LAND MOBILITY

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Module 1C

Financing the Take-Over

Starting Up

Erasmus+

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Introduction

- Take-over = 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 the 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.

Land Mobility Agreements

The Land Mobility Service has various types of agreements designed to address both the landowner as well as the farm operator's needs.

- Long Term Leasing
- Partnerships
- Corporate Structure
- Collaborative/Shared Farming

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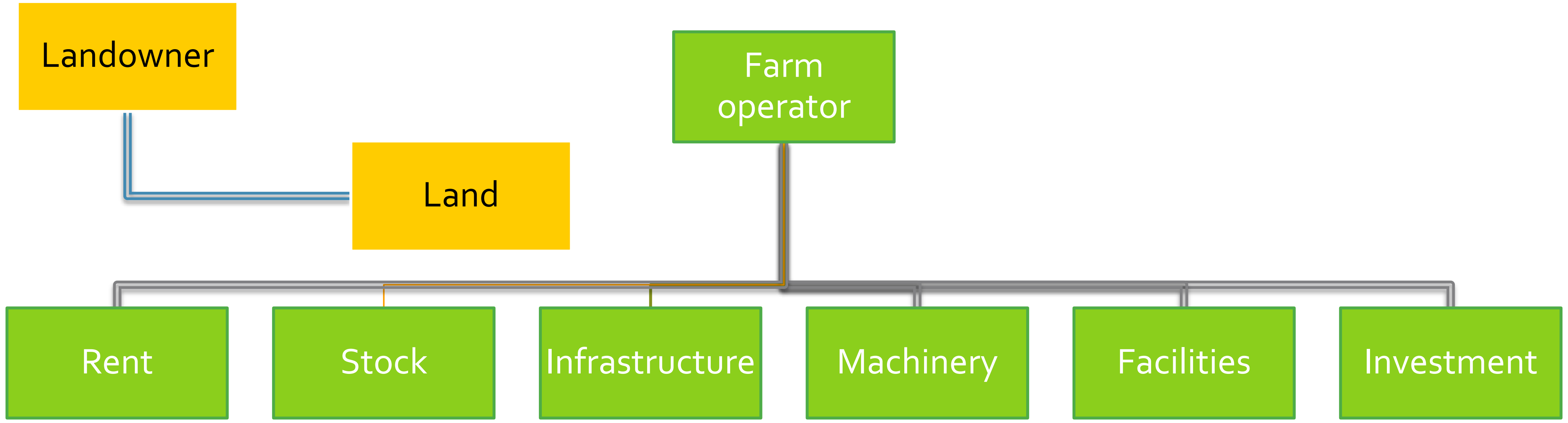
Long Term Leasing

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.



Long Term Leasing

From the landowner's 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.

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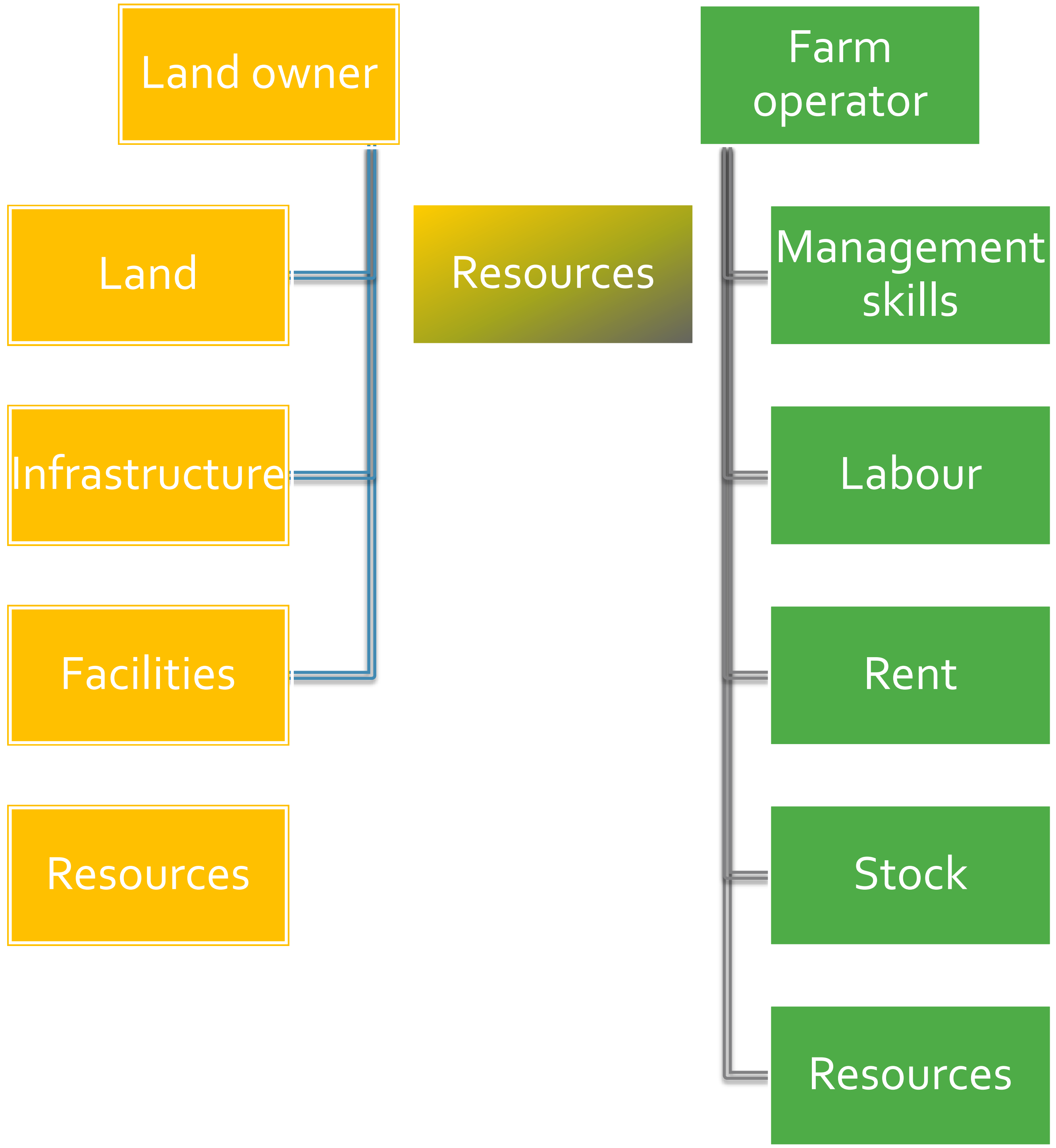
Collaborative/Shared Farming

- 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
- Contract Rearing – a simple type arrangement while at the same time providing income certainty to the landowner 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.
- 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 landowner 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.
- Shared Milking – this is Share Farming in a dairy context. The possibilities and opportunities for dairy shared farming will increase post quota.
- Cow Leasing – this represents a way a getting into livestock without the high initial outlay.

Collaborative/Shared Farming



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.

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Share Milking

- 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.

Share Milking

- For young farmers the big downside 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 landowner and share farmer based on what each party brings to the arrangement. Typically, the landowner 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%.

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Partnerships

- 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

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

Partnerships

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

- 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 swap 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).

Corporate Structure (constraints)

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

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Corporate Structure (benefits)

- 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

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 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.

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

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

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	

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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

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