LAND MOBILITY

Co-funded by the Erasmus+ Programme of the European Union

Innovative and Digital Training Materials to Foster Land Mobility Initiatives

Module 2 – Financing the takeover

LAND MOBILITY TRAINING COURSE

Connecting landowners and farmers across Europe

www.land-mobility.eu @LandMobility @LandMobility

GMIT University of Bedfordshire Macra na Feirme The Polish Farm Advisory and Training Centre propel ELO Logo

LAND MOBILITY

Co-funded by the Erasmus+ Programme of the European Union

GMIT INSTITIÚID TEICNEOLAÍOCHTA NA GAILLIMHE-MAIGH EO GALWAY-MAYO INSTITUTE OF TECHNOLOGY

University of Bedfordshire

Macra na Feirme

The Polish Farm Advisory and Training Centre

propel

ELO Logo

Co-funded by the Erasmus+ Programme of the European Union

Module 2: Financing the takeover

Session 2: Financing the takeover

Description

This session will focus on the different types of agreements which the Land Mobility Services can broker and the various options which the business owner has at hand to finance the rental of the land. This session will look into both traditional funding options such as bank loans as well as grants available from the European Union. The session will provide the eligibility requirements in each of the partner countries so that the target group can already get an idea of whether they are qualified for the EU grants.

Learning Outcomes

On completion of session two, participants will be able to:

- Understand the options available for rental agreements
- Understand the options for financing their new business
- Develop a strategy based on their funding options and preferred service agreement

Indicative Syllabus			
Topic	**Methodology**	**Activities**	**Resources**
1) What is a brand 2) Why branding is important 3) Reasons for branding 4) Advantages of branding 5) How to create a brand 6) Value proposition 7) Values-driven marketing 8) Brand management 9) Brand equity 10) Digital brand management 11) Ethics in branding 12) Brand innovation 13) Branding tips for Agri-food entrepreneurs	A **Blended** learning approach incorporating both **Classroom** (face to face) and **Online** delivery	Participants will be expected to take the online lectures and the associated learning-by-doing activities sequentially.	Marketing Management (4th European Edition) by **Philip T. Kotler**, **Kevin Lane Keller**, **Andy Goodman**, **Mairead Brady** and **Torben Hanson** ISBN: 978-1292248448 Principles of Marketing, Global Edition (18th Edition) by **Philip Kotler** and **Gary Armstrong** ISBN: 978-1292341132 New Venture Creation: A Framework for Entrepreneurial Start-Ups (2nd Edition) by **Paul Burns**

ELO Logo

			ISBN: 978-1352000504 Brand Management: Co-Creating Meaningful Brands by **Michael Beverland** ISBN: 978-1473951983 Strategic Brand Management: Building, Measuring and Managing Brand Equity, Global Edition (5th Edition) by **Kevin Keller** and **Vanitha Swaminathan** ISBN: 978-1292314969 Why Branding? - https://www.sbmarketingtools.com/power-branding-small-businesses/ 10 Ways to Build a Brand for Your Small Business - https://www.marketingdonut.co.uk/marketing-strategy/branding/ten-ways-to-build-a-brand-for-your-small-business The Ultimate Small Business Branding Guide - https://www.canny-creative.com/ultimate-small-business-branding-guide/

Financing the takeover

What is a takeover?

In general terms, when talking about a takeover we generally refer to one company taking over or assuming control over another by purchasing the majority stake. However, in the case of Land Mobility Services a takeover would be the farm operators reaching an agreement with the land owner and 'taking over' the land for the agreed upon amount of time.

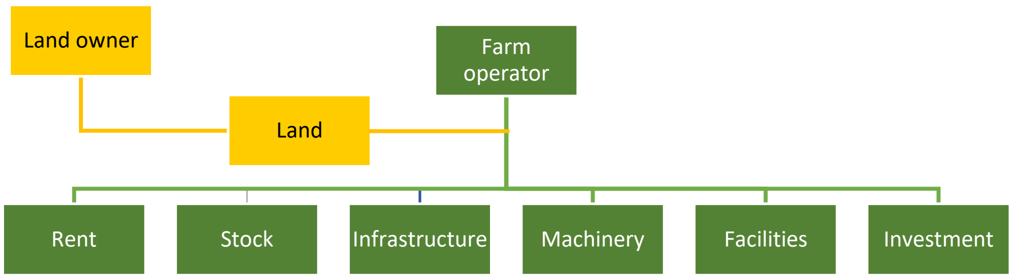
There are a number of options through which the operator can acquire the means to finance their business and its development, and it is best to present these all options to the operator so that you can discuss and identify the best-fitting course of action. The financial input of the operator will also be dependent on the type of agreement they will enter into with the land owner. The Land Mobility Service caters to everyone and has a variety of agreement which can be put in place depending on both the land owner and the operator's intended use of the land. While some land owners only want to make a profit from leasing the land, others might want to keep using part of the land, and some might want to contribute and become a partner in the operator's business. Land Mobility has options that will address the needs of both parties to ensure they are satisfied and both make a profit.

The *Financing a takeover* module will first provide brief explanations of the different types of agreements so that the broker can gather a better understanding of the available options. This will be followed by the different financing possibilities so that farm operators can assess their situation, the agreement they wish to enter in and the best option for financing said agreement.

Co-funded by the Erasmus+ Programme of the European Union

Land Mobility agreements

Long Term Leasing



Long term leasing agreements are targeted towards land owners who are looking to retire but still want to keep their land in use. Typically in such agreements the land owners is only responsible for providing the land, whereas the rest of the resources such as rent, stock, and infrastructure are the responsibility of the farm operator.

Long term leasing is proving to be a very effective land use collaboration providing certainty and security to both parties. Recent budgets have provided a significant stimulus for long term leasing.

From the land owners perspective

1. Long term leasing can be extremely tax efficient depending on the country the lease and the land are in. Below there will be more information on long-term leases in all partner countries.

2. As with all arrangements it is important to select the right person. With a correct choice, long term leasing provides income security and certainty, and it will also result in the land and facilities being properly maintained or enhanced.

3. Long term leasing agreements tend to be clean and simple.

4. Land owners wishing to step back can opt to lease part of their farm and continue to farm the remainder themselves.

5. Leasing does not suit all land owners as they may not be ready to retire or might want to stay involved, for whatever reason, in which case they may look at other options such as share farming or contract rearing.

From the farm operators perspective

1. Long term leasing delivers access to land for a definite period at a known cost, this provides certainty allowing an operator develop his/her farm business.

2. Where, in order to make the best use of leased ground, investment is required; be that on your own or the leased farm it is important that the lease duration is sufficiently long to justify same. In reality 5 years is too short in most cases.

3. Long term leasing agreements tend to be clean and simple.

4. The principal reason why leases break down is when the rent is not realistic (either way), before finalising a price it is important that you do your budgets and know your cost of production.

5. When looking to extend leases or enter new leases your record in land and infrastructure care and how you honoured previous agreements is very important, your reputation will follow you.

6. Young farmers, new entrants and small operators can find themselves at a disadvantage when considering a significant lease. Established operators tend to be best positioned to have the finance required to cover stock, investments, inputs and the rent.

Long-term lease laws by country

Belgium

When it comes to agricultural leases, especially long-term contracts Belgium has its own set of requirements which need to be met.

- Minimum duration is 27 years
- Mutual consent required for termination
- Agreement must be registered with a notary
- A minimum of 1 year notice required for termination
- If the lessee does not give in a notice at the end of the minimum term then the contract is automatically renewed for another 9 years

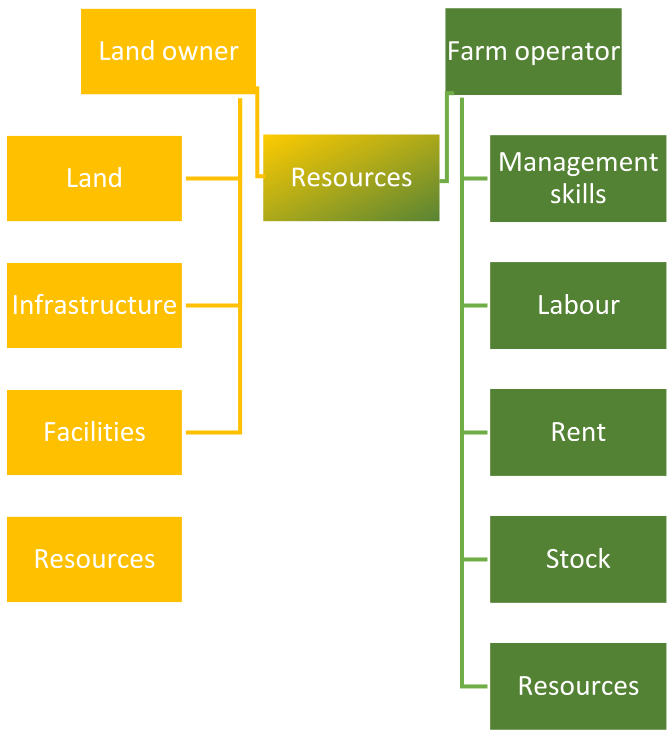
Co-funded by the
Erasmus+ Programme
of the European Union

General rules

- The lessor must pay the registration fee which will be equal to 0.2% of the accumulated rents
- Though the land owner will continue to pay property tax, if the rental agreement is for professional purposes then the net income of the land is exempt from taxation
- Note: this only applied to the land and not any infrastructure

Poland

Collaborative/Shared Farming



Collaboration and shared farming can be as simple or as complex as you want as long as the terms are clear and agreed.

The types of arrangements available under this heading include

1. Contract Rearing – a simple type arrangement while at the same time providing income certainty to the land owner and allows him/her to continue to farm. Allows an expanding operator to subcontract part of his/her operation. There are no negative tax or SFP implications.

2. Share Farming – this is where each party is still a farmer in his/her own right. It is very suited to the tillage sector, a typical arrangement would have the land owner supplying the land (and some inputs and possibly labour) with the shared farmer supplying labour, inputs, and machinery. Risk and management is shared. The concept also has possibilities for milk and drystock. Provided the arrangement is operated correctly there are no negative tax or SFP implications.

Having a Share Farming Agreement demonstrating division of resources can be very useful for SFP compliance.

1. Shared Milking – this is Share Farming in a dairy context. The possibilities and opportunities for dairy shared farming will increase post quota.
2. Cow Leasing – this represents a way a getting into livestock without the high initial outlay.

Share Milking

Share Milking represents an excellent start up opportunity for young skilled dairy farmers. There are many young people equipped with the skills to be excellent dairy farmers.

On the other side there is a significant supply of farms offering share milking opportunities for any one with such skills, mobility, and an inclination to take on such an opportunity.

Share Milking is a real option for

- dairy farm and herd managers
- those waiting to go home
- farmers for whom home offers insufficient scale or viability
- those working on dairy operations in the UK, New Zealand or elsewhere.

The big mindset challenge for anyone contemplating share farming is the move away from known return (a weekly wage) or perceived control (not owning the land) to a true Risk Reward and Sharing scenario.

The potential rewards are enormous. Regardless of milk price share milkers who run efficient operations meeting key performance targets (grass growth and utilisation, six week calving %, etc) are generating significant income and building up their equity through stock.

Share milking also facilitates entry into significant dairy farming with a much lower finance requirement compared to leasing a good sized farm.

For young farmers the big down side to leasing is the level of finance required to make it work, the young farmer will need adequate resources to

a) stock the farm

b) upgrade infrastructure, soil fertility, fencing, water, reseeding, etc

c) pay the rent

It can be a very long and risky time before any return materialises.

With share farming revenue and operating costs are split between the land owner and share farmer based on what each party brings to the arrangement. Typically the land owner supplies land, infrastructure and facilities, and some cows. The share milker supplies the management skills and labour to drive on the farm business and some cows.

Taking a 150 to 180 cow operation with the share milker responsible for labour and management and providing half the cow herd, the share milker split would be 45 to 50%.

Partnerships

Family partnerships are proving to be an excellent progressive mechanism for succession planning and management of the family farm. This arrangement as part of a succession plan has now received additional support in the budget.

The parties form a partnership to run the farm, this partnership is given permission to use the land and other assets. Some of the benefits of registered partnerships include

- Partnerships allow both younger and older generations to be actively involved.
- Partnerships have positive EU payment benefits including Young Trained Farmer Top Ups and TAMS.
- Partnerships offer tax saving opportunities through stock relief and personnel allowances.
- Additional income tax reliefs are now available to the members of a partnership, where the partnership forms part of a farm succession plan.
- The partnership helps to define roles, develop a farm plan, and determine income split.
- Partnerships can facilitate and safeguard succession management.

Outside the family Registered Partnerships, Financial Partnerships and Share Farming Arrangements all offer options for collaboration between two farmers. The Land Mobility Service helps facilitate all such arrangements.

Partnerships can also work well outside the family, the Irish models are based on the French GAEC. The best known Irish model, The Milk Production Partnership, complies with milk quota regulations however this model provides a template for any farm partnership.
Registered partnerships can be tax efficient with individual reliefs allowable and capable of being carried in (e.g. stock relief, income averaging and unused capital allowances). Revenue and the Dept. of Agriculture have a favourable approach towards registered farm partnerships. The key being that each farmer in the arrangement should be treated no less favourably than a farmer farming on his/her own. All qualifying farmers in a registered partnership are each treated as individuals for tax and SFP. Stated government policy is that all parties are treated separately for EU and government support.

Partnerships are capable of dealing with a wide range of scenarios and multiple partners, including companies. To safeguard land title, land is licensed by the landowner for use by the partnership and a clear cessation mechanism can be provided for in the agreement.

Partnership offers an ideal mechanism for dairy expansion post quota, for example a dairy farmer and non dairy farmer neighbour. In simple terms the dairy farmer can provide the milking facilities and dairy expertise with the neighbour providing the extra land and labour for expansion.

Partnerships, as agreements can be customised to differing needs offering versatility and flexibility provided a proper planning process is followed. Properly formulated partnerships have proven very successful in Ireland, key to this is

1. Define the activities to be included in (and excluded from) the partnership
2. Specify the parties to the partnership
3. Define roles, responsibilities and limits
4. Define profit sharing ratios
5. Specify duration and dissolution mechanism
6. Detail resources and capital being provided by all parties
7. Establishing bank accounts and herd number
8. Detail how accounts are to be prepared and the make up of the capital account

The planning process is very important. The business must be separated from the partner’s private lives. It is advisable to have a clear comprehensive agreement. A specimen partnership agreement has been developed by Teagasc in conjunction with the Law Society. Revenue have taxation booklets for Milk Production Partnerships.

These planning steps would also apply to establishing a company. Partnerships have a number of advantages over the company structure namely

- Each partner has an equal say
- Dissolution can be defined and simple
- More favourable tax treatment of stock relief, unused capital allowances, income averaging, or VAT coming into the partnership. Revenue treat each partner separately

- Each partner is a farmer in his/her own right

Partnerships are more compatible with the family farm concept than would be the case for a corporate structure

Corporate Structure

Company formation tends to be tax and investment driven rather than collaboration.

Corporate arrangements can however offer a lot of possibilities. A company is an entity in itself, this can provide great operational flexibility and scope but can also act as a constraint.
Corporate arrangements may be confined to two collaborators or numerous interested parties and families. For example a dairy farmer can lease his land and milk quota to a company, a non dairy farmer can lease in his land, a partly retired farmer can lease his land and swop in his stock for shares, and another party can offer finance for shares and so on. There is nothing to prevent a group of parties like these coming together to form a company and organising between them how it is run. The company concept can be applied to any farm enterprise(s).

Farmers best positioned to benefit from incorporation tend to be paying high levels of income tax, have moderate drawings and have operational scale. Forming a company can be particularly beneficial as a vehicle for expansion and development, but can also be used as a vehicle for collaboration.

The main constraints associated with company formation are:

- The company becomes the farmer irrespective of the number of farmers within the company
- Dissolution, if required, can be costly and problematic
- Taking money out of the company can give rise to significant income tax
- While audited accounts may not be required there are still company law and filing compliance requirements

The key benefits of company formation include:

- Shareholding reflects input
- Shareholders decide how the business is to be run and who has responsibility for what
- Land can be included or not
- Children and/or grandchildren can have a shareholding
- CGT, CAT, and Stamp Duty reliefs still apply
- SFP can be sold, leased or transferred to the company
- Companies pay corporation tax on company profits at 12.5%, they do not pay PRSI or USC
- Sale of stock and machinery to the company at the onset can be tax efficient
- Income can be salary, rent, fees or a mix
- The company carries out its own investment and can borrow in its own right
- An excellent vehicle to develop scale and efficiencies
- Limited liability
- Your shareholding is transferable and grows with the company

Shareholders, employees and company stakeholders/directors are liable for income tax on any income or earnings received from the company. Changing your farm from your current status to a company will require cessation of income averaging (if previously availed of) and stock relief can't be availed of in the last year of your current status.

Financial options

The Common Agricultural Policy (CAP)

Set in motion more than 40 years ago the European Union's agricultural policy was devised to provide European farmers with the necessary financial aid and benefits in order to help them increase production levels and ensure the supply of food corelates to the demand. The CAP also sets out certain rules and regulations which are focused on sustainable management of our resources, environment, and lands to ensure that agricultural practices harmful to the environment are removed or replaced.

The Common Agricultural Policy is financed through the European Agricultural Guarantee (EAGF) fund, which focuses on direct support and market measures, and the European Agricultural Fund for Rural Development (EAFRD) which focuses on rural development. The part which this module will focus on is the former EAGF as the Agricultural Guarantee is responsible for providing farmers with direct payments.

The basic payment scheme (BPS)

The Basic Payment Scheme was set up to provide farmers with entitlements based on the number of eligible hectares they own. Each hectare provides the farmer with the right to one entitlement. However, the number of entitlements farmers can get depends on the limitation which each Member State has set out for its farmers.

Entitlements are granted on a yearly basis and for a farmer to obtain said entitlements he must first go through the process of declaring the number of eligible hectares as well as the number of payment entitlements. Member States also reserve the right to set a minimum size for the farmer's holding to be eligible for the first allocation. In the Land Mobility partner countries the minimums are as follows:

Country	Minimum size (in hectares)
Belgium (Flanders)	2
Belgium (Wallonia)	1
Ireland	3
Poland	1
United Kingdom (England)	5
United Kingdom (Northern Ireland)	3
United Kingdom (Scotland)	3
United Kingdom (Wales)	5

UK

When applying for the Basic Payment Scheme in the UK applicants need to include the following items on their application:

- all the agricultural land parcels and areas on their holding
- the 'land use' and any non-agricultural features that can't be claimed for
- what eligible land they're using with their entitlements (which must be at least 5 ha)
- how many entitlements they want to use to claim for payment (which must be at least 5)
- their preferred payment currency (sterling (£) or euros (€))

If applicable, they may also need to:

- declare what EFAs they have
- declare any non-agricultural land on their holding that is part of a Rural Development Programme for England (RDPE) scheme
- confirm if they are exempt from the greening rules (for example, provide organic certification)
- declare if they want to apply for the young farmer payment
- fill in a separate application to apply for new entitlements (young and new farmers only)
- provide evidence to prove they meet the definition of a farmer, young or new farmer status
- fill in separate applications for land they have in other parts of the UK

Belgium

Single Area Payment Scheme (SAPS)

Though it is only used in a few countries, the Single Area Payment Scheme is also used in one of our partner countries, namely Poland. As such this module will briefly cover this funding option for the Polish Land Mobility Services and any other countries which are interested are make use of SAPS.

The difference between the basic payment scheme and the single area payment scheme is the lack of payment entitlements which are present in BPS. In the SAPS scheme the funds are solely based on the eligible hectares declared by farmers.

European Agricultural Guarantee Fund (EAGF)

Eligibility criteria:

- Minimum requirements: Amount of direct payments must be more than an amount between 100 and 500 euros and/or eligible areas must be bigger than 0.3 to 5ha (this is subject to national laws)
- Be an active farmer

- Land owned on airport, waterworks, real estate service, railway services and permanent sport grounds are not eligible as agriculture activity is not usually their main activity

- Perform an agricultural activity on eligible agricultural land
    - Eligible: arable land, permanent crops, permanent grassland and permanent pasture
    - Not eligible: Forests
    - Eligible hectare: parcels declares as factually possessed by the farmer who has decision making power

Minimum requirements in partner countries:

Member State	Amount threshold	Area threshold (ha)	
			Farmers implementing animal related VCS, with less than area threshold (EUR)
Belgium (Flanders)	400		
Belgium (Wallonia)	100		
Ireland	100		
Poland		1	200
United Kingdom (England)		5	
United Kingdom (Northern Ireland)		3	
United Kingdom (Scotland)		3	100
United Kingdom (Wales)		5	

Young Farmers Payment (YFP)

There is quite a high imbalance in the farming industry between old and young farmers with only 11% of the farmers being under the age of 40. In order to encourage young adults to undertake farming and similar agricultural activities the EU has set up a fund directed specifically at new and upcoming young farmers so that they can get the financial aid and training necessary to start their business and ensure it thriving. Derived from the Basic Payment Scheme, young farmers payment has priority access to the national and regional reserve. The young farmers payment can be extended for a maximum period of 5 years.

Conditions:

- It must be the first time the young farmer is setting an agricultural holding as head of the holding
- The YF is no older than 40 years

- YF has obtained a minimal level of agricultural education (only in Belgium-Flanders, Ireland, UK-Scotland)
- YF has financial and managerial control

Member State	Payment to farmer					
	Calculated as 25% of the				And with the maximum limit of	As a lump sum amount per farm
	Average value of entitlements held by a farmer	BPS flat rate	Single area payment	National average payment per ha		
Belgium (Flanders)				Y	90 ha/entitlements	N
Belgium (Wallonia)				Y	90 ha/entitlements	N
Ireland				Y		N
Poland				Y	50 ha/entitlements	N
United Kingdom (England)	Y				90 ha/entitlements	N
United Kingdom (Northern Ireland)				Y	90 ha/entitlements	N
United Kingdom (Scotland)	Y				90 ha/entitlements	N
United Kingdom (Wales)		Y			25 ha/entitlements	N

Sustainable land use (greening)

Farmers can also receive funds from the EU if they undertake practices which are sustainable for the environment and help reach climate goals. Member States are required to allocate 30% of their income suppose to 'greening'.

There are three mandatory practices which farmers must enforce in order to be eligible for the greening funds:

1. Crop diversifications: sustain a vast variety of crops which ultimately strengthens the soil and maintains our ecosystem diversified. If a farm has more than 10 hectares of arable land then it must grow at least two crops, whereas farms with more than 30 hectares are required to grow at least three crops
2. Permanent grassland: land which is permanently used for at least 5 years for growing a large range of botanical composition, fodder, forage or energy purpose crops. This practice helps

support carbon sequestration and protects biodiversity. Each Member State is in charge of setting their own ratio of permanent grassland to agricultural land

3. Ecological focus areas (EFA): if farmers have more than 15 hectares they must have 5% of the land dedicated to ecological focus areas where the land is left fallow in order to increase biodiversity

It is worthy to note that organic farmers are automatically eligible for the greening payment as their practices are considered to provide environmental benefits.