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Policy drivers of farm succession and inheritance

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ABSTRACT

Farm succession and inheritance is increasingly considered a complex phenomenon which not only affects core dimensions of farm family life but also the agricultural sector more widely. Intergenerational farm transfer in particular is increasingly viewed as fundamental to the sustainability and development of global agriculture. In the majority of EU countries, the average age of farmers is increasing, while the number of farmers under 40 years of age is decreasing. There is growing concern that this demographic trend may have negative impacts on the agricultural industry because it is younger and not older farmers who are associated with more efficient and effective production practices. The question of what motivates decisions to transfer farms is a complex one, and research to date has not apparently enlightened agricultural policy to the extent that current trends towards an ageing farm population are being managed. This research aims to investigate economic and financial aspects of the policy drivers of farm succession and inheritance in Ireland to understand what it is about the policy environment that is failing to stimulate higher levels of farm transfer. It draws on the Teagasc National Farm Survey data which provides Irish data to the Farm Accountancy Data Network in the European Commission. A hypothetical microsimulation model is used to investigate economic factors of farm transfers, with scenarios created to test these factors and their impacts on the transfer process. The Net Present Value (NPV) of income streams for farmers and their successors are calculated to assess which scenarios have the highest/lowest financial effects. The findings illustrate a range of possible scenarios for farm succession/inheritance, with some results indicating that under current policy retaining a farm until death may be more economically beneficial to a farmer than transferring land before death.

1. Introduction

The process of farm succession and inheritance is highly complex and involves a variety of actors, ranging from family members to professionals providing advice on legal and financial matters (Williams, 2006). In most European countries the family farm model is the predominant form of ownership, meaning that farm transfer commonly takes place generationally. Much of the literature highlights that inheritance is the dominant means of entering farming (Kelly, 1982; Taylor et al., 1998; Hennessy and Rehman, 2007). Factors affecting the decision to transfer a family farm can be both social and economic, with some farmers aiming to ensure all family members are catered for when the farm is transferred, while policy effects and economic concerns of capital taxes and future income can also have a very strong influence on farmer choices. In many developed countries there is concern over the ageing farming population. The average age of farmers in the United States, for example, is 57 (Mills-Novoa, 2011) while almost one third of farm holders in Europe are over the age of 65 (Zagata and Sutherland, 2015). More than half of farmers in the UK are over 55 (ADAS, 2004). In Ireland, the 2013 Teagasc National Farm Survey showed the average age of farmers as 57, with this figure increasing marginally year on year over recent decades, and the number of farmers under 40 years decreasing over the same period of time. This trend has become a source of major concern for the agricultural sector, given the evidence of a positive correlation between younger farmers and farm efficiency/innovation (Potter and Lobley, 1996; Lobley et al., 2010; Howley et al., 2012). In increasingly globalized and competitive agricultural markets it is argued that the most productive and efficient farmers should be working in the

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Table 1
Capital Acquisitions Tax Thresholds 2009–2013.

Group	Relationship to Disponer	8/4/09 to 31/12/09	1/1/10 to 7/12/10	8/12/10 to 06/12/11	07/12/11 to 05/12/12	6/12/12 to 13/10/15	14/10/15 to present
A	Son/Daughter	€434,000	€414,799	€332,084	€250,000	€225,000	€280,000
B	Parent[a]/Brother/ Sister/Niece /Nephew /Grandchild	€43,400	€41,481	€33,208	€33,500	€30,150	€30,150
C	Relationship other than Group A or B	€21,700	€20,740	€16,604	€16,750	€15,075	€15,075

[a] In certain circumstances a parent taking an inheritance from a child can qualify for group A threshold.

sector (Williams, 2006; Zagata and Sutherland, 2015). In the Irish context, a stifled land market has resulted in very low land mobility and there is a clear pattern of capital accumulation amongst older farmers who are fearful about their financial future and unwilling to transfer their farm assets (Matthews, 2014). Furthermore, state assistance to agriculture provides direct payments to farmers, making it financially beneficial to hold on to agricultural land rather than selling it. The result is a sector dominated by older farmers, with access for young farmer an increasingly problematic issue.

Historically, there has been no substantial long term EU policy put in place to encourage timely transfer of farms or even to assist in the process of gradually handing over managerial control to younger farmers. Early Farm Retirement Schemes (EFRS) are one of the mechanism that have been used in attempts to reduce the average farmer age and increase the entry of young farmers. These schemes were optional and mainly taken up by Ireland, France and Greece (Davis et al., 2009). Whilst there have been three rounds of EFRS in Ireland, in 1993, 2000 and 2007 (Hennessy, 2014), all were short-lived and said to have represented little value for money in the sense that they only succeeded in incentivising farmers who were already close to retirement, rather than a fundamental restructuring of the age profile of Irish farmers (although they did show a small but temporary level of success in that regard) (Hennessy, 2014). Similar to the Irish experience, Caskie et al. (2002) found that in France and Greece the EFRSs did not bring about any deep-rooted change to farm transfer trends, as farmers entering the scheme were already close to retirement age. In the UK, Ingram and Kirwan (2011) evaluated the Fresh Start Initiative, a scheme which matched new entrant farmers with retiring farmers as a means of giving younger farmers a start and older farmers a gradual exit strategy. However, this was not seen as hugely successful because there were insufficient profits from some partnerships to sustain two salaries. In the case of New Zealand, the dairy industry does have a well-developed career structure which gives young farmers the opportunity to begin farming and has exit schemes available for older farmers such as phased exit strategies (CIAS, 1996). For dairying, this works on the basis of share milking, which enables younger farmers to begin farming whilst allowing older farmers to gradually exit. Up to 35% of dairy farms in New Zealand are share farms (Curran, 2014). For all of these schemes, getting to the point of transfer at an earlier stage is the main issue. One obvious incentivising factor for farm transfer concerns the need for the retiring farmer to have sufficient income in the form of a pension or other resources. This is connected in turn to the need for a farm to be viable in order to attract and support a new entrant. The extent to which these are influencing factors in farmers' decisions to retire and transfer their farm is not clear.

A key aim of this discussion is to critically analyse aspects of prevailing policy with a view to identifying the ways in which it influences decisions relating to succession and inheritance. It specifically examines the effect of a range of policy mechanisms including taxation and other financial instruments that control the options for farm transfer and the implications for farmers' decision-making in this regard. It focuses on the Irish context where there has been a recent surge in farming interest on the part of young people. Enrolments for agricultural degree and training programmes are at an all-time high, illustrating a strong intention to pursue farming as a primary career choice (Heanue and O'Donoghue, 2014). At the same time the availability of farms to facilitate entry of younger farmers is critically low. The paper first briefly outlines the most common forms of farm succession and inheritance and the ways that these have been typically framed within agricultural policy prescriptions. Then, taking data from the Teagasc Irish National Farm Survey of 2013, it applies a microsimulation model to analyse the financial implications of policies and individual choices on succession and inheritance decision-making. It draws on the concept of risk to interpret the underlying processes driving decisions on succession and inheritance, exploring, for example, the extent to which the policy domain may be contributing to farmers' potential sense of vulnerability and insecurity about post-farming livelihoods and how it is mitigating against attempts to bring about a restructuring of farming in favour of younger farmers.

2. The concept of risk in the agricultural policy domain

The main policy instruments available to governments are financial e.g. tax relief or grant based schemes. Essentially, governments use financial incentives to encourage individuals to undertake measures that achieve strategic governmental aims (for example Food Harvest 2020 targets). In the agricultural sector, aims such as environmental conservation are achieved using agri-environmental schemes; these schemes generally benefit farmers economically (Morris and Potter, 1995). Entering financially incentivised schemes reduces uncertainty around income for farmers, thus reducing their perceived economic risks (Koundouri et al., 2009). While it has been argued that farmers are generally risk averse (Groom et al., 2008), there has been no specific research investigating whether or not farmers perceive succession and inheritance processes as a risk. Recent research has indicated that farmers with children between the ages of 5 and 19 tend to be more risk averse (Loughrey et al., 2015). This implies that farmers with potential successors may avoid risk where possible; however, generalisation based on very few studies to date cannot be made.

3. Overview of current Irish transfer policy environment

At present, certain financial incentives are in place to encourage early transfer of Irish farms, however, the level of influence and impact the current incentives have on succession and inheritance decisions is yet to be determined. These incentives take the form of a range of taxes and duties applying to farm transfer and inheritance.