CAAV Review Paper

TAXATION

Agricultural Productivity and Land Occupation

The Irish Republic's Use of Income Tax Relief to Promote the Letting of Farmland: The First Three Years' Experience

Lessons for the United Kingdom

Central Association of Agricultural Valuers

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THE IRISH REPUBLIC'S USE OF INCOME TAX RELIEF TO PROMOTE THE LETTING OF FARMLAND

THE FIRST THREE YEARS EXPERIENCE

LESSONS FOR THE UNITED KINGDOM

> **"Access to land and the low level of land mobility is one of the main challenges facing farmers who want to increase their productivity. There is a growing consensus that the actual use of land is becoming more of an issue than ownership."**
>
> *Irish Government, Agri-Taxation Review, 2017*

KEY POINTS

The Irish Republic substantially increased Income Tax reliefs from 2015 for lettings of farmland on arm's length terms for at least 5 years. The results in 3 years are:

- **The fraction of the Irish Republic's farmed area that is let on arm's length terms for 5 years and more has grown from 2 per cent in 2011 to almost 7 per cent in 2017.**
- **Approximately 450,000 acres have been newly let on such terms in just the three years of 2015 to 2017 since the enhanced reliefs were available, with that land coming from in-hand farmland as well as land that had been let out on seasonal conacre.**
- **By 2017, some 10,000 Irish farmland owners are now the landlords of arm's length tenants for at least five years, nearly half having started in the three years 2015 to 2017 and those bringing larger areas of land to the market.**
- **The average area of units let for five years or more in 2017 appears to have been around 115 acres, effectively identical to the equivalent figure for Farm Business Tenancies in England and Wales (117 acres in 2018).**

IRELAND NOW HAS MORE OF ITS FARMLAND ON NEW 5+ YEAR LETS THAN GREAT BRITAIN

Initial modelling for the United Kingdom suggests if this achieved the letting of another 4 per cent of farmland in Great Britain and 15 per cent in Northern Ireland to lettings for 5 years or more, the productivity gain might be more than £100 million.

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1.1 The significant extension of Income Tax relief on arm's length lettings of farmland for five years or more in 2015 was designed to enable land to move into the hands of the proficient and enable a longer term view for land management and productivity.

1.2 In the bare three years for which we have evidence from Irish Revenue, this enhanced relief has seen new, accelerated and sustained change in the occupation of farmland so that:

- **Ireland now has 10,000 and more landlords.**
- **Ireland has in three years already seen as much of its agricultural land area let on tenancies for five years or longer as Great Britain has achieved with FBTs in England and Wales and LDTs and SLDTs in Scotland. With pre-2015 lettings, it has 7 per cent of land on such lettings; England might have 5 per cent under FBTs for five years or more with slightly lower equivalent fractions in Wales and Scotland.**

1.3 This accumulating evidence points to this as a measure to be adopted in the United Kingdom for the same reasons, promoting the voluntary transfer of farmland by letting to those who will use it proficiently. As well as CAAV analysis, this has been included in recommendations in the June 2019 report by the Agricultural Productivity Working Group to the Food and Drink Sector Council and the 2016 *Sustainable Agricultural Land Management Strategy* report in Northern Ireland.

1.4 The key lessons include:

- the benefit of a simple policy pitched powerfully enough to influence behaviour, rather than just be a policy gesture. Previous lower levels of relief in Ireland did not achieve this effect and other more complex tax measures there have had little traction.
- the supporting research shows that it is more important to enable land to move to proficient farmers – surely the real goal of policy - than to move it from those over 65. For a variety of reasons, including other family members, the age of farmers is a distraction from the real issue of encouraging land to be made available by wearying farming owners of all ages to others who can use it better while paying a better income through rent.

1.5 This paper is a supplement to the review of these issues in the CAAV's September 2017 Discussion Paper, *Taxation: Agricultural Productivity, Land Occupation and Land Use* (see https://www.caav.org.uk/Publications/Categories/Free_Publications.aspx).

2. Access to Land as a Key to Answering the Agricultural Productivity Challenge for Ireland and the United Kingdom

2.1 Both the United Kingdom and Ireland have identified that they have a longstanding poor performance in productivity growth for agriculture. On the simplet measure, both have averaged around 1 per cent improvement a year and have been substantially outpaced year-on-year by other nations from France and Germany to Holland and the United States. As the AHDB has noted:

> "If our rate of growth had kept pace with the US since 2000, the contribution of UK farming to the rural economy would have been £4.3 billion higher by 2013." (Horizon, *Driving Productivity Growth Together*, January 2018)

Achieving that would almost double the United Kingdom's recorded Total Income From Farming (TIFF) which was £4.7bn in 2018 (with an average from 2013 to 2018 of £5.085bn). The effect on real economic performance would be more radical as excluding subsidies reduces that average United Kingdom's TIFF to £1.816 bn and that for 2018 to £1.414 bn. Matching the United States' performance in improving productivity would increase that ex-subsidy outcome for the United Kingdom three- or four-fold.

2.2 Both governments are understandably anxious to improve the productivity performance of their agricultures.

2.3 DEFRA has set the new Food and Drink Sector Council (FDSC) the demanding objective to:

> "Accelerate the growth of UK agricultural and horticultural productivity to overtake our major competitors by 2030."

2.4 While important work focuses on improving skills, use of data, innovation and investment among existing businesses, opening up the markets in land occupation and use –

"land mobility" - is also as an important component for policy to be effective, particularly with the scale of the target set by DEFRA. As the Agricultural Productivity Working Group reported to the FDSC in June 2019:

> "Facilitating the management of land by those who will adopt new tools, technologies and practices could have a subsequent positive impact on productivity."

and

> "Improving access to land by productive, proficient farmers and growers with experience or specific training could accelerate uptake of new technologies and practices."

That report recommended that the Government "investigate Income Tax relief in relation to land mobility".

2.5 Northern Ireland's *Sustainable Agricultural Land Management Strategy* report of 2016 was concerned to achieve major improvements in the poor land management it identified. Designed to improve both agricultural productivity and environmental outcomes, its recommendation included:

> "a fiscal incentive should be introduced to voluntarily encourage farmers and land owners to move away from our eleven month conacre system and towards long term leases of at least five years".

2.6 The Republic of Ireland has looked long and hard at this, with the major policy statements in the Food Wise and Food Harvest reports. It sees that enabling and encouraging the movement of land into the hands of the proficient, whether existing or new farmers, has to be an essential part of improving productivity. With the tenancy system in Ireland dismantled over a century ago, owners have only made land available on seasonal arrangements (conacre). That has made land tenure a particular concern in the search for arrangements that will improve productivity, giving a framework to support investment and land management.

2.7 The research underpinning the Irish Agri-Taxation Review of November 2014 (http://www.budget.gov.ie/Budgets/2015/Documents/Agritaxation_%20Review%20_Final_web-pub.pdf) indicated that moving land into the hands of the trained saw an average improvement in production of 12 per cent, more than twice the gain from moving land out of the hands of those over 65. The capacity for that average 12 per cent difference to be realistic is shown by the extreme range of the variation between high and low performance farms on both physical and financial criteria.

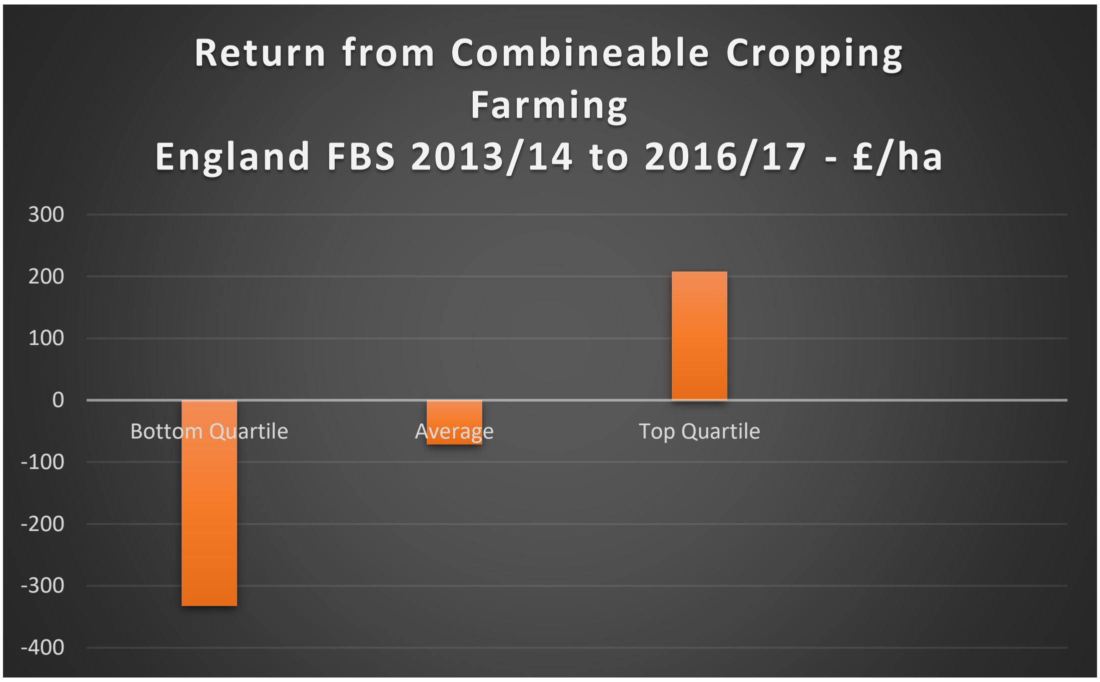
2.8 Purely as an illustration using the four FBS years from 2013/14 to 2016/17 for the major English farming land use of combineable cropping:

- the top quartile earnt an average surplus of £208/hectare from farming before BPS, agri-environment income and other on-farm income
- the bottom quartile lost an average of £332/hectare before those other sources of income.

For the FBS year 2016/17, lowland livestock farming in England saw:

- high performance businesses similarly earn a surplus from farming of £410/hectare
- low performance businesses lose £207/hectare.

Those patterns are repeated for other sectors and other parts of the United Kingdom.



2.9 Work by the AHDB with Andersons ascribes very little of the difference between commodity production farmers to the quality of land (perhaps 3 per cent), finding the real differences to lie in cost control and other management issues. All told, they see only 5 per cent lying outside the farmer's control, making the question of who is farming critical.

2.10 In brief, getting proficient farmers onto land that suits them offers a powerful aid to meeting the productivity ambition and achieving a significantly more efficient and profitable sector.

2.11 The potential for this gain is all the more real as the effect of the CAP's area payments, illustrated in the stasis reported in the CAAV's annual *Agricultural Land Occupation Surveys*, has been to pay people to occupy land so encouraging existing claimants to stay, muffling opportunities for economic and structural change. Achieving a positive outcome from the withdrawal of Basic Payments Scheme in England and Wales will depend in part on a policy climate that opens these doors.

2.12 Ireland has tackled that positively with an Income Tax relief on the arm's length letting of farmland for five years or more.

3. The Irish Income Tax Policy to Promote Letting Farmland

3.1 With the tenanted agricultural sector dismantled in Ireland over a century ago, land has only been made available between farmers on seasonal arrangements, known as conacre. Covering perhaps 30 per cent of the agricultural land area, there is concern that this arrangement often gives little confidence to either owners or takers to invest in land management, productivity or environmental care. That has been a theme not only in the

Republic but also in Northern Ireland, raised in both the Agri-Food Growth Strategy and the Sustainable Agricultural Land Management report.

3.2 With concerns very similar to those in the United Kingdom over agricultural productivity, the Irish Government instructed a large piece of econometric research to underpin its Agri-Taxation Review of 2014. As noted above that research showed the benefits to productivity from moving farmland into the hands of those who are trained.

3.3 Almost immediately following the publication of that review, the Irish Government introduced for 2015 substantial increases in the previously minor Income Tax relief on rents from arm's length lettings by written agreement of farmland for more than five years (s.664 of the Taxes Consolidation Act 1997 as amended). "Farmland" is defined to mean:

> "land in the State wholly or mainly occupied for the purposes of husbandry and includes a building (other than a building or part of a building used as a dwelling) situated on the land and used for the purposes of farming that land;".

This relief operates in a way similar to the United Kingdom's £7,500 Rent a Room relief of income from lodgings and claimed by some 23,000 UK taxpayers.

3.4 The Irish Republic had first introduced a relief from Income Tax on farmland rents in 1985 on up to £2,000 of rent. That was progressively developed so that by 2014 it was available where farmland was let by a taxpayer over 40 (the lessor, not the tenant) for more than 5 years (but not to a connected party or a company) with relief increasing with the length of the lease, exempting rental income from Income Tax:

- on 5 to 7 year leases on up to €12,000 pa
- on 7 to 10 year leases on up to €15,000 pa
- over 10 years on up to €20,000 pa.

However, the uptake had been low by 2014 (a tax cost of some €5m) and it is anecdotally understood that lease lengths appeared driven by the thresholds.

3.5 Following the 2014 Agri-Taxation Review, the November 2014 Budget sharply increased this relief for January 2015 (Ireland uses the calendar year as its fiscal year) for leases granted on or after 1st January 2015 to be:

- up to €18,000 pa for leases of 5 to 7 years
- up to €22,500 pa for leases of 7 to 10 years
- up to €30,000 pa for leases of 10 to 15 years

with a new category for leases over 15 years with relief of up to €40,000 pa on rent, intended to align with periods for farm credit.

3.6 As analysed below that has stimulated a major change in behaviour with the creation and expansion of a noticeable let sector in Irish agriculture.

3.7 On the basis of the underlying research, the value of the relief is proportionate to its use and so to the amount of land that is let on the required terms with the economic benefits that should flow from that. That relief is on income that would not otherwise have arisen. Where it is claimed, that is because the land has now been let on the required arm's length terms by owners who see benefit in doing that; the rent or other practical benefit to them from having someone else farm the land and pay rent to them for it persuades them to let it . The true tax cost is the loss of such tax as would have been due on the income that would otherwise have arisen from continuing to farm in hand. That taxable income is likely to have bene significantly less than the value of the rent now arising. Equally, the logic of the relief is that the new tenant of the land is more likely to be generating taxable income.

3.8 This paper reviews the accumulating evidence of the markedly positive impact of this policy in a country which is very similar to the United Kingdom but which, for historical reasons, has seen agricultural tenancies as culturally alien, a strong attitudinal hurdle to be overcome.

3.9 That evidence comes from:
- the official data released by the Irish Revenue, with data released in August 2019 covering the third year of the operation of this relief (2017).
- surveys of the Irish farmland market.

4. The Evidence from the Irish Revenue

This text replaces sections 4.4.4.1 to 4.4.4.7 of the CAAV's Taxation discussion paper of September 2017, Taxation: Agricultural Productivity, Land Occupation and Land Use.

Notes:
- *The Irish Revenue data is necessarily delayed by the lags in first receiving and then processing the Income Tax returns for each calendar year. Thus, the Revenue's data for 2015 was published in August 2017, that for 2016 in August 2018 and that for 2017 in August 2019.*
- *Jointly assessed couples are treated as one person in the Revenue data. Thus, where a jointly owned farm is let out by a husband and wife that is reported as a single landlord.*
- *This data only captures the claims for relief on rental income, not on the actual area let or the full rent for it. Where, for example, an owner lets 150 acres but the ceilings only allow a claim for relief on the rent from 100 acres, only that rent would appear in the figures. Yet the relief could have been relevant to the decision on the larger letting.*

4.1 The Use of the Increased Reliefs from Income Tax on Farmland Rents

4.1.1 The Irish Revenue's data for 2015 (issued in August 2017), the first year of the increased relief, showed that this increased the number of landlords claiming the relief by 30 per cent and the land area let by 50 per cent. As land management decisions frequently take time to make and then implement, that was a striking initial response with:
- a 51 per cent increase in the value of the relief
- a 33 per cent increase in the number of taxpayers claiming the relief, to twice the number claiming in 2011.

That trend has since continued in the data released for 2016 and now for 2017, creating an agricultural tenanted sector in the Republic for the first time in a century. It is reported at https://www.revenue.ie/en/corporate/information-about-revenue/statistics/other-datasets/farming-sector.aspx

4.1.2 The overall evolution of this policy with its substantial and sustained acceleration by the 2015 changes is shown in this table.

Year	Cost	Number	Average Relief
2009	€4.4m	2,960	€1,486
2010	€5.0m	3,230	€1,548
2011	€6.3m	3,590	€1,755
2012	€7.3m	3,980	€1,834
2013	€7.3m	4,370	€1,670
2014	€9.2m	5,130	€1,793
2015	€13.9m	6,830	€2,035
2016	€19.4m	8,490	€2,285
2017	€23.7m	9.790	€2,421

4.1.3 As an initial summary, the first three years of the new policy have seen:

- a 91 per cent increase in the number of farmland owners letting land out, becoming landlords of arm's length tenants paying rent.
- a 258 per cent increase in the scale of the relief revealing that this is releasing larger areas of land into the let sector and giving some indication of the extra area of land that has been let and so also of its potential benefit to the Irish agricultural economy.
- that more than proportionate effect is revealed by the steadily increasing average size of the relief for each claimant from €1,681 over the years from 2009 to 2014 to:
    - €2,035 in 2015, 13 per cent up on 2014
    - €2,285 in 2016, 27 per cent up on 2014 and 12 per cent up on 2015
    - €2,421 in 2017, 35 per cent up on 2014 and 6 per cent up on 2016

  indicating that each year the average area let by each claimant is growing (or possibly that it is land with an increasingly higher rental value that is being released).

As at the end of 2017, Ireland was on the edge of having 10,000 agricultural landlords; indeed, it probably already had more than 10,000 in 2017 when allowing for those outside the scope of this relief. The market reports reviewed in Section 5 below suggest that this figure will have continued to grow.

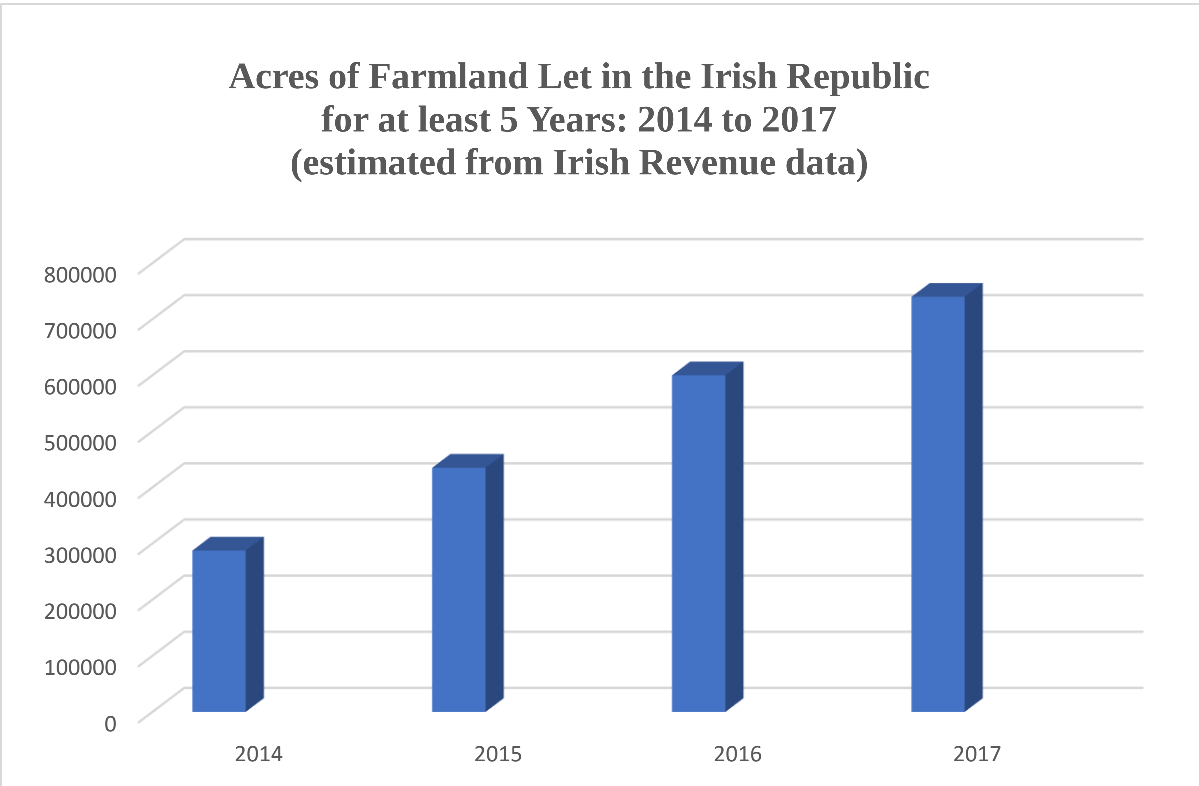
4.1.4 As the number of claimants has increased sharply and the average value of the relief has risen by less than the increase in the ceilings on the reliefs, that perhaps indicates that the changes for 2015 have succeeded in attracting more farmland owners to be landlords, not simply giving more relief to the same people. In short, this appears to be rewarding new decisions affecting larger areas of farmland rather than just giving more relief to old ones. On that basis, it seems reasonable to suppose that the newly let area is a substantial and real increase in the let area. The simple conversion of previous arrangements into longer formal lettings was more likely to have been in 2015 than in 2016 or 2017.

4.1.5 As an attempt, ahead of further information, to put some order of magnitude on these figures:

- if it is assumed that the relief is typically at the Irish basic tax rate of 20 per cent
- with income otherwise relieved or exempt outside this relief, the value of rents relieved would then have been €69.5 million in 2015, €97 million in 2016 and €118.5 million in 2017. Again, it is noted that on some units there might be a part of the rent that is above the applicable ceiling on the relief.
- moderating the average rents suggested by remarks below of €160/acre to allow for the typical spread of actual rents and potentially lower figures in the Republic's areas of Munster and Connaught/Ulster
- that gives a very rough estimate of the area of farmland let on terms of at least 5 years and giving rise to the relief of:
    - a total of 435,000 acres in 2015, up from a figure for 2014 on the same assumptions of 287,500 acres – an increase of about 150,000 acres in the first year.
    - a total of around 600,000 acres in 2016, so some 300,000 acres above 2014
    - a total figure of around 740,000 acres in 2017, so some 450,000 acres above 2014.

  These totals cannot include any additional area of land let as part of tenancies qualifying for the relief but with rent in excess of its ceilings.

Those figures should not be treated as anything other than a speculative illustration, though the relationships between the figures for the four years is likely to be broadly accurate.



4.1.6 The average size of holdings in the Irish Republic reported in the last census in 2010 was 81 acres. Multiplying that by the number of claimants produces a figure of 553,230 acres for 2015, 687,690 acres in 2016 and 792,990 acres in 2017. That suggests either that €160/acre overstates the average rent or perhaps, as may be at least as likely and with reports of rising dairy rents, it has typically been smaller units that are let. The rough estimates of:

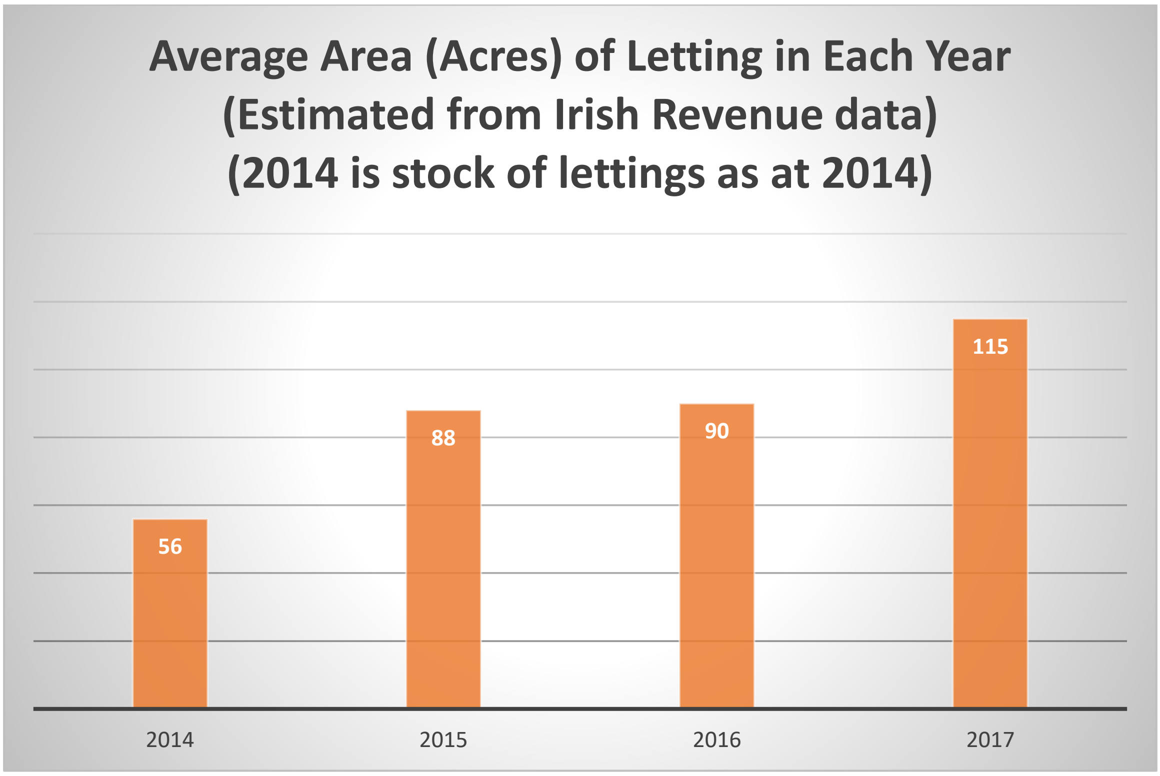
- 435,000 acres in 2015 would yield an average let area of 64 acres
- 600,000 acres in 2016 would yield a slightly higher average let area of 71 acres.
- 740,000 acres in 2017 would yield a slightly higher average again of 76 acres, now closer to the reported overall average.

These figures are consistent with seeing both established farmers taking more land to strengthen their businesses and new entrants securing land (whether as offshoots of existing farming businesses or absolutely fresh starts).

4.1.7 Those average areas are all reduced by the smaller areas let from before 2015; the average letting gaining relief in 2014 for 5,130 landowners on the assumed 287,500 acres would have been 56 acres. The analysis here suggests that the lettings from 2015 involve progressively larger average sizes of unit:

- if the 1,700 new landlords in 2015 let around 150,000 acres, the average area of a letting area was about 88 acres
- if the 1,660 new landlords in 2016 let around 150,000 acres, the average area of a letting area was about 90 acres
- if the 1,300 new landlords in 2017 let around 150,000 acres, the average area of a letting area was about 115 acres.

That means that relief is unlocking more substantial units with each year that passes with larger opportunities for the businesses that benefit.



4.1.8 At its most basic, that analysis suggests that the increased relief has seen the new arm's length letting on terms of five years or more of at least 450,000 acres in the years of 2015, 2016 and 2017. On the face of it, that is a marked revolution in agricultural land tenure for the Republic of Ireland.

4.1.9 With a total agricultural area in the Republic of some 11.1 million acres (excluding common land), the area of land let on a term of at least 5 years and benefitting from the tax relief would by the end of 2017 have reached towards 7 per cent of the available agricultural land area, possibly having been about 2 per cent in 2011. While that may look a small fraction, it is the creation of a previously non-existent sector that had been resisted by traditional practice.

4.1.10 While it might be thought that this would largely come from land on seasonal conacre agreements (an area in the Republic thought to be similar to the nearly 30 per cent of land area seen in Northern Ireland), comments reported below indicate that, while let land is coming from conacre, some has also been moving directly from in-hand farming where the owner (not necessarily just elderly owners) is withdrawing from using the land in question but retaining ownership.

4.1.11 Overall, it would appear from the Irish Revenue data that the 2015 Budget measures have had not only an immediate impact but a sustained one in almost doubling the number of landlords of tenancies for 5 years in its first three years. That is, in itself, significant as such land management decisions commonly take some time to make and work through, especially with the conventionally cautious attitudes to land of small farming landowners for whom it is a commonly a substantial and patrimonial asset, linked to family identity. Taking and implementing the decision to let it out, not for just a few months under conacre, but for bound terms of at least five years is a major step and change in culture.

4.1.12 Some of this effect will not only come from the substantial level of relief (now set high enough to change behaviour rather than just make a policy gesture) but also the simple design of the scheme. It will come in addition from the sense of political approval for letting so that it is taken as a stable part of the taxation framework.

4.1.13 The evidence from the Irish Revenue reports on tax returns continues to point to the enhanced relief being effective in achieving a significant change in land occupation – as intended. That is then given more detail and support by farmland market reports which show that trend continuing in 2018.

4.2 Other Taxation Measures in Irish Republic

4.2.1 The 2014 Agri-Taxation review and the accompanying budget for 2015 saw variety of other measures to promote the same aims. However, none appear to have had such a simple and direct effect as the Income Tax relief.

4.2.2 **Succession Farm Partnership Credit** has been made available where a farmer enters into a partnership, registered with the Government, with a successor under 40 with an agreement to transfer at least 80 per cent of the farm assets to that successor within a specified period. The relief is provided as an annual tax credit worth up to €5,000 per annum for a five year period to be split between the partners in proportion to their profit shares so long as the successor is under 40, so far as each party has assessable profits.

4.2.3 2017 saw the first claims for Income Tax relief in 2017 which totalled just €400,000 with 175 claimants, an average relief of €2,286 per claimant.

5. Irish Land Market Reports for 2017 and 2018 and Outlook for 2019

***Note** – This text supplements sections 4.4.4.8 to 4.4.4.21 of the CAAV's Taxation discussion paper of September 2017 which reviewed the reports then available.*

5.1 Introduction

5.1.1 The overall statistical and necessarily retrospective evidence from the Irish Revenue is supplemented and given some practical detail and perspective by the evidence of reports from surveys and professionals on market activity.

5.1.2 These come from both the annual *Land Market Review and Outlook*, published by the SCSI (Society of Chartered Surveyors in Ireland) and Teagasc (the Irish Government's official agricultural research, advice and education agency), reviewing trends in the previous year and offering a market outlook for the current year, and commentary from the Institute of Professional Auctioneers and Valuers (IPAV).

5.1.3 As well as reviewing the Republic as a whole, the SCSI/Teagasc reports comment on experience in each province of Ireland, here combining the counties of Ulster that are in the Republic with Connaught.

5.2 The 2018 SCSI/Teagasc Survey

https://www.teagasc.ie/media/website/publications/2018/Land-Review-and-Outlook-Report-2018.pdf

5.2.1 The SCSI/Teagasc *Land Market Review and Outlook 2018*, published in May 2018, summarised the returns made by agents across the Republic as to agricultural land sales, lettings and valuations.

5.2.2 Its core conclusion was the sense of accelerating activity in the lettings market:

- 28.8 per cent of those surveyed were seeing more letting activity compared with 17 per cent seeing less (the equivalent figures for sales were exactly 28.8 per cent each way)
- **that net positive balance of 12 per cent for lettings activity was higher than the net positive balance for 2016 of 9 per cent, in turn higher than the figure of 6 per cent for 2015** (the only year for which there are Irish Revenue data) – see the chart at 5.3.5 below. Over the same period, the balance of activity in the sales market had fallen from a positive of 9 per cent to nil.

- as previously, the volume of activity was principally in the more productive provinces of Leinster (41 per cent of those surveyed here saw increased letting activity) and then Munster
- as to types of landlord:
    - 77 per cent of respondents saw landowners who inherited but did not wish to farm as active in this market
    - 79 per cent saw farmers no longer interested in farming or who had retired as active
    - there was much less letting activity among farmers continuing to farm but leasing part and other owners more generally
- the area reported by those surveyed as let on conacre (typically an arrangement for only a season) having grown by 3 per cent in 2014, fell by 3 per cent in 2015, and has then fallen further by 15 per cent in 2016 and 28 per cent in 2017, suggesting a progressive shift to longer term lettings as desired by the Irish government as well as drawing more previously in-hand land into the let market
- 46 per cent of those surveyed were seeing the demand for longer leases (five years and more) increasing, up from 39 per cent in 2016. Just 7 per cent were seeing less demand with such lettings.

5.2.3 The Report also showed that, at the same time as the let land market was expanding, rental values were generally increasing. That would suggest that a market equilibrium had not yet been reached as the point when increasing supply might bear down on price.

5.2.4 The Report recorded two respondents summarising the position:

- Dillon Murtagh of Murtagh Bros in Mullingar:
  "Leasing farmland is an increasingly widespread practice for farmers as it allows the property to stay within their family and on their bank balance. It provides a flexible and tax-free alternative to selling."
- Miah McGrath of McCarthy McGrath in Midleton, Co Cork
  "Leasing is becoming more and more appealing to both landowners and farm operators now that long term leases have replaced the old annual conacre licence system. It provides landowners with security and with long term leasing now possible, operators can make necessary upgrades to farms for their needs."

5.3 The 2019 SCSI/Teagasc Survey

https://www.teagasc.ie/media/website/publications/2019/SCSI-Teagasc-Agricultural-Land-Market-Review-and-Outlook-2019.pdf

5.3.1 The 2019 Report observed that:

"The demand for long term leases appeared to have increased significantly in 2018 relative to 2017. This increase was slightly more pronounced in Munster and Connaught/Ulster than in Leinster but the trend was similar. In Connaught/Ulster, none of the survey respondents reported a decrease in demand for long term leases."

That, a year later than the 2018 report, could suggest that attraction of leasing was now spreading across the Republic, having first taken root strongly in Leinster.

5.3.2 Most respondents thought demand for these leases had been higher in 2018 than in 2017:

- 51 per cent in Leinster
- 70 per cent in Munster
- 64 per cent in Connaught/Ulster

The only area where some respondents (3 per cent) thought it might decline was in Leinster. These are stronger figures than in the 2018 report.

5.3.3 73 per cent of respondents thought that the increased tax relief on rental income had had a moderate to significant effect on letting activity (reflecting the different areas, this was 84 per cent in Leinster, 70 per cent in Munster and 59 per cent in Munster).

5.3.4 **Leases Lengthening?** - Respondents also thought that the average lengths of these leases had grown in 2018 with:

- 36 per cent of respondents in Leinster thinking that, 40 per cent in Munster and 34 per cent in Connaught/Ulster
- just 3 per cent in Leinster, none in Munster and 4 per cent in Connaught/Ulster thinking they were reducing in length.

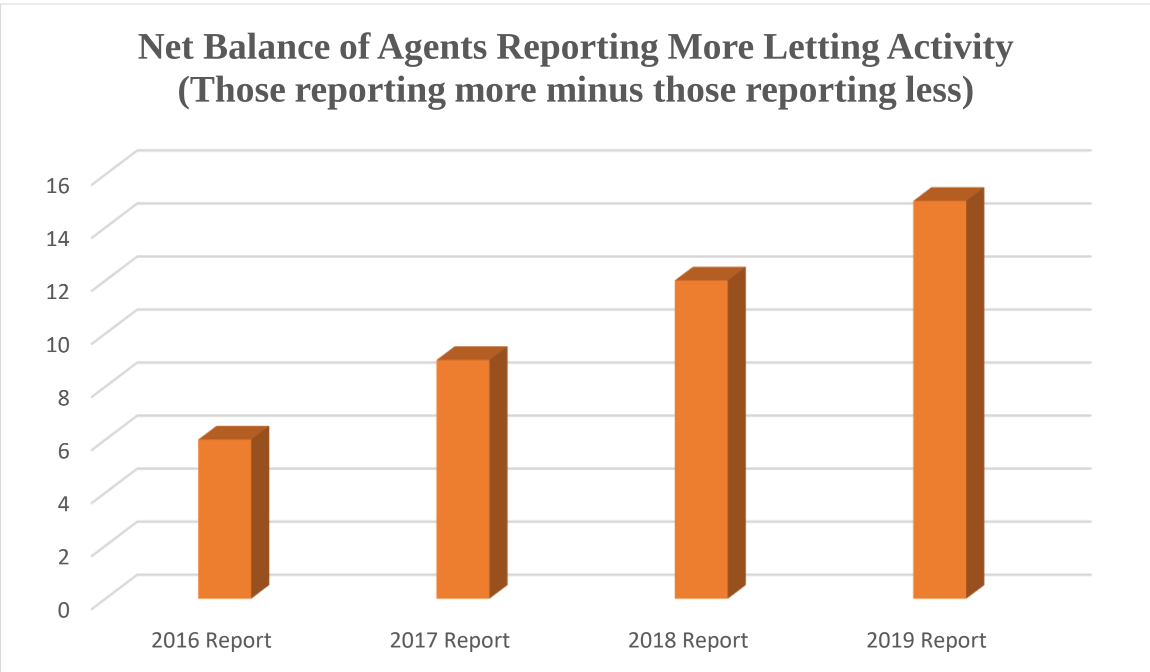
In summary:

> "The average duration of lease agreements also appeared to be stable or increasing in all three regions …".

5.3.5 Looking ahead to 2019, the Survey reported that 52 per cent of respondents thought letting activity would remain the same, 26 per cent thought it would increase and 11 per cent that it would decrease. That is net positive balance of 15 per cent. The report summarised:

> "It is safe to say that in general, members considered that the volume of farmland that would be leased in 2019 would be more than in 2018."

This chart shows the continuing growth, year on year, of the positive balance of the percentage of agents reporting more activity in letting farmland.



5.3.6 The report recorded:

- most activity in letting by:

- farmers who had retired but were no longer interested in farming
  - farmers who had inherited land but had no desire to farm it.
- less activity by farmers were those continuing to farm but had decided to lease out a portion of the farm though this was suggested to more common for cropping farmers.

5.3.7 Market expectations were for the area let to continue to grow in 2019 at the same time as the area under conacre was expected to grow.

5.3.8 **Prospect of Brexit?** - The Outlook Survey sought attitudes by landlords on the potential effect of Brexit on letting land. While recognising that potential tenants might face more uncertainty about the future than landlords, possibly lower rents might be seen, especially for livestock enterprises. Proximity to the border was a factor in the mixed opinions found:

- 32 per cent of landlords in Connaught/Ulster feeling that it might deter lettings and 9 per cent that it might encourage them
- in Leinster, equal fractions of 22 per cent thought that it would deter lettings and that it would encourage them
- in Munster, 14 per cent thought it would deter lettings and 10 per cent that it would encourage them.

5.3.9 **Rental Values** - It reported rental values per acre by various uses and for the three geographical areas:

	Leinster			Munster			Connaught/Ulster		
	2017	*2018*	*%*	*2017*	*2018*	*%*	*2017*	*2018*	*%*
Grazing/silage	€194	€197	+2	€191	€198	+4	€122	€160	+23
Grazing only	€182	€190	+4	€174	€182	+4	€124	€141	+13
Cereal Crops	€220	€216	-2	€263	€209	-26	€170	€179	+5
Potato Crops	€426	€348	-22	€295	€230	-28	n/a	€252	n/a
Other Crops (roots, maize, pulses)	€299	€246	-22	€195	€268	+27	€80	€183	+56

Note *– The reported percentage changes from 2017 to 2018 do not appear to be directly from the quoted figures.*

5.4 IPAV Farming Report 2018

https://www.ipav.ie/sites/default/files/ipav_agriculture_overview_2018_8ppa4_web_version_low_res.pdf

5.4.1 As the new market in farmland leases has become established so IPAV (Institute of Professional Auctioneers and Valuers) announced in its *Farming Report 2018* that:

> "With the increased activity in the long-term land rental market, this is a very opportune time for IPAV to partner with the IFA (Irish Farmers Association) and MII (Mediators' Institute of Ireland) in launching a new mediation service for members of the IFA and IPAV entitled the 'National Mediation Service'. This gives both tenants and landowners the opportunity to access professional mediation assistance, as opposed to proceeding down the expensive legal route."

5.4.2 Comments from IPAV members given in the Report included:

- "… continued demand from farmers for long leases as it provides tangible benefits for both tenant and landowner. There is a real incentive for the tenant to enhance the holding and in some instances, the rent is initially reduced, to allow the tenant to carry out improvements. This is also ideal for the landowner who can benefit from the tax allowances available." (Gerry Coffey, Williamstown, Co Galway)

- "'new land leases' were scarce on the ground in 2018 as long-term lettings have locked out availability. Some leases have now moved into their second term. (John Earley, Roscommon)
- "increased prices for land lettings, up as much as 25%" (Karl Fox, Ballina, Co Mayo).
- "There is good demand coming from younger farmers to lease land but little appetite from landowners to go this route." (Aidan Davitt, Mullingar, Co Westmeath)

5.5 Comment

5.5.1 These reports on activity in the Irish land market since 2017 point strongly to the continued positive effect of the Income Tax relief introduced for 2015 on rents for arm's length farmland lettings for five years or longer. It offers evidence that the relief is encouraging both farmers to see retiring and letting land as a positive option and owners who have been using only seasonal arrangements to let for longer terms to the benefit of the land's management.

5.5.2 The most striking figure is perhaps the growing margin, increased each year, of those seeing more activity in this area over those seeing less activity. This suggests that the relief is having a sustained and growing effect, outweighing deeply held and longstanding traditions about land occupation. It also illustrates the speed with which those traditions can be changed. This can be seen as in contrast to the more limited impact of the retirement grant schemes previously operated by the Republic.

5.5.3 It is, nonetheless, recognised that while we now have substantial evidence of the success of the Irish Income Tax relief in moving land, no studies have been found yet to test whether the productivity benefits expected have been achieved from the re-creation of a let farmland sector in the Republic. It is in reality probably still too early for such studies to have been done or for there to be the necessary runs of data to be developed and tested on that score.

5.5.4 With that absence, what we do have is the real evidence of the movement of land on to arm's length multi-year tenancies to arm's length parties (so with the owner having thus alienated the occupation of what is typically long term owned family land) in exchange for rent with no general reason for that not be a market rent. That behaviour is entirely consistent with the intended goal.

6. Relevance and Transferability to the United Kingdom

6.1 This review points to a potent and positive role for such a tax relief in opening up the land occupation market in the United Kingdom to give this important flexibility to handle the changes and challenges likely to be seen following Brexit, with such a change in occupation being consistent with unlocking the potential for significant growth in productivity.

6.2 Having been part of the United Kingdom until 1921, the Republic still shares much with England, Wales and Northern Ireland in terms of underlying land law as well as more generally a market economy, common law, broadly similar general taxation to that of the United Kingdom and, at present, the CAP. On two particular points:

- the Republic, like Northern Ireland, has no code of agricultural tenancy law meaning that tenancies are solely governed by the general provisions of the Landlord and Tenant (Ireland) Act 1860 ("Deasey's Act) and the common law. In practical terms, that is not too different from the Farm Business Tenancy regime for England and Wales.
- the Republic's equivalent to the United Kingdom's Inheritance Tax, Capital Acquisitions Tax, while assessed on donees rather than donors, has an agricultural relief that like Agricultural Property Relief is equally available on land that is let as to land that is farmed in hand. As a donee based tax, the qualification turns on land (or replacement land) being used for farming by the owner or a tenant for the following six years.

While international comparisons, especially on rural matters, are often problematic because of cultural and other differences, the similarities here make the comparison potentially valid. The comparison is even more direct for Northern Ireland.

6.3 The evidence from the Irish Revenue points to the Irish Republic having seen 5 per cent of its land area move to lettings of five years and more in just the three years from 2015 to 2017, in addition to the 2 per cent already so let – a total of, say, 7 per cent. The market reports from Ireland indicate that that move is continuing. The comparative position for new lettings in the United Kingdom is that:

- with some 15 per cent of farmland in England now let on FBTs (available since 1995 and continuing to rise), perhaps 5 per cent of English farmland is on FBTs of five years or more
- with more than 12 per cent of Welsh farmland now let on FBTs, it seems likely that between 4 and 5 cent of Welsh farmland is let for five years or more
- Scottish Government data shows that 3 per cent of Scotland is let on LDTs and MLDTs, being for at least 10 years, to which must be added a proportion of SLDTs to allow for those with the maximum term of 5 years. It may thus be that some 4 per cent or so of Scotland's agricultural area is let for five years or more on tenancies available since 2003.
- Northern Ireland has, as yet, very few tenancies of any length.

In simple terms, Ireland has achieved in this respect in three years what has taken much longer in Great Britain. The wider flexibility of FBTs is important for the many differing situations that can be met; the Scottish experience with more restrictive legislation does not suggest that road. However, the Irish experience points to the potential for an Income Tax relief pitched at a level to be effective in encouraging lettings of five years or more. It seems unlikely that a longer minimum length would be attractive while, like agri-environment schemes, a minimum of five years would create a framework for land management.

6.4 As knowledge has grown of the Irish experience, several challenges have now been put to its relevance to the United Kingdom.

6.5 **The first challenge concerns differences in farm structures.**

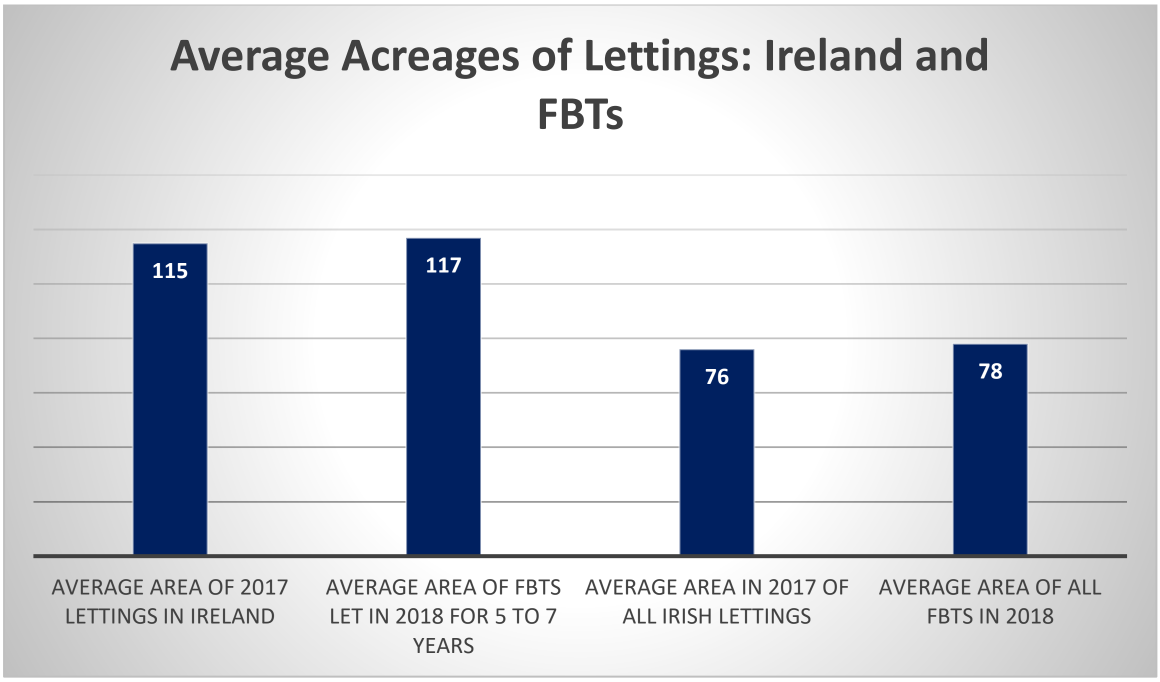
6.6 Ireland's structure of smaller ownerships, while different from the overall position in England and Scotland, is not only of more direct relevance to Wales and Northern Ireland but is also not dissimilar to the smaller private owners found in all parts of the United Kingdom and seen by this paper as a key factor in achieving a productivity change. It is possible that that relevance might vary between areas within the UK, both by local farming structure and by the reasons for holding land. The point has been put (perhaps mostly from eastern arable areas) that England's more sophisticated land and business markets are too different for a useful comparison to be made.

6.7 The responses to that include:

- that this argument might be more relevant for the commercial arable areas of England where the common scale of landownership might anyway make the suggested relief less relevant than other parts of the country with different circumstances, often typically with smaller ownership units and more pasture land or smaller arable blocks.
- that other arrangements than tenancies are often less appropriate or affordable for smaller ownerships if they are to be done properly
- that the greatest take up of lettings in Ireland has actually been in its most commercial dairying and arable areas of Leinster rather than the beef and sheep areas of the west.

6.8 However, reviewing the figures shows the comparison to be more direct. The analysis of this paper suggests that the overall average size of lettings in Ireland, including those reported before 2015, is 76 acres while that size has steadily grown since 2015 so that the average area of a letting granted in 2017 was 115 acres, larger than the average size of a holding in the Republic. As comparison, the average area of a Farm Business Tenancy (FBT) granted in England and Wales in 2018 was 78 acres. When recognising that the Irish tenancies are for at least 5 years, the average area of an FBT granted in 2018 for a term of between 5 and 7 years (so excluding shorter lettings) was 117 acres.

6.9 An ancillary point regarding the average scale of letting is that while a tenancy is an appropriate tool for any size of land area, the overhead costs of properly managing other arrangements, such as a well-structured contract farming agreement, typically make them more applicable to larger areas. The virtually identical average areas now being let for five years or more in both the Republic and under FBTs in England and Wales is consistent with markets finding the best means for one person to make land available to another in each country.



6.10 In short, that data suggests the two markets are comparable on this point, making the demonstration of the Irish experience a useful illustration of what could happen in the UK. That is consistent with responses from elsewhere in England as well as the rest of the United Kingdom seeing the Irish experience as relevant.

6.11 **The second challenge is that such a change would simply see current arrangements, such as contract farming, restructured to secure the relief**. However, that would typically see short term agreements converted to longer term arrangements (of at least five years, and longer if higher levels of relief are wanted), so altering the relationship with the management of land - accepting that is required of the landowner to obtain the relief. That greater security may give more confidence to the farming operator. Further, arrangements between connected parties would not qualify for the relief – this needs to be an arm's length business deal.

6.12 **A further challenge is then that Ireland has made this change from a standing start in which it might be that the easiest gains are the earliest gains.** By contrast, England in particular (but obviously not Northern Ireland at the other pole) has a large tenanted sector and a wider familiarity with the system. However, and even for England, this paper's analysis points to the sector of practical interest in prompting change being those private farmers, often smaller, who are not currently letting out but may be wearying of farming. That appears to be a similar group of people to those attracted to letting in Ireland. With the availability of area payments under the Single and Basic Payment Schemes having provided owners with the financial means to stay, so such a relief can encourage a newly positive view of letting as an answer to the withdrawal of BPS in England and Wales.

6.13 Conclusions

The conclusions drawn in this paper from this debate are:

- **that the Irish model does stand further scrutiny for use in the United Kingdom, recognising that is most apt for smaller ownerships still farming in hand rather than larger, more sophisticated businesses. That is an argument for adopting it rather than against doing so.**

- **while primarily focussed on smaller ownerships, such a relief has the capacity to effect a wider change in mindset across farming as to what is normal in allowing others to farm on owned land.**

- **that the discussion on this topic also showed the general need for promoting:**
  - **wider knowledge and awareness of the possible arrangements and**
  - **the taking of advice on them with proper identification and testing of the real business deal in hand which is then specifically recorded rather than using unaltered standard agreements.**

7. Commentary on Possible Costs and Benefits

7.1 General

7.1.1 Where this measure to promote farmland lettings enables the proficient to gain the occupation or use of land that suits their businesses, productivity gains should be expected from that. As noted above, the Irish economic study pointed to a 12 per cent gain from this. The nature of the economics of commodity farming means that the increased returns from that are likely to achieve significant uplifts in the margin earned from that land. The potential for that is indicated by the range between the top and bottom quartiles of farming performance with that difference seen to turn on management.

7.1.2 Such a change cannot be expected to be achieved overnight as land management decisions and the opportunities to take them come over time. In that light, the re-creation since 2015 of a let sector now covering 7 per cent of Ireland has been surprisingly swift, giving confidence in the power of the tax relief to achieve change. In practice, were the relief introduced in 2020, the benefits would accrue with the let area increasing over the proposed agricultural transition periods, especially with the progressive withdrawal of BPS in England and Wales. As that illustrates, it would be important to have this policy in place to be a positive assistance to the management of change in farming economics and structures at a potentially challenging time, rather than bringing it into play later.

7.1.3 While the benefits would be at farm level, it can first be illustrated by using national data. Using a 4 per cent gain, a third of the Irish figure, in the UK's gross agricultural output before subsidy would yield around £880m. Comparing that to the recent levels of Total Income from Farming (TIFF) ex-subsidy of the order of £1.5-2 bn, points to a 40-50 per cent gain in final margin were a change of that scale achieved.

7.1.4 With that general illustration, it is then stressed that this is a relief that incurs a cost in the tax foregone on rents only to the extent that it is taken up by those taxpayers who choose to let land on qualifying terms (as 23,000 have chosen to do for the similar Rent-a-Room relief). If it does not stimulate them to do this, there will not be a rental income to relieve from tax. If it does stimulate them to let, then the requirement that the tenancy be at arm's length prompts them to look for the optimal return that is best secured by letting to the proficient.

7.2 Indications for Ireland

The annual cost in Ireland in 2017, the third year of the enhanced reliefs, was reported by the Irish Revenue as €23.7m suggesting that this has created a new rental income of, say, €120m that is paid by the businesses of the new tenants that have seen value in taking these tenancies and agreeing to pay that rent and are still making a return after that worth their effort and investment. It is likely that land management has also improved.

7.3 Some Indicative Estimates for England

7.3.1 Working for simplicity from England's working agricultural area of some 9m ha (22.5m acres), 1 per cent of that is 90,000 ha (225,000 acres). Recognising its variety from silts to moorland, the average rent across 1986 Act and 1995 Act lettings is reported by DEFRA as about £200/hectare or £80/acre (*Farm Rents, 2016/17*) – figures set in the market are typically higher than that. Without speculating as to future movements in rents, that would currently suggest that:

- if 1 per cent of England was let in ways that qualified for this relief,
- the rent arising would be £18 million and
- so that could see a tax cost of the order of £4.5 million (allowing for varying tax rates and the personal allowance) for each 1 per cent of the overall land area, albeit on income that does not currently arise.

If that tended to be on more productive land with a rent of say £160/acre, then:

- the rent arising from 1 per cent of England would be £36 million
- the tax cost would be £9 million on income that does not currently arise

for each 1 per cent of area that moved to being let in this way. That tax cost is perhaps largely notional as it may be for taxpayers currently earning little income to be taxed while taxable income is more likely to arise from the new tenant of the land.

7.3.2 English agricultural output is about £18 bn annually and so 1 per cent of that is £180 million. Applying the 12 per cent average gain reported by the Irish study from moving land to the trained would give £21.6 million of extra income for each 1 per cent of land area that moved to be let in this way, more were it the better land that moved. That extra income appears more susceptible to be taxed.

7.3.3. Those figures are best taken as illustrations of orders of magnitude rather than accurate forecasts. The Irish evidence is that the greatest movement in land has tended to be in the more productive areas, so pointing to higher figures on both sides of this analysis. However, if rents fell as a result of the withdrawal of BPS in England, the notional tax cost would fall but the benefit be unaltered.

7.3.4 To pull this together and with those cautions, were a further 4 per cent of England's land area let in this way, taking the area let on tenancies for more than a year (so aside from seasonal grazing and most specialist cropping) from, say, 33 per cent to 37 per cent (not a revolution but a significant gain with wider consequences in the outlook of farming), this indicative analysis would point on the assumptions stated to orders of magnitude for:

- new rents of the order of £72 million to £144 million as a secure and positive income for the new landlords, say £108 million
- a tax cost of perhaps £18 to £36 million on income that largely does not currently arise, say £27 million but, allowing for substitution for some existing arrangements, say, £7 million of real cost but for arrangements potentially offering better management of the land and business
- a gain in industry performance of perhaps £80 million with potentially taxable income resulting.

The potential for gains of this order be possible is illustrated by the widely reported range of farming performance as illustrated above at paragraph 2.8. In practice, allowing for this change to be more concentrated on more productive land, those figures might all be higher but it could be that the ratios between them might not change much.

7.4 Some Indicative Estimates for Scotland

7.4.1 The range of quality in Scottish farmland and the large areas of LFA make this exercise more speculative for Scotland. Nonetheless, working for simplicity from the overall Scottish working agricultural area of some 5.7m ha (14m acres), 1 per cent of that is 57,000 ha (140,000 acres). Recognising its variety from silts to moorland, the average rent across 1991 Act and 2003 Act lettings is reported by the Scottish Government as about £40/hectare or £16/acre (*Scottish Agricultural Survey December 2018*) but these were divided between £27/ha (£11/acre) for LFA rents and £133/ha (£54/acre) for non-LFA rents (both categories containing wider variations). Figures set in the market for new lettings are typically higher than that. Without speculating as to future movements in rents, that would currently suggest that:

- if 1 per cent of Scotland was let in ways that qualified for this relief,
- the rent arising would be £5.6 million and
- so that could see a tax cost of the order of £1.4 million (allowing for varying tax rates and the personal allowance) for each 1 per cent of the overall land area, albeit on income that does not currently arise.

That tax cost (here likely to be to Scotland with the devolution of the Income Tax rates and thresholds for earned and rental income and but not reliefs) is perhaps largely notional as it may be for taxpayers currently earning little income to be taxed while taxable income is more likely to arise from the new tenant of the land.

7.4.2 Scottish agricultural output is about £3 bn annually and so 1 per cent of that is £30 million. Applying the 12 per cent average gain reported by the Irish study from moving land to the trained would give £3.6 million of extra income for each 1 per cent of land area that moved to be let in this way, more were it the better land that moved. That extra income appears more susceptible to be taxed.

7.4.3 Those figures are best taken as illustrations of orders of magnitude rather than accurate forecasts. The Irish evidence is that the greatest movement in land has tended to be in the more productive areas, so pointing to higher figures on both sides of this analysis.

7.4.4 To pull this together and with those cautions, were a further 4 per cent of Scotland's land area let in this way, taking the area let on tenancies for more than a year (so aside from seasonal grazing and most specialist cropping) from, say, 21 per cent to 25 per cent (not a revolution but a significant gain with wider consequences in the outlook of farming and a positive reversal of recent trends), this indicative analysis would point on the assumptions stated to orders of magnitude for:

- new rents of at least £22 million as a secure and positive income for the new landlords
- a tax cost of perhaps £5 million on income that does not currently arise but, allowing for substitution for some existing arrangements, say, £1 million of real cost but for arrangements potentially offering better management of the land and business
- a gain in industry performance of at least perhaps £14 million with potentially taxable income resulting.

The potential for gains of this order be possible is illustrated by the widely reported range of farming performance as illustrated above at paragraph 2.8. In practice, allowing for this change to be more concentrated on more productive land, those figures might all be higher but it could be that the ratios between them might not change much.

7.4.5 As that indicates, this is more likely to be land released by smaller and medium sized private farmers, for whom such a tax relief could make letting a positive option while keeping family land.

7.5 Some Indicative Estimates for Wales

7.5.1 Working for simplicity from Wales' working agricultural area of some 1.6m ha (3.9m acres), 1 per cent of that is 16,000 ha (39,000 acres), covering both Snowdonia and Pembrokeshire. There appears to be no recent official data on farm rents in Wales since 2012 (*Farm Rents in Wales 2009-10 to 2011-12*). Using the 2012 data to suggest that new lettings might on average be at £150/ha (£60/acre), that would currently suggest that:

- if 1 per cent of Wales was let in ways that qualified for this relief,
- the rent arising would be £2.3 million and
- so that could see a tax cost of the order of £0.5 million (allowing for varying tax rates and the personal allowance) for each 1 per cent of the overall land area, albeit on income that does not currently arise.

That tax cost is perhaps largely notional as it may be for taxpayers currently earning little income to be taxed while taxable income is more likely to arise from the new tenant of the land.

7.5.2 Welsh agricultural output is about £1.6 bn annually and so 1 per cent of that is £16 million. Applying the 12 per cent average gain reported by the Irish study from moving land to the trained would give £1.9 million of extra income for each 1 per cent of land area that moved to be let in this way, more were it the better land that moved. That extra income appears more susceptible to be taxed.

7.5.3 Those figures are best taken as illustrations of orders of magnitude rather than accurate forecasts. The Irish evidence is that the greatest movement in land has tended to be in the more productive areas, so pointing to higher figures on both sides of this analysis. However, if rents fell as a result of the withdrawal of BPS in Wales, the notional tax cost would fall but the benefit be unaltered.

7.5.4 To pull this together and with those cautions, were a further 4 per cent of Wales' land area let in this way, taking the area let on tenancies for more than a year (so aside from seasonal grazing and most specialist cropping) from, say, 27 per cent to 31 per cent (not a revolution but a significant gain with wider consequences in the outlook of farming), this indicative analysis would point on the assumptions stated to orders of magnitude for:

- new rents of the order of £10 million as a secure and positive income for the new landlords
- a tax cost of perhaps £2 million on income that does not currently arise but, allowing for substitution for some existing arrangements, say, £0.5 million of real cost but for arrangements potentially offering better management of the land and business
- a gain in industry performance of perhaps £4 million with potentially taxable income resulting.

The potential for gains of this order be possible is illustrated by the widely reported range of farming performance as illustrated above at paragraph 2.8. In practice, allowing for this change to be more concentrated on more productive land, those figures might all be higher but it could be that the ratios between them might not change much.

7.6 Some Indicative Estimates for Northern Ireland

7.6.1 Working for simplicity from Northern Ireland's working agricultural area of some 1m ha (2.5m acres), 1 per cent of that is 10,000 ha (25,000 acres).

7.6.2 The evidence as to rents for the few tenancies there is too limited to be useful for this. The total of conacre income is reported as at £56.8m in 2018 (*Statistical Review of Northern Ireland Agriculture 2018*). With conacre understood to apply to around 30 per cent of the farmed area, dividing that income over 300,000 ha gives a figure of £183/ha (£74/acre).

7.6.3 That would currently suggest that:

- if 1 per cent of Northern Ireland were let in ways that qualified for this relief,
- the rent arising would be £1.75 million and
- so that could see a notional tax cost of the order of £400,000 (allowing for varying tax rates and the personal allowance) for each 1 per cent of the overall land area.

That tax cost is perhaps partly notional as it may be for taxpayers currently earning little income to be taxed while taxable income is more likely to arise from the new tenant of the land. However, as the Irish experience shows some would be in place of conacre rents currently achieved and some would be from land newly let.

7.6.4 Northern Irish agricultural output is about £2.1 bn annually and so 1 per cent of that is £21 million. Applying the 12 per cent average gain reported by the Irish study from moving land to the trained would give £2.5 million of extra income for each 1 per cent of land area that moved to be let in this way, more were in the better land that moved. That extra income appears more susceptible to be taxed.

7.6.5 Those figures are best taken as illustrations of orders of magnitude rather than accurate forecasts. The Irish evidence is that the greatest movement in land has tended to be in the more productive areas, so pointing to higher figures on both sides of this analysis.

7.6.6. To pull this together and with those cautions, were 4 per cent of Northern Ireland's land area let in this way this indicative analysis would point on the assumptions stated to orders of magnitude for:

- rents of the order of £7 million as a secure and positive income for the new landlords
- but say £3.5 million after allowing for half having been on conacre
- a tax cost of perhaps £1.5 million, perhaps here a real cost of £750,000 for income that is now received on conacre, the remainder more notional
- a gain in industry performance of perhaps £10 million with potentially taxable income resulting.

7.6.7 However, it is worth a bolder assumption here given the different circumstances of Northern Ireland and the direct experience of the Republic. Were 15 per cent of the Northern Irish farmed area to move to tenancies, this indicative analysis would point on the assumptions stated to orders of magnitude for:

- new rents of the order of £26 million as a secure and positive income for the new landlords
- a tax cost of perhaps £5 million, perhaps here a real cost of £2.5 million for income that is now received on conacre, the remainder more notional
- a gain in industry performance of perhaps £37 million with potentially taxable income resulting.

7.6.8 The potential for gains of this order be possible is not only illustrated by the widely reported range of farming performance as illustrated above at paragraph 2.8 but also the potential for a real improvement in return from land being better managed on longer term arrangements than on conacre, as set out in the *Sustainable Agricultural Land Management Strategy* report of 2016. In practice, allowing for this change to be more concentrated on more productive land, those figures might all be higher but it could be that the ratios between them might not change much.

7.7 A Summary for the United Kingdom

7.7.1 This table summarises the results of that very indicative exercise on the basis that 4 per cent of farmland in each of England, Scotland and Wales moves to being newly let as a result of introducing the Income Tax relief at a level effective to later behaviour. Northern Ireland is, for treasons noted above, considered both on this assumption and on the assumption of a 15 per shift, but in each case with half the area assumed to come from conacre for which the relief would have a real tax cost. The tax cost of the suggested relief is otherwise assumed to be notional as the rent would not arise without it and the current occupation of the land may be yielding little taxable income. However, the issue of deadweight cost is noted below.

7.7.2 This can only be a very tentative first attempt at this assessment; any illusion of precision founders on the natures of the variable factors involved, some discussed in each of 7.3 to 7.6 above, and the essential point that this is about human behaviour. Nonetheless, the figures here and the underlying logic of the befits of having land move to be used by the proficient suggest that the Irish Government's hopes in offering the relief are realistic ones also for the United Kingdom, making it worthy of the investigation recommended to the Government by the Agricultural Productivity Working Group (see 2.4 above).

£ million		**New Rents**		**Tax Cost**		**Improved Performance**	
England		£108		£7		£80	
Scotland		£22		£1		£14	
Wales		£10		£0.5		£4	
Northern Ireland	**4% of Area**	£7		£0.75		£10	
	15% of Area		£26		£2.5		£37
United Kingdom		£147	£166	£9.25	£11	£108	£135

7.7.3 Overall and on the assumptions stated, the very broad brush figures of this first view of the economic consequences of applying such an effective relief in the United Kingdom point to the potential of over £100 million of new economic gain, assumed to be largely taxable, with perhaps £10 of tax lost that would currently be payable.

7.7.4 The £150 million or so of rent suggested to be produced is the stimulus to a change opening up land occupation markets in a way that might well otherwise not happen. While that figure of rent would be lower as and where the Basic Payment with its high margin for occupying land is reduced or removed, the stimulus might be unchanged or even increased without Basic Payment 's encouragement to inertia.

7.7.5 A real deadweight tax cost would only arise where new lettings that would anyway be for five years or more were newly let by private owners in qualifying circumstances, only a small fraction of the present lettings markets in Great Britain and effectively none in Northern Ireland.

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