invest in an approved retirement fund (ARF). It's important to know which of these options you intend to take, and to let your advisor know, as your decision can affect how your fund should be invested in the run-up to retirement.

Contact Martin

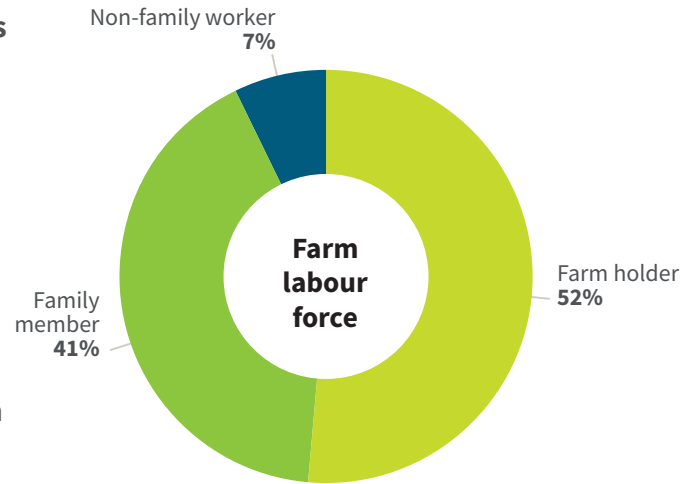
01-4551036

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52% of the
40-65 age group do not
have a pension plan.

People

Traditionally, most of the labour on Irish farms was provided by the farm owner or family, however this is no longer always the case. Teagasc recently estimated that an extra 6,000 people will be needed in the dairy sector. Elsewhere, in businesses that rely on seasonal workers—such as horticulture and agricultural contracting—hiring and retention is increasingly an issue. At a time when farmers must compete for workers, those who offer well thought-out incentives and opportunities will have the edge in attracting and retaining employees.



LABOUR FORCE

265,400¹

people were employed in the agricultural sector in Ireland in 2016

were non-family workers

of ifac dairy farms employ off-farm labour

5.5% of all ifac farms anticipate an increase in labour in the next 12 months

of ifac dairy farms anticipate an increase in the next 12 months

GENDER IMBALANCE

18%²

of those working in the sector are female

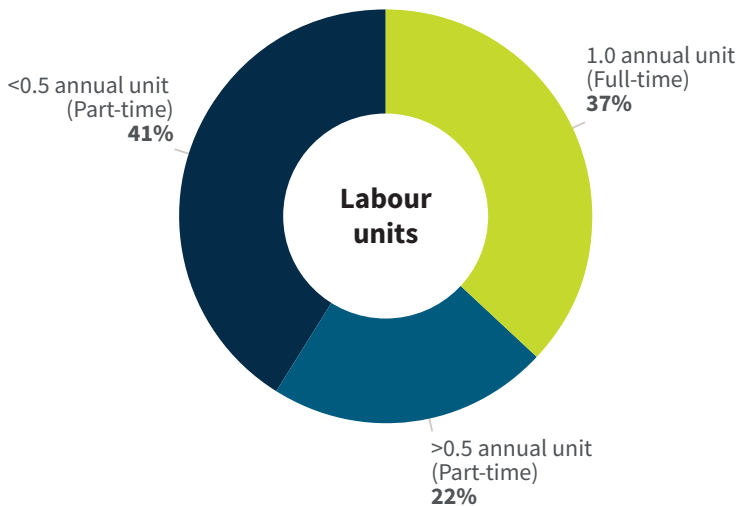
20%²

of women own the farms on which they worked



1. CSO Farm Structure Survey 2016.

2. CSO.



FULL TIME V PART TIME

27%

of people working on farms worked full-time (1.00 Annual Labour Unit) while 42.7% contributed less than half an Annual Labour Unit.

Specialist dairying

was the most labour-intensive farm type with 81% of farm holders working a full Annual Labour Unit in 2016, and 94% working at least 75%.

FARM HELP

According to Teagasc, there is a particular issue in the dairy sector with

6,000
people required

“The dairy industry is facing a severe shortage of new young recruits. The average dairy farmer is currently 58 years old”

-Teagasc ‘People In Dairy’ Report

“Getting good people is difficult”

-Farmer, Co. Cork

“Work is getting harder, help is getting scarcer.”

-Farmer, Co. Louth

IFAC INSIGHTS ON PEOPLE

NET VS GROSS PAY

Don't use net pay agreements. Agree a gross (before tax) rate of pay per hour. Ensure that you comply with applicable pay rates. Ireland's National Minimum Wage is now €9.80 (before tax) per hour. Make sure that all employees receive a contract of employment when you hire them.

PAYE & TAX

Ensure you are complying with the new PAYE regime requirements. Under the old regime, Revenue interventions were by and large in respect of P35s submitted at year-end. Now, with real time reporting, Revenue will have greater visibility, so it is likely we will see an increase in Revenue interventions, audits and fines. The fines are substantial—€4,000 for every breach. It is imperative that all employers

ensure they are compliant with PAYE Modernisation and encourage employees to register for MyAccount.

HEALTH & SAFETY

Always be mindful of your employees' health and safety and promote the importance of safety in your workplace. Keep a record of hours worked and give your employees the appropriate rest breaks.

Looking after your employees



Mary McDonagh
Head of Payroll Services

At a time when farmers must compete for workers, those who offer well thought-out incentives and opportunities have the edge in attracting and retaining employees. While the number of farmers nationally may be falling, the scale of individual farms, particularly in the dairy sector, continues to increase.

This increased scale is creating both challenges and opportunities. One of the challenges is the recruitment and retention of good quality high performing staff. In short, good people are hard to find and even harder to keep. Here are *ifac's* top fifteen tips for looking after your best employees:

1. Treat your employees as you would like to be treated. Lead by example but remember your employees will rarely work as hard or as long as you; they don't own your farm, you do.
2. Make sure your employees receive a contract of employment when you hire them.
3. Don't use net pay agreements. Agree a gross (before tax) rate of pay per hour.
4. Remember to make sure you are compliant with applicable pay rates. Ireland's National Minimum Wage is now €9.80 (before tax) per hour.
5. Be aware of benefit in kind. If you are giving your employee the use of a vehicle or other non-cash incentive, it may be subject to benefit in kind (a tax charge on the deemed value of the benefit).
6. Make sure you pay fairly and on time, every time. With the introduction of PAYE Modernisation this year, you will also be submitting payroll information to Revenue each time you pay employees.
7. Give your employees a payslip each time they are paid.
8. Keep a record of hours worked and give your employees the appropriate rest breaks.
9. Honour all agreements on overtime, profit share, bonuses, etc.
10. Reward extra effort. You can give your employees a tax free voucher of up to €500 once per year.
11. Give clear direction on what tasks you require your employees to complete and provide appropriate training.
12. Give clear, straight forward and honest feedback.
13. Be flexible, we all need to go to a doctor/ dentist/parent teacher meeting, etc. sometimes at short notice.
14. Always be mindful of your employees' health and safety and promote the importance of safety in your workplace.
15. Think win-win. If you look after your employees, they will look after your business.

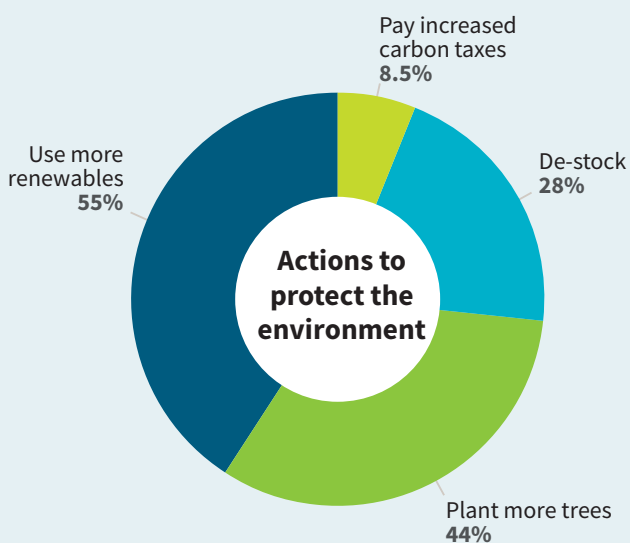
Managing people can be challenging. Having a clear consistent approach to people management is vital. A growing business, be it in the farming, food, or agribusiness sector, will need good people. Be a good manager and you will retain your best people.

Contact Mary
1800 714050
marymcdonagh@ifac.ie

Protecting the Environment

In line with the 'green wave' observed in the recent elections, *ifac's* research shows that Irish farmers are very open to taking action to protect the environment. As can be seen from the pie chart, the top actions identified relate to renewables and planting more trees. It is estimated that up to 70% more food will be required to feed the world by 2050. Ireland is one of the world's most efficient producers of food. Producing 1kg of beef generates 19kg carbon in Ireland versus 80kg carbon in Brazil. Producing 1 litre of milk requires 7 litres of water in Ireland versus 140 litres of water in the USA. This is because our grass fed production system allows animals on the land for longer periods. We are improving these figures year on year.

	Carbon generated producing 1kg of beef	Ireland 19kg	Brazil 80kg	EU average 22.1kg
	Water required to produce 1 litre of milk	Ireland 7l	USA 140l	



Total exceeds 100% as some respondents chose more than one action.

ACTIONS

of farmers surveyed are concerned about the impact of new environmental legislation on farming income.

55%

of survey respondents expressed interest in renewable energy sources.

CARBON SINK

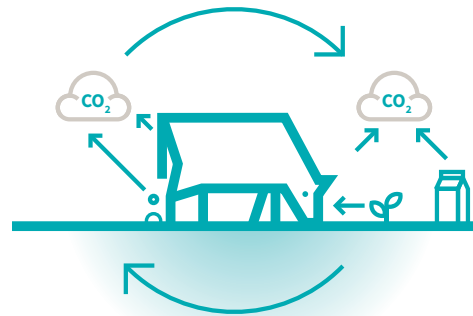
Most of our beef and milk is produced on grass. As environmental issues have come to the fore in Ireland in recent times, particularly in the dairy and beef sectors, an issue that is often overlooked is the need to examine how we measure carbon emissions for our farming systems.

Grass is a carbon sink, meaning it stores more CO₂ than it emits. As our farmers increase soil fertility and produce more grass, our carbon output per unit of beef/milk will fall.

Ireland currently has 67% of land under grass, is not allowed to offset grassland against carbon emissions even though grass stores carbon. Contrast this with Sweden, where 76% of land is under woodland which Sweden is permitted to set against its carbon emissions.

The carbon sink

A carbon sink is anything that absorbs more carbon than it releases as carbon dioxide. European forests are currently a net carbon sink as they take in more carbon than they emit. In climate negotiations, this temporary reduction of carbon dioxide in the atmosphere is also known as Negative Emissions.



IMPROVING SUSTAINABILITY

A recent Teagasc booklet highlights seven practical measures dairy farmers can take to improve the environmental sustainability of their farms, increase profitability and help Ireland meet national and international environmental challenges. These measures focus on two main areas. Firstly, implementing technologies and practices on farms which reduce greenhouse gases (GHG) and ammonia. Secondly, improving the efficiency of the dairy system.

Source: Teagasc. Improving Farm Sustainability— Practical tools for farmers.

1. Improving Economic Breeding Index (EBI) and extending the grazing season. A €20 EBI increase can lead to a 3% reduction in carbon footprint. A 10 day increase in the grazing season can lead to a 1.7% reduction in carbon footprint and a €27 increase in profit per cow.
2. Substituting clover for chemical fertiliser. A well established white clover pasture will deliver a 10% reduction in carbon footprint (3% due to increased milk yield; 7% due to reduction in nitrogen fertilisation).
3. Changing to protected urea. A Teagasc fertiliser plan using protected urea can save €17/ha compared to an equivalent conventional plan.
4. Reducing losses from slurry. Best practice in slurry spreading can reduce GHG and ammonia emissions and increase nitrogen retention.
5. Improved energy efficiency and renewable energy. The first steps in reducing energy costs are to estimate the amount of energy that is currently being used and to carry out an audit with your equipment provider to assess the potential for improvement.
6. Incorporating forestry and hedgerows on farm.
7. Using the Agricultural Sustainability Support and Advisory Programme (ASSAP) advisors to help improve water quality.



Renewables

Wind has become the main source of renewable energy production in Ireland in recent years, increasing from less than 1% of total primary energy production in 1990 to 22% in 2014.¹ Investing in renewable energy can help farmers to diversify their income. Capturing power from the sun or wind and converting it into electricity creates a resource which you can consume on-site or sell to the national grid. However, there are many factors to take into account before deciding to invest in wind or solar. These include planning, contracts, leasing, taxation and succession to name but a few.

SECTOR FACTS



55% of ifac survey respondents expressed interest in renewables



In 2018 wind provided 85% of Ireland's renewable electricity and 30% of our total electricity demand.²



After wind energy, wood fuels are the largest contributor to renewable energy generation in Ireland.³

SOLAR

A 2015 project initiated by the Carlow Kilkenny Energy Agency under SEAI's Better Energy Communities programme included the installation of a 250kWp solar array on the rooves of cold storage sheds at a family farm in Kilkenny. Installed by Solar Electric in October 2015, the 1,000 solar panels represented an investment of €270,000, 18% of which was funded by a SEAI grant. The panels will generate

over 208,000 kWh of electricity per year, contributing 11% of the business's total electricity consumption. This helps provide the family with greater energy price certainty and contributes to their overall corporate social responsibility goals, as well as supporting Bord Bia's objectives to reduce energy use in the food supply chain.



1. CSO. Environmental Indicators Ireland, 2016.

2. SEAI. Wind Energy. www.seai.ie

3. DAFM. Foodwise 2025.

4. SEAI. Ireland's Solar Value Chain Opportunity. April 2017.

IFAC INSIGHTS ON RENEWABLES

SOLAR

Land under solar panels can still be used for grazing small livestock or bee-keeping.

WIND

Studies show that wind patterns in certain parts of Ireland are ideal for wind energy production. Farmers with land in these regions can obtain a good long-term return on investment through the sale of electricity to the national grid.

OPTION AGREEMENTS

Typically, farmers first think about renewable energy when they are approached by a renewable energy developer. Usually, these developers will seek an option agreement giving them an 'option' to acquire access to your lands and to insist that you execute a lease in the event that they wish to develop on your farm at some time in the future. It is vital to talk to your accountant and solicitor before entering into these agreements so as to avoid potential pitfalls.

Technology

In farming, as in other sectors, automation enhances efficiency and redirects human effort to higher value work. This is already happening— and will increasingly happen—in the parlour, the cattle shed and the fields. Online banking and digital technologies are improving efficiency on Irish farms and saving farmers time and money. Tasks once completed offline like applying for VAT refunds have also moved online. However, the benefits of automation are offset by the loss of personal interaction.



68%

of participants use online banking tools

FARM MANAGEMENT SYSTEMS

Herd, breeding and grass management systems along with precision farming technology and advanced milking systems have gained traction on Irish farms in recent years, the adoption of new technologies accelerated by mobile apps.

IFAC INSIGHTS ON TECHNOLOGY

COLLABORATION

From a farm accountancy perspective, technology advances will shortly facilitate enhanced data sharing by farmers, accountants and agri advisors. This will enable better budgeting and on-farm management accounts and thereby improve decision-making.

FARM DATA

Farm data continues to become more valuable. How this will play out is not yet clear but an equitable framework needs to be put in place around farmer data. Ultimately the farmer has to have control of their data and benefit from its use.

QUALITY OF LIFE

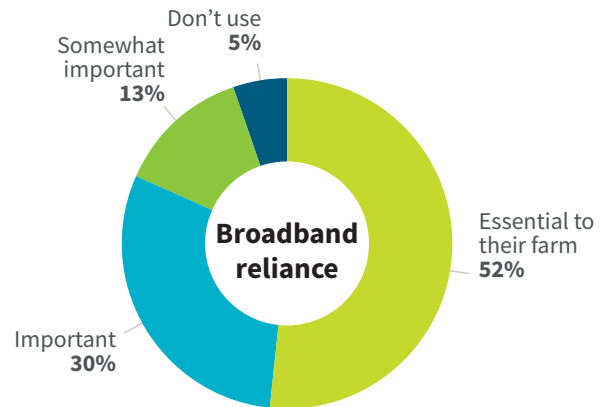
Digital technology has the potential to improve farm businesses by saving time or costs or by using inputs in a more environmentally sustainable way. We expect many more new agtech products and services to reach the Irish market. However, they will only gain traction if they improve farm efficiency.

BROADBAND

of participants in our latest survey have adequate access to broadband.



However, it is imperative that Government does not leave the other 32% behind. The national broadband plan must be a priority.



50%

of participants use online Herd & Breeding tools –

for dairy farmers this rose to

78%

Brexit

While the agri-food sector is less reliant on the UK market today than in the past, the UK continues to account for 40% of Irish food exports. At the time *ifac's* survey was conducted, the UK appeared to be edging closer to a 'no deal' Brexit yet 45% of respondents still did not know what impact this would have on them. Subsequently, the Brexit deadline was pushed out to 31 October 2019. Recent political developments in the UK have, if anything, added to uncertainty. The Irish Government recently warned that the risks of 'no deal' are higher than ever and asked businesses to step up their Brexit planning.

45%

of farmers don't know how Brexit will affect them

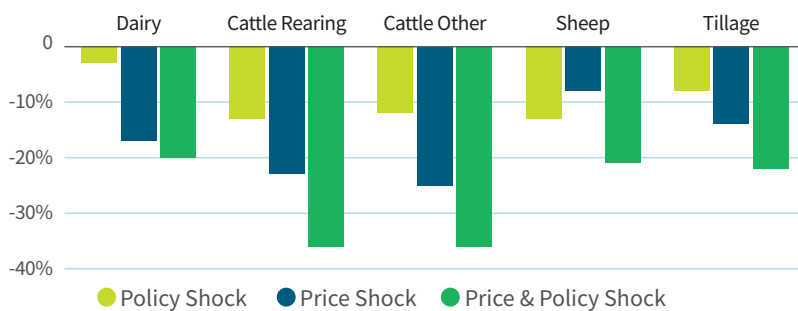
24%

of dairy farmers believe Brexit will make no difference

12%

of beef farmers believe Brexit will make no difference

Brexit impact analysis¹



Beef

remains the most vulnerable sector to the effects of Brexit

80%

of Irish poultry exports go to the UK

IFAC INSIGHTS ON BREXIT

CAP

CAP accounts for almost 40% of the entire EU budget. With the UK a net contributor to the EU, it is hard to see how a reduced EU budget due to Brexit won't have a knock effect on the CAP budget. *Ifac* research shows that the profitability of a large portion of Ireland's farmers are entirely reliant on EU subsidies. A cut on subsidies is a direct cut to income.

BEEF

While 65% self-sufficient, the UK is a net importer of beef with Ireland being the main supplier, accounting for almost 70% of UK beef imports. The UK is a high value market, with prices consistently above the EU

average. Given the high volume and value of trade, Ireland's beef sector is particularly exposed to Brexit. Teagasc data suggests a policy and price shock could affect prices by up to 35%, for example if a WTO tariff was imposed on beef. *Ifac's* latest survey found 38% of beef farms are uncertain if they will still be farming five years from now.

DAIRY

While exports of dairy products and ingredients are a key component of Irish agri food exports, accounting for 32% of exports in 2018—the single largest category— Brexit will have less impact on the dairy sector than on other farm sectors. This is

due to the diversification of the dairy industry across many products and markets and less reliance on the EU market. The most material impact will be on cheddar cheese exporters, with 82% of Irish cheddar being imported into the UK— an export value of €800m in 2018. A 'no deal' Brexit could see a tariff of €1,852/t (€1.85/kg) applied to cheddar cheese exported to the UK.

SHEEP

432,000 head of NI lamb processed in RoI face potential tariffs of 80.5c/kg in the event of a 'no-deal' Brexit, effectively ending this cross-border trade.

1. Donnellan, Hanrahan and Thorne (2016) quoted in Teagasc/British Society of Animal Science presentation (2018). These impacts may be alleviated through Government/EU intervention.

Off-farm opportunities



David Leydon,
Head of Food and
AgriBusiness

Often the idea for your business has been bouncing around in your head for quite some time.

Resilience, courage and ambition are all needed to set up your own off-farm business writes David Leydon.

The *ifac* Farm Report shows that just 12% of those surveyed have a second trade or own their own off-farm business. While we hear a lot about diversification, this is still a minority sport. However, setting up your own off-farm business can be very rewarding, both financially and personally.

Often the idea for your business has been bouncing around in your head for quite some time. Don't leave your ideas bouncing – get them onto paper. Writing down an objective is the first step to achieving your goal.

Spend time researching online. Google everything about your business idea. Follow and analyse the best in your target sector on Facebook, Twitter and Instagram. Observe how they are building their business.

With a notebook full of ideas and plans you will be in a position to create the broad outline of a business plan which will answer some key questions:

- What problem will your business solve? Describe your customer segments.
- How much will they pay for your product/service? Will this leave you a margin over direct costs and overheads? What assumptions are you making in this model?
- Conduct a SWOT analysis on the business highlighting strengths and weaknesses as well as opportunities and threats.

Evolve your idea by sharing it with trusted people in your circle. This will improve your plan.

There are a range of grants and supports available from Local Enterprise Offices, LEADER, Intertrade Ireland, Bord Bia and the

Teagasc Options Programme to help get you going. A feasibility grant from LEADER or LEO will allow you to engage with a professional advisor to develop your business plan.

Once you are comfortable that there is a business to be developed, financing the early stages will take priority. Personal savings (46%) followed by State supports (16%) were the main sources of finance for food and agribusiness SMEs in Ireland in 2018¹. However, a range of debt and equity funding options will need to be assessed. For many businesses keeping the operation as lean as possible to test market demand is a sensible way to progress.

We will advise on the right structure for your new business – should you be a sole trader, a partnership or a company? What tax reliefs are available to you?

The *ifac* Food & AgriBusiness team is happy to work with entrepreneurs right across the country. We admire their guts, determination and indeed passion for their business. They create employment in their local community and help create wealth in rural Ireland. Making sure we deliver the appropriate service to businesses at all stages of their lifecycle is critical from start-up right up to large businesses with international networks.

If you are going to join other successful Irish food and agribusinesses on that business journey then we wish you the very best of luck and will be here to work with you throughout.

Contact David
087 9908227 or 01-4551036
davidleydon@ifac.ie

1. 2018 *ifac* Food & AgriBusiness Report

Funding your business



Noreen Lacey,
Head of Business
Development

A farm plan should always be 'live' and updated throughout the year...

The face of Irish farming is constantly evolving, so it's important that farmers have the right mix of practical, financial and management skills in place to ensure that their business is well positioned for the future, explains Noreen Lacey.

With a decline in farm incomes evident across most sectors in 2018, the *ifac* report highlights the importance of having a good understanding of the costs of production, as this can often be what sets apart the best performing farms. Using benchmarking and budgeting information can help to strengthen your financial management and manage cashflow.

What steps can you take if your now find yourself facing short-term cashflow difficulties?

1. Draft Financial Plan

With the help of your accountant or agri adviser, draw up a budget for the year ahead, clearly identifying when and where difficult periods in relation to cashflow may arise. This will give time to engage with the bank, extend overdrafts and put a plan in place to deal with this potential cashflow squeeze. A farm plan should always be 'live' and updated throughout the year as challenges and opportunities presents themselves.

2. Restructure Existing Debt

Meet with your bank to enquire about the options available to change loan repayments schedule, including an interest-only system or repaying loans over a longer period. Ensure extra capital for business investments, such as stock increases or small building projects, comes from savings resulting from loan restructuring and other cutbacks instead of funding from on-going cashflow or

putting more pressure on already stretched overdrafts.

3. Spend Wisely

If cashflow is under pressure, it is important to postpone any non-essential farm capital investment. For necessities, it is critical to shop around to find the best deal and best long-term value. Appraise everything carefully and try to spread the cost over a few years by matching the loan purpose with the most appropriate loan product and term.

4. Sustainable Savings

Farmers can only survive for so long cutting investment in maintenance and repairs of equipment and property before it becomes detrimental to the business. Long term savings can be made by investing in grazing infrastructure, soil fertility & improving labour efficiencies, which should be maintained in the long term.

5. Utilise Grants

Grants such as TAMSII have helped many farmers to carry out necessary capital expenditure on the farm while, subsidising the final cost. Farmers should be aware of all grant support available to them and of the thresholds that apply to their farm.

Contact Noreen
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Sound advice, independent solutions

We understand that every business has its individual needs and opportunities. Our team of experts can offer you the most comprehensive independent advice and specialist solutions tailored to fit your needs.

Our process

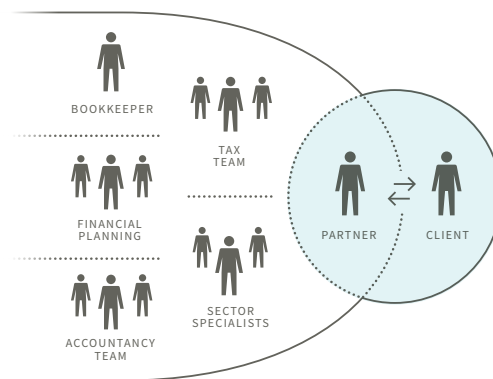
We want to know what matters most to you. No one knows your business better, so by listening to you, we gain a deep understanding of your business, your challenges and your ambitions.

Building on this deep foundation and knowledge of your plans, we draw on our financial and sectoral expertise to help you make informed decisions. Your insight will show us where you are now and our experience will guide you to where you want to be.

Our proactive approach means that we can help anticipate potential issues and opportunities along the way, and give you the sound advice you need to achieve your goals.

Our flexible approach means we regularly take the time to check in with you. We can routinely track, monitor and review performance and work with you to make adjustments when necessary, giving you the confidence and continuity to grow within an ever changing landscape.

Our process of ongoing monitoring and support means that your business is always one step ahead.



OUR APPROACH

Your local *ifac* Partner is the first point of contact between you, the local team and our national service and sector specialists. This approach ensures you have access to the right knowledge and specialist advice that best suit the needs of your enterprise.

Call *ifac* 1800 33 44 22

We specialise in a number of key areas which provide you with expert advice and services to help your business grow.



Finance

Access the right finance opportunities to start, develop or expand your enterprise.



Taxation

Our specialist tax team ensure your taxes are structured as efficiently as possible.



Specialist Advisory

Increase profits and drive growth with advice from our committed teams of highly experienced professionals.



Succession Planning

Optimise your asset ownership, succession, acquisition or divestment strategy.



Accounts

Keep track of your financial transactions and gather vital information for planning your financial future.



Audit and assurance

Our Audit team conduct internal and statutory audits. They will collaborate with you to add value to your business by identifying problems and highlighting opportunities to improve.



Financial Planning

Choose from the best investment solutions available with independent advice from our financial specialists, supported by our accounting and tax teams.



Payroll

Our payroll team will ensure accurate and compliant payroll management for you and your business.



Making Connections

After 40 years in the farming, food and agribusiness sector the ifac team have unrivalled contacts and connections. We can join the dots.



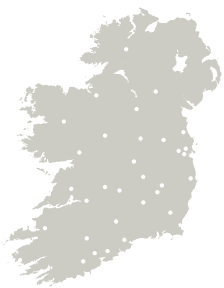
SECTOR SPECIALIST

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We're here to help



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