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Irish Farm Report 2020

84%
of farmers have no clear succession plan in place

Beef farmers made a loss (before other farm income) of
€101/ha

93%
of farmers want to reduce their carbon footprint

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Foreword

John Donoghue,
CEO

Our Irish Farm Report 2020 combines the views of almost 1,500 Irish farmers from our farmer survey with a comprehensive analysis of the financial data from over 2,500 sets of 2019 farm accounts, and an analysis of emerging trends from over 21,000 sets of farm accounts over four years. The report is a snapshot of Irish farmers' lives today; highlighting the difficulties they face and confirming their resilience and commitment.

Irish farmers produce the best food product in the world, nonetheless, our farming community is experiencing a challenging period. From fluctuating milk prices and a stumbling beef sector to Brexit; Avian Flu; and the Covid-19 pandemic, resulting in disruption to meat processing and the convenience food market. Still, farming goes on, more efficient and productive than ever before.

Our survey found that half of Irish farmers, across all sectors, have concerns about their future. 84% have no definitive farm succession plan in place. Of these, one in three farmers avoid the issue because they believe their business is not viable enough, and they wouldn't encourage the next generation to take it on.

When it comes to the business of farming we found that over half of Irish farmers don't prepare cashflows or budgets. Of these, 43% say they don't have the time, and 26% told us they don't have the financial ability or understanding needed.

> Irish farmers produce the best food product in the world, nonetheless, our farming community is experiencing a challenging period.

We also found that, if supported, Irish farmers would get behind efforts to protect our environment by reducing the carbon footprint on their farms. 91% support the ringfencing of an Agri sector carbon tax for farm initiatives, and 73% support a specific renewable energy grant.

Fortunately, over three-quarters of Irish farmers recognise that their health is their most important asset. They have told us how they are managing the pressures of farming and looking after their mental health; including exercising regularly, participating in Discussion Groups, and having interests outside of farming.

The insights contained in this report will help us to develop the services farmers need from *ifac*. Last year's report highlighted the need that farmers have for regular access to financial information to help manage price volatility and fluctuating costs. In response, we have developed a new technology-aided management service called FarmPro; to help our clients improve cashflow and on-farm decision-making, and retain more of their hard-earned profit. We have also continued to grow our specialist succession advisory service, which is more in demand than ever to help secure the future of Irish farming.

We have been the go-to advisors for Irish farmers and at the heart of agriculture and food since 1975. Today, as farmers look to the future, the need for financial advisors with specialist farm sector knowledge, and people they can trust to guide them through all of their business decisions, has never been more clear. When they need us we will be by their side, providing the right advice and support, and helping to ensure Irish farming remains a vibrant industry and continues to provide excellent food for our nation and our trade partners across the globe.

Introduction

Philip O'Connor,
Head of Farm Support

New *ifac* research reveals that after a difficult 2018, lower feed prices helped improve margins for livestock farmers last year. It was a different story on tillage farms, however, where despite 2019's higher yields, the weaker grain price eroded margins.

Profitability

As in previous years, the top 25% of farmers in the beef and dairy sectors significantly outperformed other farmers, with better cost management the main driver of higher returns.

On dairy farms, average profits (excluding other income) rose almost 18% in 2019, reaching €948 per ha. Feed costs fell by €209 per ha with costs on a per litre basis down almost 7%.

On beef farms, average profit was €435 per ha, up 19.5% on 2018.However, when income such as BPS, GLAS and BEEP is excluded, these farms lost an average €101 per ha.

Sheep farmers achieved marginal gains but, again, these businesses are loss-making when other income sources are excluded.

On tillage farms, despite higher yields, weaker grain prices saw average profits fall by €98 per ha (to €154 before other farm income).

> More than half of this year's respondents worry about the future viability of their business

Other findings

Business structure can have a significant impact on lifestyle, finances and farm sustainability. While most farmers operate as sole traders, the number of partnerships and limited companies has been growing in recent years.

More than half of this year's respondents worry about the future viability of their business, suggesting there is scope for new strategies on many farms. This is an area where advisors with specialist sector knowledge can help farmers achieve peace of mind.

While fewer than half of the farmers who participated in this year's research prepare budgets and cashflows, those who do say it gives them greater clarity when making decisions about their business.

Despite farms being a valuable asset, a staggering 84% of survey respondents have no formal succession plan in place. Here, the key message is that unless you plan ahead and document what you want to happen to your business, there is no guarantee your wishes will be carried out.

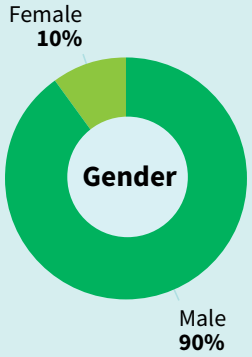
On a more positive note, 93% of respondents want to reduce their carbon footprint and more than 7 in 10 support the use of more sustainable energy on their farms.

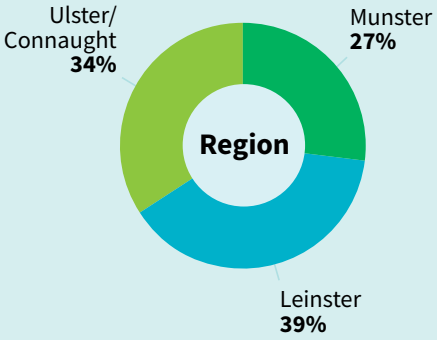
Overall, it is clear from this year's research that many farms would benefit from an objective review of their business. A chat with your *ifac* advisor could be the first step on the journey to secure your future.

ABOUT THIS REPORT

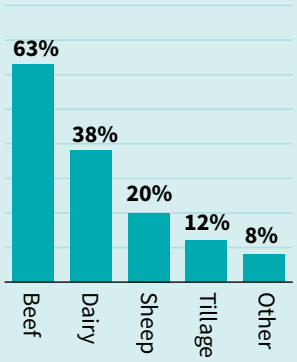
This report is comprised of survey findings and *ifac* accounts data. The survey took place in January 2020 and was completed by 1,500 Irish farmers. This survey data is supplemented by *ifac* financial data drawn from 21,048 sets of accounts for the years 2016-2019.

Profile of survey respondents



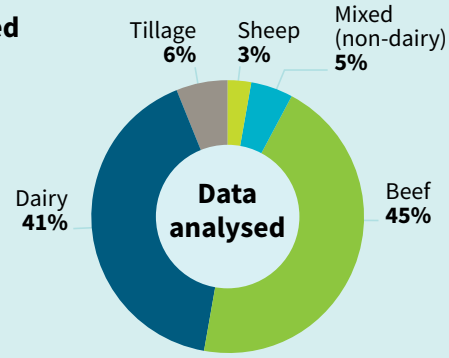


Sector*



Accounts analysed

Based on *ifac* financial data 21,084 sets of accounts (2016–2019)



* Total greater than 100% due to farmers operating in multiple sectors.

Irish Farm Report **2020**

Key Takeaways

DAIRY

Average dairy farmer made a net profit, before other farm income of

€948/ha

+18% This represents an increase of 18% year on year

COSTS PER LITRE

Average costs per litre decreased by

6.7%

mainly driven by a reduction in feed costs.

TOP 25%

The top 25% of dairy farmers made a net profit, before other farm income, of

€1,735/ha

BEEF

The average beef farmer made a loss, before other farm income, of

-€101/ha

In 2018 the average beef farmer made a loss, before other farm income, of -€116/ha

TOP 25%

Top 25% of beef farmers made a net profit before other farm income of

€251/ha

FARM ACCOUNTS

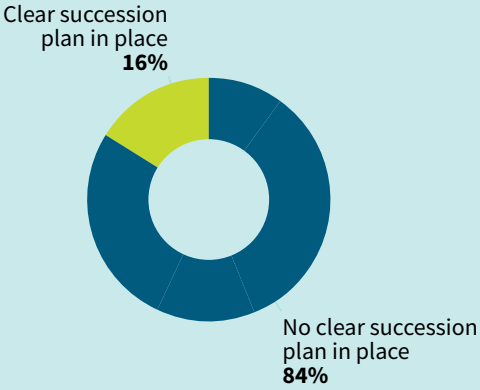
Over ½ the farmers surveyed do not complete a cash-flow or budget.

Main reasons:
Lack of financial ability and understanding, and lack of time.

SUCCESSION

84%
of farmers have no definite succession plan in place

Over 1/3 are avoiding succession as they believe business is not viable



SHEEP

Average sheep farmer made a loss before other farm income of

-€144/ha

After other farm income was included, a **net profit of €337/ha** was achieved.

TILLAGE

Average tillage farmer made a profit before other farm income of

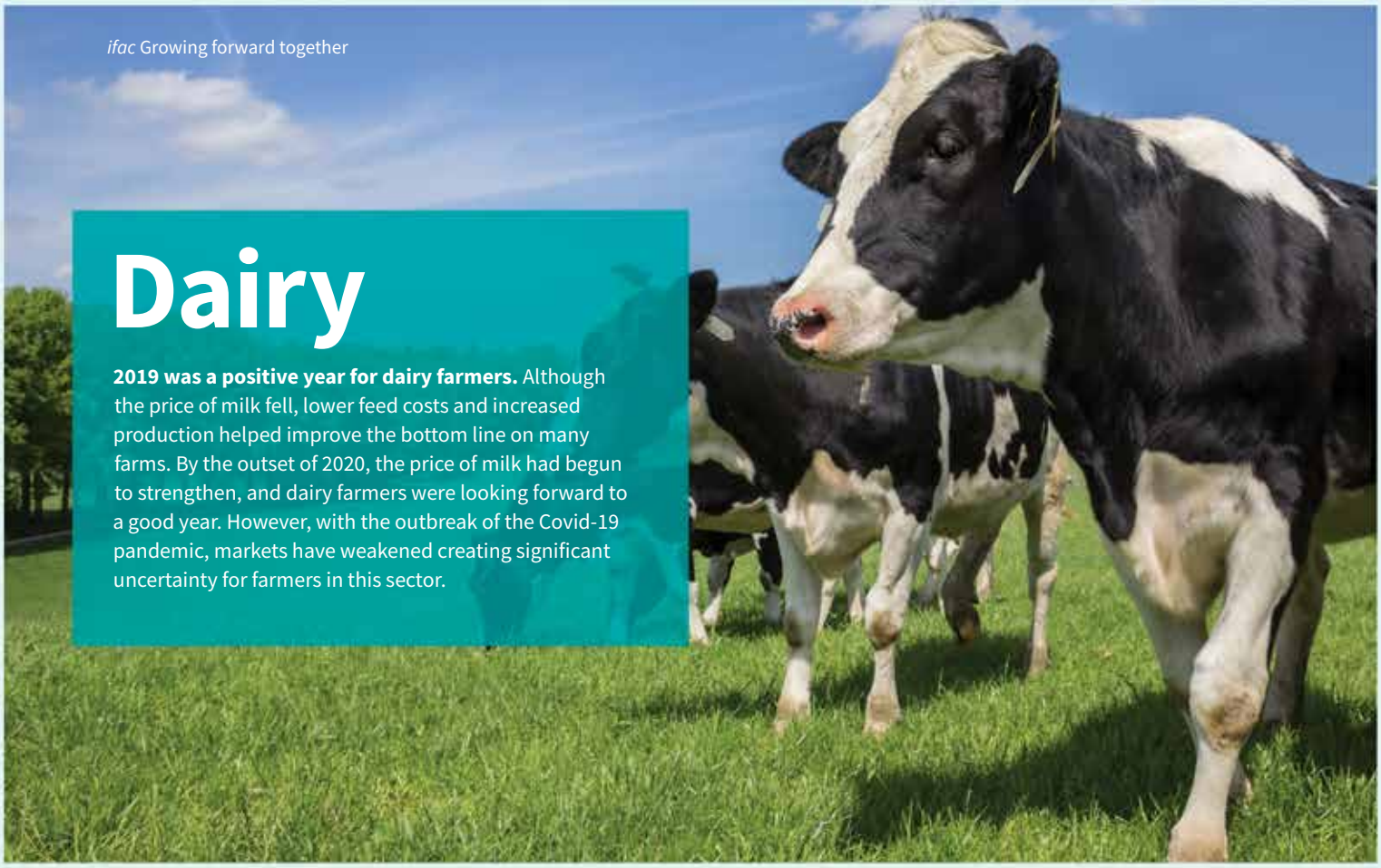
€154/ha

When other farm included a profit of **€592/ha** was achieved

CARBON FOOTPRINTS

93%
of farmers were willing to take actions on farm to lower carbon footprints

91%
felt that carbon tax collected from agri sector should be ring-fenced for farms



Dairy

2019 was a positive year for dairy farmers. Although the price of milk fell, lower feed costs and increased production helped improve the bottom line on many farms. By the outset of 2020, the price of milk had begun to strengthen, and dairy farmers were looking forward to a good year. However, with the outbreak of the Covid-19 pandemic, markets have weakened creating significant uncertainty for farmers in this sector.

SECTOR FACTS

There are 18,000+ dairy farmers in Ireland today[1]

National milk production was 8bn litres in 2019[2]

The number of dairy cows increased by 56,700 (+4.1%) to 1.43m cows[3]

Dairy calf registration increased by 1.6% with 1.46m calves being registered in 2019[4]

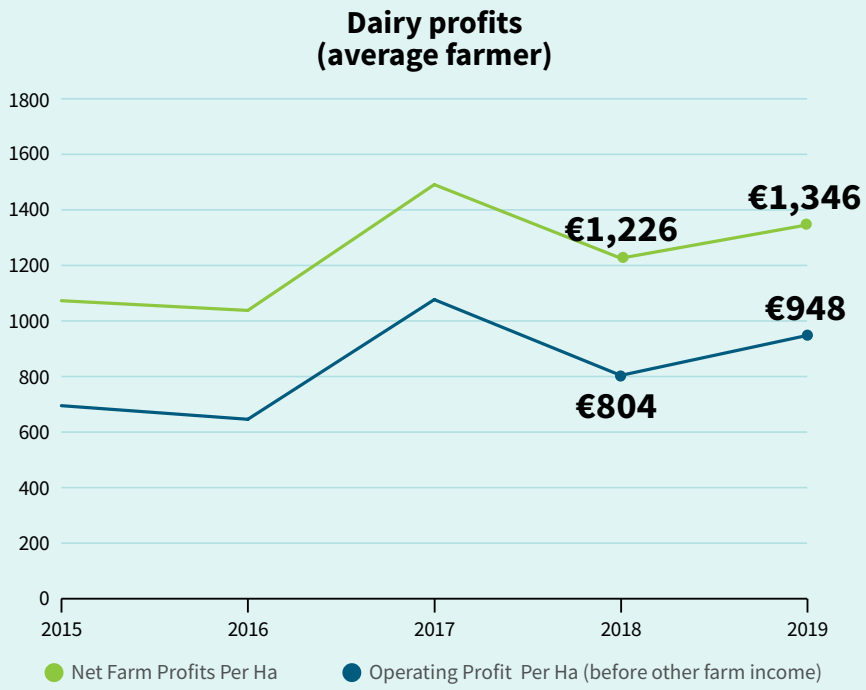
AVERAGE NET PROFIT

The average dairy farmer made a net profit, before other farm income, of

€948/ha

This represents an increase of

18%



1. Teagasc
2. CSO Milk Statistics
3. CSO Livestock Survey 2019
4. ICBF

TOP 25% NET PROFIT

The top 25% of dairy farmers made a net profit, before other farm income, of

€1,735/ha

It is these farmers ability to drive output but balance with costs, allowing them to maximize profits in their chosen system

Profitability (per ha/total farm)

	2018	2019		
		Average	Top 25%	Median
Farm Size Ha (ifac)	67	67.4	64.9	72
Gross Output	**€3,703**	**€3,701**	€4,817	€4,600
Direct Costs				
Feed	**€994**	**€785**	€868	€1,132
Fert	€280	€291	€345	€363
Vet	€189	€194	€232	€311
Gross Profit	€2,240	€2,431	€3,372	€2,794
Over Head Costs	€1,435	€1,483	€1,637	€1,926
Net Operating Profits	**€804**	**€948**	**€1,735**	**€868**
Other Farm Income	€422	€398	€445	€346
Ifac Dairy Net Farm Profits	€1,226	€1,346	€2,180	€1,214

Virtually no change on average output from 2018 to 2019.

'Gain' in profits before other farm income is a reduction in costs, mainly a **21% drop in feed costs**

COST PER LITRE

Average costs per litre decreased by

6.7%

Profit Per Litre - Dairy Enterprises

	2018	2019		
		Average	Top 25%	Median
Price Per Ltr	€35.0	€34.70	€35.90	€33.62
Total Costs Per Ltr	**€23.6**	**€22.0**	€18.9	€22.4
Profit Margin	€11.4	€12.7	€17.0	€11.2
Costs Per Litre				
Feed	€10.1	€6.1	€5.1	€6.8
Fert	€2.4	€2.3	€2.1	€2.2
Vet	€1.5	€1.5	€1.5	€1.9

> Although the price of milk fell, lower feed costs and increased production helped improve the bottom line on many farms.

INVESTMENT AND DEBT

Average Farm Borrowings are up
+16%
To **€134,412**

Average Farm Investment* is up
+44%
To **€47,756**

* Excl Land

Bank Balances are up
+9%

Creditors are down by
-8%

BUSINESS STRUCTURE

31%
of dairy farmers are in a limited company

> The main driver of higher profitability is the ability to maximise output while balancing costs.

IFAC INSIGHTS FOR DAIRY FARMERS

PROFITABILITY

Following exceptionally high feed costs during the fodder crisis in 2018, *ifac* research shows that average costs in the dairy sector were down by €209 per ha in 2019 while production levels increased. Average profits rose by just over 18%, up from €804 in 2018 to €948 per ha (before other farm income). The most successful farmers in this sector outperform their peers by maximising turnover while controlling costs.

MEDIAN & TOP 25%

The median dairy farmer is in the Midlands on a 72 ha farm, of which 20 ha is leased. The farmer, who is in his mid-40s, works full-time on the farm. His spouse has a part-time job off-farm. They have 4 dependents. The farm produces circa 875,000 litres of milk from 138 cows. Profit (before other farm income) was €868 in 2019. Significant loans on the farm of circa €400,000 at the end of 2019 are mainly due to a large capital investment made in late 2017. On this farm, as on many dairy farms, investment has been rising in recent years. Where the structure of loans places too much pressure on cashflow, farmers may need to approach their bank to find a solution.

Ifac also looked at the top 25% dairy farmers (based on net margin per ha before other farm income). These farmers' output was 30% above average. Their total costs, however, were only 12% higher than their peers. The main driver of higher profitability is the ability to maximise output while balancing costs.

INVESTMENT

Capital spending on dairy farms was up 44% last year when compared to 2018 with the increase largely driven by increased herd size, new technologies and need for labour saving measures. Average debt also rose, up by 16% to €134,412. *Ifac* research highlights a pattern of consistent investment on dairy farms in recent years with the average investment standing at circa €32,000 year on year over the last five years.

COVID-19

For dairy farmers, the biggest impact of the Covid-19 pandemic will be on the price per litre/kg throughout 2020 and into 2021. While this will differ from farm to farm depending on factors such as fixed vs unfixed costs, fat/protein content, and co-op prices, it is essential that every farmer determines how they will cover their drawings, tax, capital repayments and other liabilities. Now is the time to work out what your cost of production is and what price reductions your business can sustain. *Ifac* can assist with this by carrying out a breakeven analysis of your farm accounts.

Clarifications: Data for 2019 based on 1,207 sets of accounts reviewed. *Ifac* farm size range - 15ha to 521ha. *ifac* Average, Median & Top 25% & Other 75% Groupings based on profit per ha before other farm income. Other Farm Income - BPS, ANC, GLAS etc, and other non trading farm income eg discounts. Director wages / salary, deprec & 1/3 Electricity/Phone/ Motor not included. Drawings Tax, Cap Exp and full loan capital loans repayments are deducted after Net Farm Profits. Gross Output - closing stock values calculated at same value per head as opening to ensure constancy.

Beef

Achieving profitability continues to be a major challenge on beef farms with many farmers having to rely on a second source of income earned either by themselves or their spouse. While the average return achieved last year was €435 per ha, this falls to a loss of €101 per ha when other farm income sources are excluded. Low beef prices and the impact of Covid-19 have taken a toll with virtually the entire EU food service industry closed due to the pandemic, however recently beef farmers are beginning to see some green shoots as prices lift.

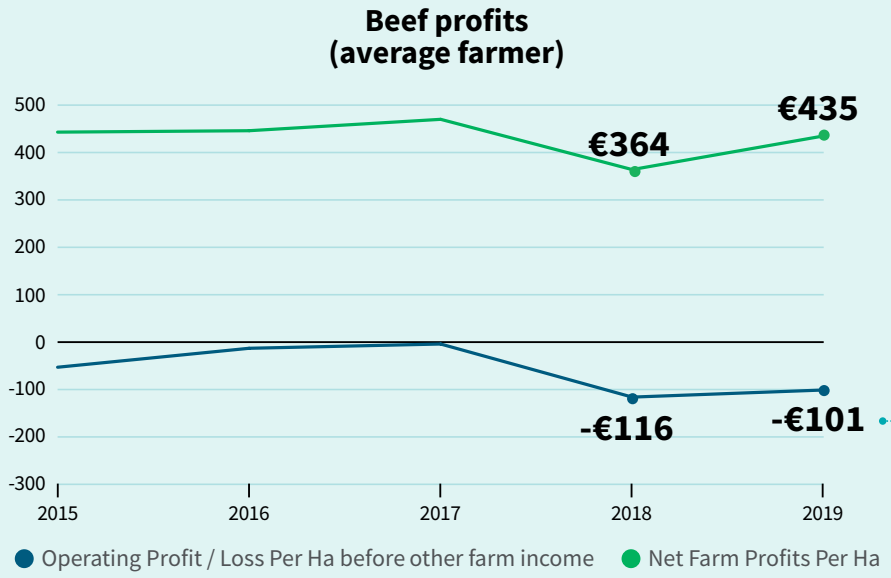
SECTOR FACTS

Suckler cows decreased in 2019 by 2.6% (957k)[1]

Beef exports decline by 7% with exports to UK down 5%[2]

Beef calf registration decreased in 2019 by 3% from 887k to 860k[3]

1.85m cattle slaughtered in 2019 down 2.2% on 2018[1]



PROFITABILITY

The average beef farmer made a loss, before other farm income, of

-€101/ha

That same figure was a loss of **-€116/ha** in 2018

1. CSO Livestock and Slaughter Figures
2. Board Bia Performance and Prospects 2019-2020
3. ICBF

PROFITABILITY

66%

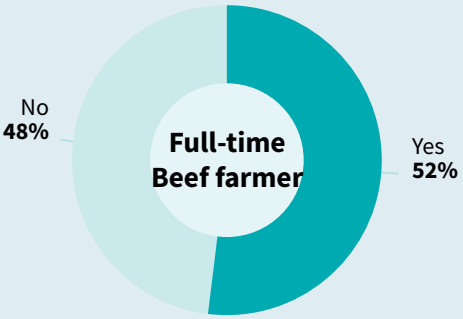
of *ifac* beef farmers failed to make a net profit before other farm Income

Profitability (Per ha/ total farm)

	Average All 2019	Top 25%	Median
Farm Size Ha (ifac)	47.6	54.5	36
Gross Output	€978	€1,357	€1,211
Direct Costs			
Feed	€263	€309	€347
Fert	€112	€131	€195
Vet	€61	€63	€106
Gross Profit	€542	€854	€563
Over Head Costs	€643	€603	€683
Net Operating Profits	**-€101**	**€251**	**-€120**
Other Farm Income	€536	€556	€492
Ifac Beef Net Farm Profits	€435	€807	€372

The top 25% of beef farmers made a net profit before other farm income of **€251/ha**

FULL OR PART TIME FARMING



52%

of beef farmers are full-time

LOANS

Average loans per *ifac* beef farmer:
€34,122

43%

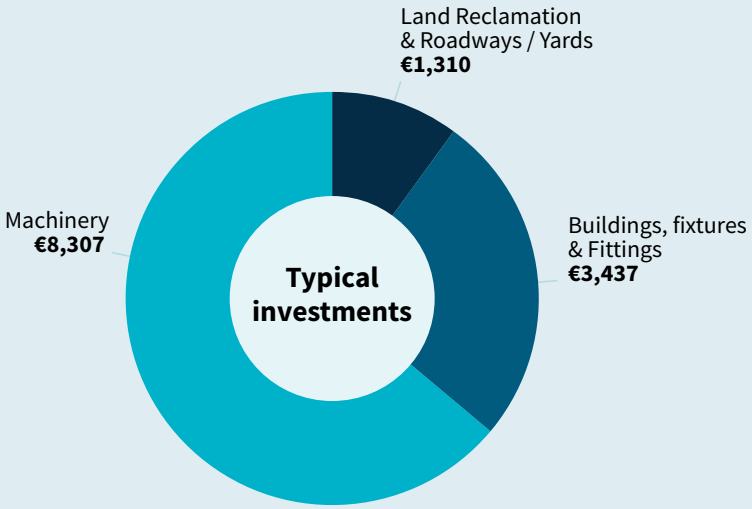
of *ifac* farmers have no outstanding loans

INVESTMENT

Average investment beef farmer 2019:

€13,054

41% of *ifac* farmers made no investment



IFAC INSIGHTS FOR BEEF FARMERS

PROFITABILITY

Ifac research shows that in 2019, as in previous years, most farmers in this sector were unable to generate a profit without subsidies and off-farm income. Excluding other farm income, 66% made losses last year, up from 61% in 2018, with the average loss standing at €101 per ha. While this is €15 per ha better than 2018, the improvement is due to two external factors—lower feed costs and higher EU/Department of Agriculture payments such as BEEM, BDGP and BEEP. Some 44% of farmers analysed are receiving GLAS payments, with the average payment being €4,403. On-farm input costs and outputs were largely unchanged last year.

MEDIAN & TOP 25%

The median farmer in this sector is a suckler farmer on a 36 ha farm in the West of Ireland. This farmer owns 100% of the land, works full-time on the farm and avails of BPS, GLAS, ANC and other beef schemes. His wife works off-farm. When other farm income is included, the farm made a profit of €372 per ha in 2019. However, with other farm income excluded, the loss was €120 per ha. Loans on this farm fell to under €10,000 in 2019 and no capital investments were made during the year. In common with many other farmers, this farmer relies on EU/Department of Agriculture payments. Any cut to these payments will directly hit his profits. Continued support and a favourable CAP post-2021 will be vital to keep this business viable.

Ifac's analysis of the top 25% of beef farmers based on net margin per ha before other farm income, shows that top performers returned a profit of €251 per ha compared to the average loss of €101 per ha on other farms in this sector. The better outcome achieved by top performers can be attributed to 39% higher output than the average farmer and better control of costs. Costs incurred by the top 25% are only 3% above the average.

INVESTMENT

Ifac's latest research shows that investment on Irish beef farms increased to €13,054 per farm last year, up from €9,113 in 2018, with almost twice as much spent on machinery as on reclamation, roadways and buildings. Our research included an analysis of land purchases for the first time. Of the beef farmers represented in the study, 1.5% of the farmers in sample group invested in land at an average cost of €119,000 each.

COVID-19

The temporary closure of McDonalds and other significant meat buyers in late March was a huge blow to beef farmers. Mart closures have also impacted sales, with farmers forced to rely on farm-to-farm sales for cashflow and trade. This will have a potential negative impact on net margins in 2020. The price of beef will need to rise and farmers will require ongoing Dept of Agriculture support if they are to remain viable this year.

Clarifications: Data for 2019 based on 1,026 sets of farm accounts reviewed. *Ifac* farm size range - 12 ha to 243 ha. Top 25%, All average and Median Groupings based on net margin per ha before other farm income. Gross Output - closing stock values calculated at same value per head as opening to ensure constancy. Directors wages, salaries, depreciation and 1/3 Phone, ESB Motor Expenses not included. Drawings, Tax, Cap Exp and full loan capital loans repayments are deducted after Farm Profits. Other Farm Income – BPS, GLAS, BEAM, BEEP, ANC etc & other non-trading farming incomes eg discounts.

Sheep

The results of the DAFM National Sheep and Goat Census December 2019 show that the provisional estimate for the total number of sheep was 3.81m an increase of 2% on December 2018. Average flock size also increased marginally and now stands at 109. Profits in this sector are traditionally low and *ifac*'s latest research shows that the average farmer lost €144 per ha in 2019 (based on net margin per ha before other farm income). It is only when other farm income is included that these farmers show a profit.

Strong UK supplies for much of 2019 and an uninspiring demand in continental EU markets, coupled with a tightening supply during the third quarter, resulted in a 7% drop in export values for 2019 to €294m. Adding to the difficulties in this sector, in recent weeks the outbreak of Covid-19, and closure of much of the food service industry, has hit lamb prices hard. It remains to be seen what the longer-term impact of the pandemic will be.

SECTOR FACTS

Sheep meat exports declined by 7% to €294m[1]

Sheep population in Ireland increased 2% to 3.81m[2]

There are 34,938 flock owners in Ireland, with an avg. of 109 sheep[2]

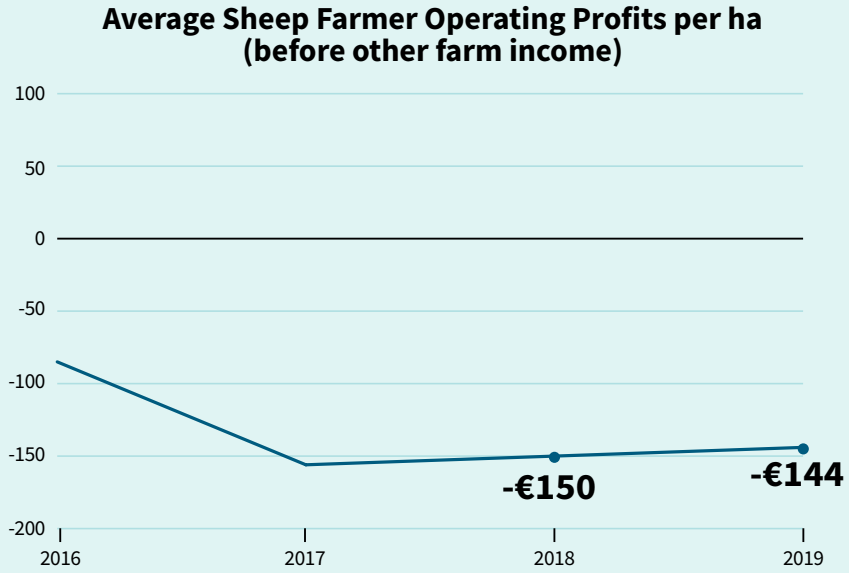
Irish sheepmeat production in 2019 was 67,500 tonnes, a 3% decline on 2018[1]

PROFITABILITY

Average sheep farmer made a loss before other farm income of

-€144/ha

After other farm income was included, a net profit of **€337/ha** was achieved



1. Bord Bia Performance & Prospects 2019-2020
2. DAFM National Sheep and Goat Census 2019

Profitability (Per ha/ total farm)

	Average All 2019	Top 25%	Median
Farm Size Ha (ifac)	58	77	47
Gross Output	€649	€887	€1,045
Direct Costs			
Feed	€167	€200	€218
Fert	€81	€93	€183
Vet	€60	€76	€125
Gross Profit	€341	€518	€519
Over Head Costs	€485	€447	€640
Net Operating Profits	**-€144**	**€71**	**-€121**
Other Farm Income	€481	€457	€397
Ifac Sheep Net Farm Profits	€337	€528	€276

SUCCESSION

18% have a clear succession plan in place

FULL OR PART TIME FARMING

58% of sheep farmers are farming full-time.

IFAC INSIGHTS FOR SHEEP FARMERS

PROFITABILITY

As mentioned, on average sheep farmers lost €144 per ha last year before other farm income. However, when other farm income is included, the average farmer achieved a net profit of €337 per ha. Sheep farmers are heavily reliant on EU/Dept of Agriculture support. Consequently, any cut in these payments will directly hit profits. A favourable CAP, and continued Government support post-2021 will be vital to the support the sector.

MEDIAN & TOP 25%

The median sheep farmer, who is based in the South-East, generates 67% of output from sheep, 18% from cattle and 15% from tillage. This farm made a net operating loss of €121 per ha when other farm income is excluded. However, the farm avails of BPS, GLAS, ANC and other scheme payments which helped generate a net profit of €276 per ha last year. This farmer works full-time on the farm and is in his early 60s. His spouse works full-time off-farm. Farm debt is a little over €25,000 and no capital investments were made on this farm in 2019. For farmers in the over-55 age demographic, now is the time to plan ahead for retirement, bearing in mind future income and lifestyle requirements.

COVID-19

The temporary closure of much of the service industry in late March was a huge blow to sheep farmers. With mart closures also impacting sales, some farmers have had to resort to farm-to-farm transactions to support cashflow and continue to trade. On a more positive note, lamb prices have improved in recent weeks however it is still too early to predict what the ultimate impact of the current pandemic will be on farmers in this sector.

Clarifications: Data for 2019 based on 138 sets of accounts reviewed. *Ifac* farm size range - 15 ha to 232ha. Top 25% & All average and Median Groupings based on net operating profit per Ha before other farm income. Gross Output - closing stock values calculated at same value per head as opening to ensure consistency. Other Farm Income - BPS, ANC, GLAS etc, and other non trading farm income eg discounts. Drawings, Tax, Cap Exp and full loan capital loans repayments are deducted after Farm Profits.

Tillage

Following a difficult 2018, during which tillage farmers saw the smallest harvest in over 20 years, yields improved in 2019. The total area under tillage also increased, up by about 2% (5,100 ha) after several years in decline. Tillage performs well when compared to other sectors for greenhouse gas emissions, generating only 0.3—0.4kg of carbon dioxide per 1kg of grain, however, profitability is a challenge on many farms. In 2019, as in previous years, farmers in this sector were price takers rather than price makers. Lower prices saw average net operating profits before other farm income fall by €98 per ha, from €252 in 2018 to €154 last year. As in other sectors, a favourable CAP and support from the Department of Agriculture are vital on tillage farms.

SECTOR FACTS

Wheat sown increased by 9.5% and yield increased 14.6%[1]

Barley planted decreased by 3.2% but output increased by 31.3%[1]

Potato yields increased by 32.9% with planet area increasing by 5.4%[1]

Bean and pea production almost doubled, although area sown decreased by 4.3%

PROFITABILITY

Average tillage farmer made a profit (before other farm income) of

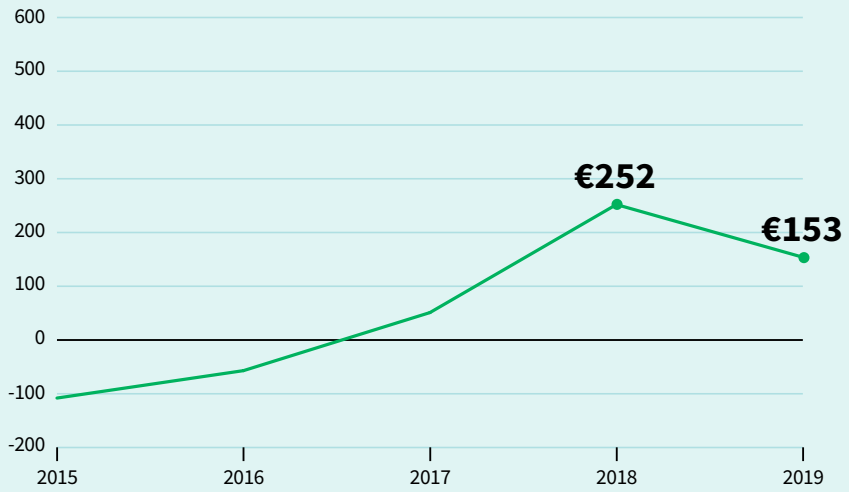
€154/ha

When other farm income is included a profit of **€592/ha** was achieved

52%

failed to make a net profit before other farm income

Avg Tillage Farmer Operating Profits per Ha (before other farm income)



1. CSO Area, Yield and Production of Crops, 2019

Profitability (Per ha/ total farm)

	Average All 2019		Top 25%	Median
Farm Size Ha (ifac)	83	62	125	280
% Output Tillage	82%	100%	85%	87%
Gross Output	€1,575	€1,558	€1,650	€2,018.00
Seeds, Fert & Sprays	€499	€514	€534	€650
Contracting/ Repairs & Fuel	€303	€326	€238	€325
Gross Profit	€773	€718	€878	€1,043
Over Head Costs	€619	€521	€504	€867
Net Operating Profit	**€154**	**€197**	**€374**	**€176**
Other Farm Income	€438	€423	€475	€383
Ifac Tillage Net Farm Profits	€592	€620	€849	€559

€252/ha
in 2018

PROFITABILITY

Profit per ha of average farmer decreased by

39%

IFAC INSIGHTS FOR TILLAGE FARMERS

PROFITABILITY

Ifac research into farm incomes in 2018 and 2019 shows that when other farm income is excluded, almost half of the tillage farms analysed did not achieve a profit. While two of the key variables affecting annual performance—price and yield—are outside farmers' control, business scale also affects profitability. On a larger farm, fixed costs are spread over a greater area so the cost per ha is lower. If scale is achieved by renting land, the rental cost needs to be taken into account when budgeting, as this will increase cost and reduce profitability.

MEDIAN & TOP 25%

On our median tillage farm, which is located in the East and structured as a limited company, 85% of total output comes from tillage with the remaining 12% from beef. This farm avails of relevant support including BPS but not GLAS. The main shareholders are a father and son who have 280 ha. As a substantial portion of the company's land is leased, rent accounts for 21% of costs. The company owed €120,000 at the start of 2019 and acquisition of machinery on hire purchase added another €49,157. An advantage of the limited company structure is that it enables farmers to accelerate loan repayments and invest more after-tax profit in developing their business.

The top 25% of tillage farms returned €374 per ha in 2019 (based on operating profit per ha before other farm income). Top performers are on average 50% bigger than their peers with only 7% of their costs going on land rental.

INVESTMENT

Ifac research shows that in 2019, average investment on tillage farms was €54,860, up from €36,000 in 2018, while average debt was €68,876. Given the importance of machinery on tillage farms, it is not surprising that these farmers invest heavily in their businesses. As with all farm investments, however, purchasing decisions require careful consideration. Farmers should ensure they have a sound business case for their investment. Bear in mind that TAMSII grants are available for the purchase of certain machinery.

COVID-19

While it is difficult to predict what impact the Covid-19 pandemic will have on 2020 tillage profits, as always, world markets will dictate the price that farmers receive for their crops. On a positive note, at the time of writing, a number of merchants have already committed to malting barley contracts while lower energy costs due to falling oil prices should benefit the bottom line. In terms of overall yield, however, winter crops are down on last year following a wet winter and it remains to be seen what the summer months will bring.

Clarifications: Data for 2019 based on 177 sets of accounts reviewed. *Ifac* farm size range - 15 ha to 394ha. All Average and 100% Tillage Groupings based on net operating profit per Ha before other farm income. Gross Output - closing stock values calculated at same value per head as opening to ensure consistency (for those with stock). Other Farm Income - BPS, ANC, GLAS etc, and other non trading farm income eg: discounts. Director wages / salary, depreciation & 1/3 Electricity/Phone/ Motor not included. Drawings, Tax, Cap Exp and full loan capital loans repayments are deducted after Farm Profits.

Improved returns expected for poultry farmers in 2020

Ciaran McCabe
ifac Poultry Specialist

Increased demand for poultry products due to the ongoing impact of African Swine Fever (ASF) in Asia, Avian Flu, and the Covid-19 pandemic should help poultry farmers achieve better returns this year.

ASF will have a significant impact on protein availability in local markets given the drop in pork production since the disease hit China in late 2018. With chicken expected to fill the gap, this should help the global poultry industry recover from previous oversupply issues.[1]

Egg shortages caused by Avian Flu and higher demand due to the impact of the Covid-19 pandemic are also creating opportunities. However, with broiler processors already operating at close to capacity, growth will depend on processors increasing capital investment in their plants to expand their weekly kill.

Overall, the poultry sector has acted promptly to the threat of Avian Flu by voluntarily culling affected flocks to minimise the spread of the disease. At individual farm level, the impact on broiler enterprises is limited where strict biosecurity measures are adhered to on each site as all birds are confined indoors. However, where free range egg units are affected by Avian Flu, the impact can be considerable. Once birds are culled it can take up to 6 months, if not more, to restock, resulting in reduced income on affected farms. The current shortage of Point of Lay birds exacerbates the difficulty.

Egg production is down by as much as 15% however demand for eggs has increased by 30%.

> Egg production is down by as much as **15%** however demand for eggs has increased by **30%**

Business Structure

Many *ifac* clients initially set up poultry enterprises to generate additional income. From small beginnings of around 20,000 birds per house, the average house today has grown to almost 50,000 birds, with many farmers having more than one house.

On well-managed farms, profits increase as the number of birds increases. However, increased capital investment often means capital repayments need to be serviced from surplus cash which can put pressure on cashflow at a time when higher profits are leading to higher tax bills. Incorporation can be a good way to overcome this problem as it allows more profit to be retained in the business to service capital repayments.

Key questions when thinking about incorporation include:

- Do you plan to expand your business?
- What level of tax did you pay in last three years?
- Have you invested in your farm? If so, are your capital allowances decreasing?
- Are you paying family wages which will decline in coming years?
- What are your living expenses?
- Have you thought about succession?
- Are you paying into a pension?
- Does your business require further investment?

Every farm situation is different, and incorporation does not suit all businesses. Before deciding to change your business structure, it is advisable to ask your accountant for information and advice on the pros and cons of all relevant business structures.

1. Rabobank Poultry Quarterly Q1 2020 report.

CASE STUDY

Poultry Expansion

This example shows the high cost of entry and the issue around trying to pay high tax along with servicing capital repayments. The most important consideration for a bank when assessing a funding application is repayment capacity, which is the ability of the farm to generate sufficient funds to service interest and proposed loan repayments so having the right structure in place to maximise repayment capacity is crucial for this sector.

The most important consideration for a bank when assessing a funding application is repayment capacity

Joe & Mary Blogg's are small scale suckler and beef farmers on circa 50 acres of marginal land. The proposed poultry site is comprised of 4 acres and this will accommodate 3 x 50,000 bird houses. Project for 2020 is to build one 50,000 bird house with the remaining two houses to be developed at a later stage. Note: 120,000 birds per batch would be the maximum (approximate) that one individual could handle full-time before additional labour would be needed.

Capital Expenditure	
Cost of building per bird	€10.00
at 50,000 Birds	€500,000
Add 5% Contingency	€25,000
Additional Works	€34,000
Total Cost	**€561,000**

Project Funding	
Existing Funds	-€50,000
VAT Rebate	-€75,000
Net Borrowings	**€436,000**

CASE STUDY

Borrowings

1. A working capital loan for €75,000 with interest only loan repayments to be cleared within 6 months of build completion from VAT receipts.
2. Term loan for €436,000 over 10 years at 4.2% to fund construction of the poultry unit.

Security

The bank will accept 60% of the value of the poultry unit as security. Additional security will be needed for the bank to make up the 30% difference. In this case, additional security of €99,400 was required.

Security	
Security on poultry unit valued at €561,000 @ 60%	€336,600
Additional security required	€99,400
Total long-term security	**€436,000**

Loan Repayments	
Annual interest repayments	€9,870
Annual capital repayment	€43,600
Total loan repayments/year	**€53,470**

When the unit is operating well, growers will average 7.2 batches per annum. For purpose of these calculations, we have made the following assumptions:

Net Profits	
50,000 birds x 7 batches	€765,867
Less Feed Cost	-€616,158
Less Co-Op Deductions	-€32,683
Less overheads *Insurance, professional fees, repairs, electricity, phone etc.*	-€23,918
Net profits before interest, deprec & tax	€93,108
Less depreciation	-€56,253
Less loan Interest	-€9,870
Net profit after interest	**€26,985**

Although tax will be sheltered for the first 7 years with capital allowances, it will be easier to incorporate on day one than in year 7 as there will be 3 years left on the loan. If incorporating in year 7, they would need to deal with the bank again regarding security and moving the loan in to a new company at that stage. Note: Directors Remuneration have not been provided for in calculations.

Cashflow if incorporated	
Total profits on a 50,000-bird house before interest	€93,108
Less Capital Allowances on new poultry shed	-€69,428
Taxable profits (after interest)	€13,809
Corporation Tax @ 12.5%	€1,726
Capital and interest repayments	€53,470
Cash profits after tax and loan repayments	**€36,679**

Cashflow if unincorporated by Yr 7 (no cap allowances)	
Total profits on a 50,000-bird house before interest	€93,108
Income Tax on after interest profits	€83,238
On first €35,300	€7,060
On first €57,808 (less credits)	€16,025
PRSI & USC	€6,843
Total Income Tax	€53,310
Capital and interest repayments	€53,470
Cash profits after tax and loan repayments	**-€160**

Even with no off-farm income for Joe, the sensible option is to incorporate. Especially with the intention to build two or more poultry houses in the future which will triple the profit.

> … it will be easier to incorporate on day one than in year 7

Pigs

The start of 2020 saw prices soar, driven mainly by a sharp increase in pork values as deadly African Swine Fever (ASF) spread throughout China's huge hog herd. China, which once had more than half the world's pig population, has seen a 41% reduction in its herd since ASF wreaked havoc for pig farmers across Asia and Eastern Europe. Producers in these countries may be reluctant to restock until control procedures and an eradication programme for ASF are agreed. This is likely to result in a shortage of pork for several years and an increase in global pig prices. Closer to home, Ireland exported an estimated 254,000 tons of pigmeat in 2019 with the UK accounting for 53% of these exports. Continental EU markets accounted for 18% with the remaining 29% going to international markets.In Europe, the impact of Covid-19 has slowed production in slaughter lines and boning halls. Even if production capacity returns to pre-Covid levels and direct links to the consumer reopen, it is likely that the worldwide shortage of pigmeat will continue to have a positive impact on prices in this sector.

SECTOR FACTS

In 2019 Ireland's national pig herd consisted of 1,631 active herds containing 1.64m pigs

39 herds (2.4%) had more than 10,000 pigs, accounting for 36.8% of the total pig population.[1]

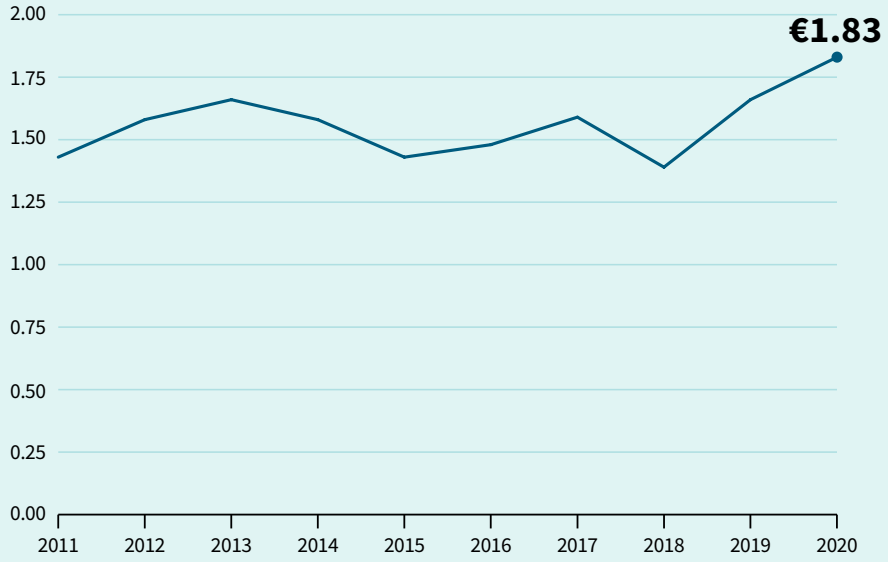
Pigmeat exports in 2019 were €941m, up 14% on 2018[2]

Cork has the largest number of herds (15.9%), followed by Wexford (7.3%) and Tipperary (7.2%).[1]

PRICES

Irish pig meat has maintained a stable price due to the spread of **African Swine Fever** across Asia and Eastern Europe.

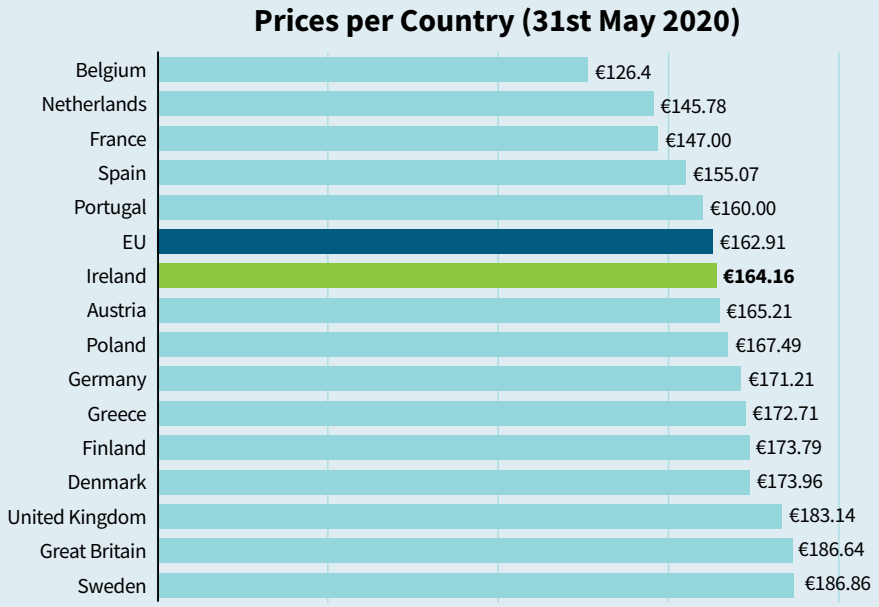
Average annual Irish Pigmeat Prices[3] (€)



1. DAFM National Pig Census 2019
2. Bord Bia
3. Source: Department of Agriculture, Food & Marine

EUROPEAN PRICES

Irish pig meat is mid-table in European pig meat prices.



EXPORTS

The UK was the principal destination for exports absorbing **53%** **(€501m)**

IFAC INSIGHTS FOR PIG FARMERS

MONITOR COSTS

While there is a relatively strong outlook for global prices, producers will need to continue to manage and control costs.

CREDITORS

If creditors have gradually increased over the years, now is the time to address this by agreeing credit terms and curtailing any unnecessarily high credit charges.

LOAN REPAYMENT

Many producers availed of interest-only options from lenders to give them breathing space when it was not financially feasible to meet both capital and interest loan repayments. With interest rates low and pig prices high, now is a good time to reduce borrowing and capital owed.

REVIEW CAPITAL EXPENDITURE

If you intend to carry out repairs and upgrades, ask your financial advisor or accountant to help you work out what you can afford to fund from cashflow and whether you need to borrow.

STRESS TEST EXPANSION PLANS

A potential uplift in profitability due to the global shortage of pigmeat is already galvanising some producers to review their expansion plans. When considering future investment in your business, consideration should be given to long-term business objectives, labour requirements and interest rate and price fluctuations.

PREPARE FOR NEW STANDARDS

Ensure that you factor in the potential impact of future environmental or welfare changes.

MAXIMISE PROFITABILITY

Review your business structure, succession plan and your family's financial situation.

If you're not already in a partnership or limited company structure, consider whether changing your business structure could benefit your business.

Although your income may be volatile, your farm is a valuable asset. Make time to put in place a carefully thought out succession plan.

Make a Will. A third of farmers surveyed recently do not have an up to date Will in place.

Personal financial planning. Ensure that you have adequate life cover and pension provision.

Improving Farm Viability with Forestry

Paddy Cowman,
Senior Tax Consultant

Almost half of the farmers who participated in this year's Irish Farm Survey expressed concern about the future viability of their business.

For those seeking to diversify their income, planting trees can be a good option as profits from forestry are well ahead of sectors such as beef and there are valuable tax incentives to avail of. Forestry also plays an important role in tackling climate change as, in Ireland, young trees grow rapidly, absorbing carbon dioxide and releasing oxygen back into the atmosphere.

Income Tax
Subject to satisfying certain conditions, profits earned by landowners from woodland managed on a commercial basis are exempt from Income Tax and Corporation Tax (but not USC and PRSI). The exemption applies to profits from the sale of trees, whether standing or felled, and whether cut up or not. Note, however, that as these profits are exempt from Income Tax, any losses incurred when woodland expenses are deducted cannot be offset against other income for tax purposes.

Capital Gains Tax
When an individual farmer disposes of land, gains from the sale of trees growing on the land are exempt from Capital Gains Tax, however gains on the land are itself subject to CGT. The exemption does not apply to companies.

> ...profits earned by landowners from woodland managed on a commercial basis are exempt from Income Tax and Corporation Tax...

Stamp Duty
Similar to CGT, while sales and transfers of land are liable to Stamp Duty, the trees growing on commercial woodland are exempt provided that the woodland occupies at least 75% of the land and is managed on a commercial basis. Sales of forested land must therefore be apportioned for Stamp Duty purposes.

Capital Acquisitions Tax
This tax applies to gifts and inheritances. You can receive gifts and inheritances tax-free up to a set value over your lifetime. However, once you exceed the threshold, CAT is charged at 33%.

If you inherit or receive a gift of agricultural property, you may be able to claim Agricultural Relief which reduces the taxable value of agricultural property by 90% for CAT purposes.

Agricultural property is defined as agricultural land, pasture and woodlands situated in an EU member state and the crops, trees and underwood growing on such land.

To claim agricultural relief, you usually have to pass Revenue's 'farmer test', however this may not apply if the agricultural property consists solely of trees and underwood. Revenue will take into account whether the woodlands are operated on commercial basis when deciding whether the relief is due. There may be a need to apportion the value of the gift/inheritance between the growing trees and the land.

Agricultural relief can be clawed back if you sell within six years of receiving the gift or inheritance or if you no longer meet the conditions for the relief. While the clawback provisions do not apply to trees or underwood, they do apply to the land on

which the trees are growing.

If you do not qualify for Agricultural Relief, you may be able to claim Business Relief where forestry is managed on a commercial basis. Again, this reduces the taxable value of relevant business property by 90%.

Other tax considerations

Two other important tax considerations for forestry farmers are VAT and Relevant Contract Tax.

- **VAT:** Forestry is considered a farming activity for VAT purposes. Farmers who are not registered for VAT, must apply the 5.4% VAT addition when selling timber to VAT registered traders and can claim the 5.4% flat-rate refund on certain fixed capital costs, such as fencing and roadways (but not planting). This is an important point to keep in mind when agreeing a price with timber merchants.
  VAT-registered farmers must charge VAT at 23% on timber sales other than fire wood where the VAT rate is 13.%.
- **Relevant Contracts Tax:** This withholding tax applies to payments by principal contractors to subcontractors. A farmer who engages a forestry subcontractor must register with Revenue as a principal contractor and deduct tax from the subcontractor. The relevant deduction can be 0%, 20% or 35% depending on the subcontractor's tax status.

For more information and/or advice on the business and tax implications of diversifying into forestry, **contact your local *ifac* office.**

Save time and hassle with FarmPro from *ifac*

Philip O'Connor,
Head of Farm Support

What is the number one thing Irish farmers don't have enough of? Time.

Time for their families, time for hobbies, time to sleep. Managing a farm business is a full-time commitment - we have seen this first-hand in our 44 years working with farming communities across Ireland. Yet many farmers have yet to take the steps to help themselves better manage their farm business, freeing up time for the things that matter most to them.

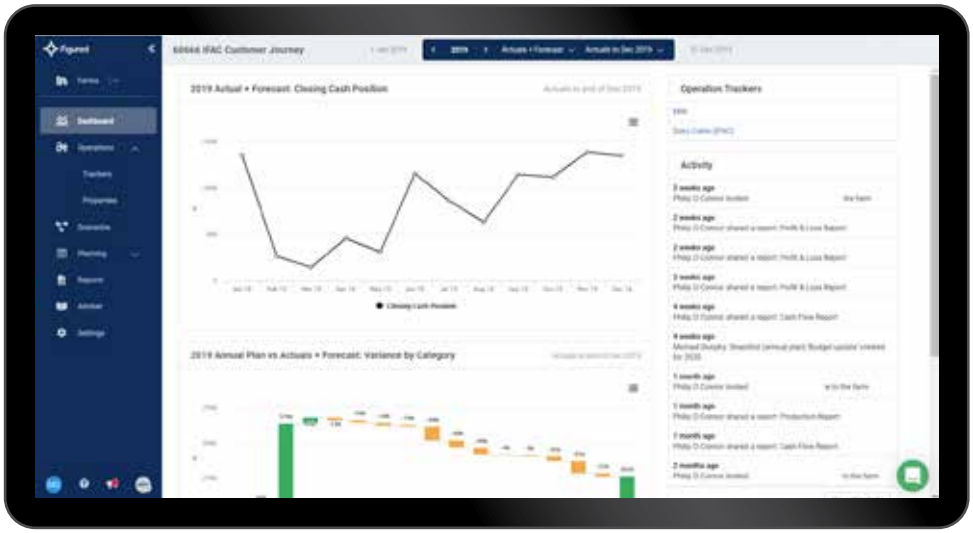
Over 53% of Irish farmers do not prepare budgets or cashflows for their farm businesses, citing a lack of time as the key issue. Yet those who do prepare budgets and cashflows overwhelmingly claim that they give them better clarity and oversight of their farm as well as keeping them well-informed for decision-making and for meetings with advisors/banks.

This year, we introduced our FarmPro service to combat this prominent issue in Ireland's farming sector. Delivered by *ifac* experts and supported by Bank of Ireland Agri specialists, FarmPro is a digital financial management and planning service, to deliver insights, drive efficiency and ensure farm viability and long-term sustainability. Populated with bookkeeping figures alongside Irish Cattle Breeder Federation efficiency data, FarmPro automates the significant manual effort previously required by farmers. A powerful combination of current data, technology and advice, FarmPro puts farmers firmly in control of their financial present and future.

FarmPro allows clients to avail of budgeting, forecasting and benchmarking tools, *ifac* expertise and data-driven insights. With these tools, farmers can more easily spot opportunities and risks and make timely decisions as to the best course of action.

FarmPro allows farmers to stop battling the clock enabling them to better manage their farm and gain back precious hours.

> Over
> **53%**
> of Irish farmers do not prepare budgets or cashflows for their farm businesses



Succession

Succession planning continues to be neglected on Irish farms. Among sole traders, who account for almost 70% of survey respondents this year, only 10% have a clear succession plan in place while more than a third (37%) say succession planning is not on their agenda.

Around 4 in 10 sole traders are concerned that their farm is not viable and would not encourage the next generation to take it on. While these farmers may be 'cash poor', their farms are a valuable asset. Passing a farm on to the next generation without appropriate planning can lead to substantial tax bills.

The picture is somewhat better when it comes to partnerships. This is not surprising as succession is usually among the issues discussed when entering into this type of business structure. Nevertheless, even among farmers in partnerships, 20% say succession planning is not on their agenda while a further 26% have identified a successor but not yet formalised a succession plan. While these farmers may have a plan in their head, unless this is properly documented, they risk creating legal and tax problems for their successors.

In recent years, more farms have opted to become limited companies. Our survey shows that 27% of limited companies have not tied down a successor and that a similar percentage admit they have haven't put much thought into succession planning. Only 14% of limited companies have a clear succession plan in place.

A key message for all farmers is that while you may have an idea of what you want to happen to your business when you retire or die, this will have no impact on what eventually happens unless you document your succession plan and make a Will.

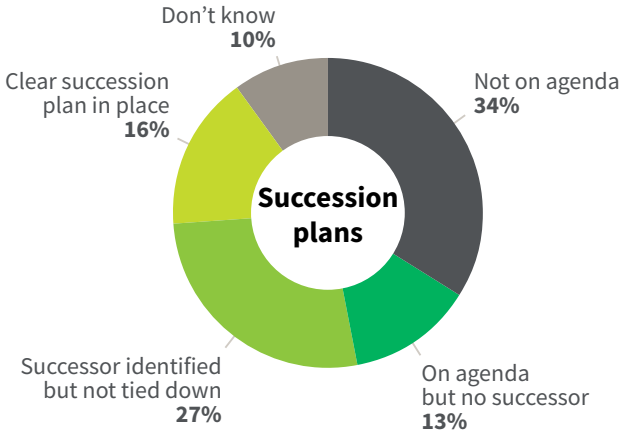
Questions to consider when succession planning:

Do you have a successor and if so, will your successor farm full-time or part time?

Do you still want to be involved in the farm and, if so, at what level?

Will you need to take money out of the business to provide for other family members or do you have other independent resources?

If there is no successor, will the business continue?



Guide to the Living File

Noreen Lacey,
Head of Business
Development

Despite the importance, most people do not have their personal and business affairs well sorted out at the time of their death. Recent *ifac* research found that over 1 in 3 dairy farmers have no Will, while 45% have a Will but have not updated it in over 3 years.

The lack of a solid plan can create a great deal of stress for the remaining family. This is stress that can be prevented with some timely thought and actions. Compiling a Living File is a proven way of addressing this.

A Living File will be constantly reviewed to keep it up to date. The file needs to be accessible, but in a safe place that is also known by other trusted persons and, in particular, personal representatives.

1 in 3 Dairy Farmers have no Will

CHECKLIST

Suggested inclusions by both relationship partners:

- [ ] Wills
- [ ] Up to date Statement of Personal Assets/Possessions/Debts/Liabilities
- [ ] Enduring Powers of Attorney
- [ ] Memorandum of Wishes
- [ ] Life assurance schedule and policies
- [ ] Funeral requirements:
  - *Director details*
  - *Prepaid funeral details*
  - *Preference – burial/cremation*
  - *Order of service*
  - *Burial plot*
- [ ] Succession contracts including instructions regarding debts still owing
- [ ] Details of valuable possessions (by euro value or intrinsic value). Take photographs of jewellery, artwork, antiques, classic cars etc.
- [ ] Family tree – parents to great grandchildren
- [ ] Passwords (if considered appropriate) for computer, security system, telephone
- [ ] Contact details of lawyer, accountant, doctor, investment advisor etc.
- [ ] Contact details of all traders that service the home maintenance
- [ ] Location and description of investments with contact details
- [ ] Bank account details, signatories and how to operate electronic bank accounts (hopefully a joint account exists)
- [ ] If owning multiple properties – Property titles/certificates
- [ ] Vehicle ownership details
- [ ] List of people to notify on death – family, friends, relatives living overseas
- [ ] List of positions held – trusteeships, directorship, guardianship etc.
- [ ] Birth, death and marriage certificates if appropriate
- [ ] Separation or divorce papers
- [ ] Mortgage and other debit details including guarantees
- [ ] Partnership and shareholder agreements with contact details
- [ ] Photocopy of passport front page

Farm Succession Challenges

Declan McEvoy,
Head of Tax

There can be a lot of confusion among farmers when it comes to succession planning.

Bar stool talk, fear of tax, concerns about the viability of the farm, lack of a willing successor, worries about income for the older generation, fear of the potential impact of marital breakdown — all of these factors tend to delay succession planning. However, the earlier you clarify your intentions, the better you will be able to plan for the successful transfer of your business.

Key issues to consider include:

- Whether there is a successor, and if so, whether that person is a family member or another person who is willing to take on the business. If you have a successor in mind, and you know that they are willing, now is the time to think about preparing them for their future role. One way to encourage their involvement could be to enter into a Succession Registered Farm Partnership which provides an incentive in the form of an Income Tax credit of €5,000 for up to five years, allocated on a profit sharing ratio between a qualifying farmer and his/her successor.
- Whether you wish to continue to be involved in the farm after you transfer the business, and if so, in what capacity?
- Your future income. You must look after your own security and that of your spouse before you divest your assets.
- Farm dwelling house. If the house is transferred with the land and you retain a right of residence, it qualifies as an agricultural asset which means Agricultural Relief can be claimed. However, if you retain an exclusive right of residence, this could mean Agricultural Relief will not apply.
- Fair Deal Nursing Home Scheme. Under this scheme, 7.5% of the value of the farm must be set aside annually to fund nursing home fees. There is a three-year cap on

> …the earlier you clarify your intentions, the better you will be able to plan for the successful transfer of your business

contributions taken by the State to fund care costs provided that a family successor continues to operate the farm or business for six years.

- Income Tax implications of exiting the business or altering the farm structure.
- VAT that may be incurred when transferring your business.

Succession Planning tax considerations
In addition to the issues outlined above, the three main taxes to consider when succession planning are Capital Acquisitions Tax (CAT), Capital Gains Tax (CGT) and Stamp Duty.

Capital Acquisitions Tax
The person who inherits or receives your farm by way of gift or inheritance will be liable for Capital Acquisitions Tax (33%) on the value of the gift above a certain threshold. However, if the property qualifies for either Agricultural Relief or Business Relief the taxable value of the gift/inheritance is reduced by 90%. For parent to child transfers, the CAT threshold is €335,000. A nephew or niece who has worked full-time on your farm may qualify as your 'child' for CAT purposes.

Capital Gains Tax
CGT is payable on any gains you make when you dispose of an asset however if you are aged under 66 and passing the farm to a family member, CGT relief is unlimited provided you satisfy the relevant conditions. If you are over 66, the relief is restricted to €3m. If you are transferring the farm to another person, and you are aged under 66, you can claim full relief when the market value at the time of disposal does not exceed €750,000. The threshold is reduced to €500,000 if you are over 66. Should you decide to sell your farm as you approach retirement, Retirement Relief could potentially eliminate your CGT liability subject to satisfying the relevant conditions while Entrepreneur Relief reduces the CGT rate to 10%.

Stamp Duty
Stamp Duty is incurred when property is transferred. The rate depends on the type of property and the value. Transfers between spouses, are exempt. Available Stamp Duty reliefs include Consanguinity Relief which reduces the rate on qualifying assets from 6% to 1% on transfers up to 31 December 2020, consolidation relief which allows for a 1% rate of Stamp Duty on transactions up to 31 December 2020 that qualify for a 'Farm Restructuring Certificate', and Young Trained Farmer Relief which affords full relief on transfers up to 31 December 2021 once the relevant conditions are met. Note, however, that there is a cumulative lifetime cap of €70,000 on the amount of tax relief that a young trained farmer can claim for Stamp Duty Relief, stock relief and the succession farm partnerships tax credit.

Legal considerations
It is very important to make a Will as otherwise the law will determine where your assets fall and that this may not be in line with your wishes. Your Will and Succession Plan should both be reviewed and updated from time to time to ensure they continue to reflect your wishes.

For more information and/or advice, contact your local *ifac* office.

TAX RATES

Stamp Duty
1%

Capital Acquisitions Tax
33%

Capital Gains Tax
10%

CASE STUDY

Achieve the Best Results from Tackling Succession Early

Every family farm business needs to have a succession plan to protect the future wellbeing of those involved, deliver financial benefits for the successor, and to help secure the future of Irish farming.

One successful farming client who tackled succession early on and is now enjoying the benefits of their three-way partnership are James, Brid and Tom Power. The Powers milk 290 cows and supply their award-winning milk to Glanbia.

James and Brid Power
James and Brid Power are fifth-generation dairy and beef farmers from Ballymullala in West Waterford. At the age of fourteen, the norm at the time for intended successors, James stayed at home to work on the family farm with his parents, Joe and Bea. When James entered his 50s, and ahead of their time, they decided to look to the next generation and their young son, Tom, as their successor to help them develop the business for the future.

Tom Power
Tom is one of five children. Married to Moya with four kids under six; Ella, Chloe, Aoife and JJ, he is also a multiple award-winning dairy farmer. 'I grew up watching my parents on the farm and that's how I got interested in it. There's a history of family involvement for generations and I just fell into the same routine,' he said.

After he finished school, Tom went to Rockwell Agriculture College, followed by a year's placement in New Zealand. When Tom

Moya, Tom, Ella, Chloe, Aoife and JJ spending quality time together on the land.

James and Tom taking a break during milking.

returned he began working on the farm. A few years later in 2001, and still in his early 20s, his parents transferred part of the 139-hectare farm to him. 'My parents were ahead of their time; usually parents hold onto the farm until their successor is well into their 40s but in my case, I was quite young. I knew how hard they worked for everything they had and for them to turn around and hand part of the farm to me was a huge boost for my confidence,' he said.

Working together

In his early 30s, Tom married Moya and the rest of the farm was transferred to him. Since then he has worked together with his parents every day. As the business has grown they have acquired some part-time help; Tom's cousin, Shane Flavin works part-time and their neighbour, Maurice Reynolds helps with relief milking.

'Dad is a fountain of knowledge. He is well-travelled, open to different points of view and discussing ideas, and he has always made it easy for me to work with him,' said Tom.

James and Tom have the same work ethic. They have similar points of view and they like to do things the same way. They have a fairly broad range of skills between them, says Tom, 'I have a keen interest in dairy breeding and grassland management, optimising the quality grass for our cows and drystock too.'

Today, there are three generations on the farm. 'Having family back up is hugely important to the success of the farm. My wife

> 'My parents were ahead of their time; usually parents hold onto the farm until their successor is well into their 40s but in my case, I was quite young'

'Moya' has been an incredible support to me and has made sacrifices in her own career for our family; we are lucky that she is in the position to work part-time from home now which has been a huge help to us,' said Tom.

Benefits of the partnership

One of the biggest decisions the Power family undertook early on was moving to a three-way partnership structure. Over seven years ago, after examining their financial structure with their *ifac* advisor [Eoghan Drea, Partner at *ifac* Dungarvan] and discovering that they were paying a high level of tax every year, they moved to a company structure.

'We did this because my parents were moving towards an age where putting a lot of money into a pension wasn't that attractive, as a means of reducing our tax burden. We were at the stage where it just made sense because we didn't have a huge wage bill and it was all our own labour; we were milking a decent number of cows and had a good single-farm payment; and we didn't have any massive capital allowances, because

CASE STUDY CONTD.

James and Tom transferring cattle and catching up on the days work.

we hadn't done much building at the time,' said Tom.

Moving to a company structure has enabled them to improve the infrastructure on the farm and increase their land base; over the past four years they have been able to invest in a cubicle shed and a new milking parlour, and most recently they have been able to buy 35 acres of land straight across the road from their farm.

Other advantages

Regardless of your company structure, Tom believes that if you're a farmer, and you're farming, the thing that will give you the greatest pleasure is knowing that you have identified a successor, the next generation who will drive on the business into the future.

Another advantage of putting the succession in place early is that all parties derive satisfaction from the continual improvements to the workings and general appearance of the farm, e.g. adding a piece of land or to the size of the herd, as well as the day-to-day enhancements like improving roadways.

Advice to other farmers looking into succession

Tom says his one piece of advice is to have the discussion early; if you have someone in mind – a son, daughter, niece, or nephew – he advises to do it sooner than later. He says waiting until they are in the 40s or even 50s is too late.

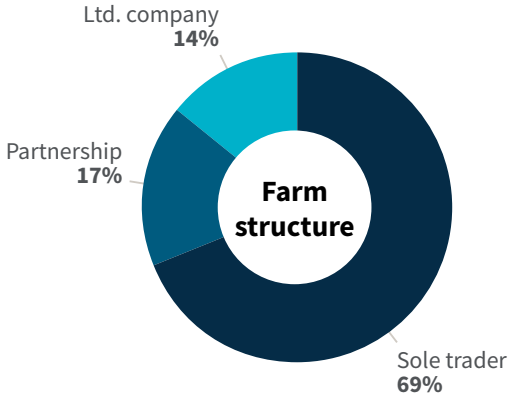
'The combination of all our energies and ambitions have helped us to develop the farm to where it is today. If they were only at the point of handing the farm over to me now when I'm in my early 40s, I wonder if I would have the same drive that I've had over the last twenty years to push it on,' he said.

Additionally, Tom advises others to put their trust in their professional financial advisory partner. 'We wouldn't be in our stage of growth without the advice and support from our *ifac* advisor. They are the people with the ability and qualifications to do what you're paying them to do.'

Working with *ifac*

Ifac has worked in partnership with the Power family for over 30 years and across two generations. If you would like to talk to us about succession planning for your farm business, we would love to hear from you.

Farm Structure



How you structure your business can have a significant impact on your lifestyle, finances and wellbeing as well as affecting the future sustainability of your farm.

Sole Trader

Amongst farmers, the most common business structure is sole trader, representing just under 70% of this year's responses. More than half of these farmers (52%) work full-time on their farm. The majority do not employ additional staff and only 3% avail of farm relief services. Sole traders are more worried about their farm's future than either partnerships or limited companies with more than half (56%) either 'concerned' or 'very concerned' about the future. 57% do not prepare budgets or cashflows, citing reasons such as time constraints, lack of financial know-how and cost. However, without access to timely, accurate information it is easy to make expensive mistakes. Real time accounting and careful tax planning can be the key to improving margins as well as helping these farmers to save time and money.

Partnerships

Partnerships account for 17% of this year's responses. Most partners work full time on the farm and 28% employ either full time or part time staff. Around half prepare budgets and cashflows saying that this provides clarity, helps with decision-making and gives them peace of mind. Not surprisingly, partnerships are the most likely business structure to have considered succession planning—26% have identified a successor and 42% have a clear succession plan in place.

Limited companies

Limited companies account for 14% of this year's responses. These businesses employ more staff — 63% have either full-time or part-time employees— and are more confident than either partnerships or sole traders. 59% of limited companies are either 'confident' or 'very confident' about the future. The limited company structure is most common on dairy farms.

> Sole traders are more worried about their farm's future than either partnerships or limited companies...

Collaborative Farming Structures

Declan McEvoy,
Head of Tax

Collaborative farming is where two or more farmers work together in a formal arrangement that benefits each of the collaborating parties. Examples of these arrangements include partnership, share farming, contract rearing and cow leasing.

Partnership & Registered Farm Partnerships
Entering into partnership with another farmer can be a good way to achieve economies of scale. Partnership also has social advantages and can help alleviate the loneliness of farming as well as broadening the skill base of your farm. In addition, there are tax benefits for registered farm partnerships and succession partnerships.

Registered Farm Partnerships
Enhanced stock relief (50% as opposed to the standard 25%) is available for farmers in farm partnerships registered with the Department of Agriculture, Food & the Marine. This increases to 100% for young trained farmers in registered partnerships.

> Entering into partnership with another farmer can be a good way to achieve economies of scale.

Succession Registered Farm Partnership
This is an incentive to encourage the transfer of farms to young trained farmers. It takes the form of an Income Tax credit of €5,000 for up to five years, allocated on a profit-sharing ratio between a qualifying farmer and his/her successor and applies to registered farm partnerships. The tax credit is in addition to other registered farm partnership benefits such as preferential stock relief and the collaborative farming grant. The successor must be a young trained farmer (under 40 years of age) and entitled to at least 20% of the partnership profits. The tax credit cannot be claimed in the calendar year where the successor reaches age 40.

> *Note that there is a cumulative €70,000 lifetime cap on the benefit that an individual can receive under young trained farmer stamp duty relief, stock relief and succession farm partnership*

Share Farming
Share farming is where two parties carry on separate farming businesses on the same land without forming a partnership or company. This type of arrangement can suit landless farmers, farmers with surplus ground or dairy farmers who requires relief. In a typical example, a landowner might provide land and infrastructure for dairying while the share farmer would provide livestock and labour. Each party is a separate business, keeps their own accounts and pays income tax on their own profits.

When entering into a share farming arrangement, it is important to draw up a written agreement covering matters such as:

- The start and finish dates of the agreement.
- The provision of assets by the parties.
- Income and cost sharing arrangements.
- The rights and responsibilities of each party.
- Procedures for dealing with disputes.

For VAT purposes, where both parties are VAT registered, each applies VAT in the normal manner to any costs invoiced to the other party. If neither party is VAT registered, neither is entitled to deductibility. Where one party is VAT registered and the other is not, the share farming agreement should stipulate that the sharing of costs and proceeds will be calculated exclusive of VAT.

Contract Rearing

Contract rearing can provide an additional source of farm income. This arrangement suits farmers with excess housing capacity and those with surplus stock. Livestock is moved from the owner's farm for rearing by the contract farmer. As with other collaborative farming structures, a formal agreement is required. For tax purposes, contract rearing is treated as part of farming activity and the rules are the same as for sole traders.

Cow Leasing

This can work well between dairy farmers with surplus cows and farmers with surplus ground but limited capital for herd investment. As with contract rearing, cow leasing requires a formal agreement between the parties. For tax purposes, important points to keep in mind are that cow leasing is not considered farming if leasing is your sole activity and that if the leasing puts your income above €37,500 this will have an impact on your ability to avail of the farmers' flat rate of VAT. Careful consideration is therefore needed before entering into this type of arrangement.

Conclusion

When properly planned and executed, collaborative farming structures can be very beneficial both financially and in terms of work/life balance. However, it is always advisable to seek professional advice before changing your business structure. For advice in the first instance, contact your local *ifac* office.

> ...collaborative farming structures can be very beneficial both financially and in terms of work/life balance.

Farming Through a Limited Company

Declan McEvoy,
Head of Tax

Like any other business owner, farmers need to review their business structure from time to time bearing in mind that different structures can have very different outcomes financially.

While most farmers operate as sole traders, larger and more profitable farms are increasingly opting to become limited companies. Fourteen percent of our survey respondents this year have incorporated their businesses. The majority of these farms are in the dairy sector.

It is important to realise that incorporation is not just an option for large farms— it can equally suit farmers with off-farm income which brings them into the higher income tax band. In our experience, if a farmer's tax liability as a single person is above €7,000 (or €14,000 for a married couple), forming a limited company is often advantageous.

One of the key benefits is that incorporation enables you to avail of the 12.5% Corporation Tax rate. While this will not increase your profitability, it will increase the cash retained in your business which can be used to drive down borrowings, develop the business and/or create wealth. It can also help your business retain its longevity as well as rewarding you for your efforts in a commercial way.

Another strong advantage is that your repayment capacity when borrowing is enhanced which means you may be able to purchase land that would otherwise be beyond your reach.

Typically, farmers let, license or lease their land to the company. Stock, plant and machinery and Basic Payments are also usually brought in.

When the time comes to exit your business, incorporation gives you some additional options. Cash retained in the company can help fund pensions and/or provide a retirement lump sum for shareholders/directors. If you have a successor in mind, it can be advantageous to grant them shares in the company and perhaps increase their shareholding over a number of years.

But how do you know if the limited structure is right for you?

The first thing to do is review your current status. Check whether you are maximising available reliefs, contributing to a personal pension and whether partnership might be a better option. If in doubt, ask your accountant. As a general rule, if you are in the higher rate Income Tax band, or if you or your spouse have off-farm income which pushes you into the higher tax bracket, it is likely you could benefit from incorporation. However, if you are a sole trader paying the lower rate of Income Tax, forming a limited company will probably not be advisable unless you are expanding your business or have high levels of borrowing. In a farm partnership, you need to assess whether the advantages of the 12.5% Corporation Tax rate outweigh the benefits of partnership incentives like stock relief and the Succession Partnership Register.

Farmers are sometimes concerned that operating a limited company is difficult, however it is does not have to be any more burdensome than other forms of business if the company is correctly structured. In our experience, with proper planning, structuring and advice, incorporation is a viable option for many farmers.

14%
of our survey respondents this year have incorporated their businesses.

Getting a Grip on Pension Options

It is encouraging to see that 58% of farmers have a personal pension plan in place. This compares favourably with the latest CSO statistics, which shows the national average for self-employed persons at 50.7%.

The hundreds of Pension reviews that *Ifac* Financial Planning have undertaken in the last few years shows us that most farmer's pension plans are based on irregular single premiums. The reasons for this are due to the inconsistent nature of farm income for many, and the use of a personal pension to reduce the tax bill.

The average personal pension fund we see is €49,620. One of the key questions asked by farmers is, what fund size should I be aiming for?

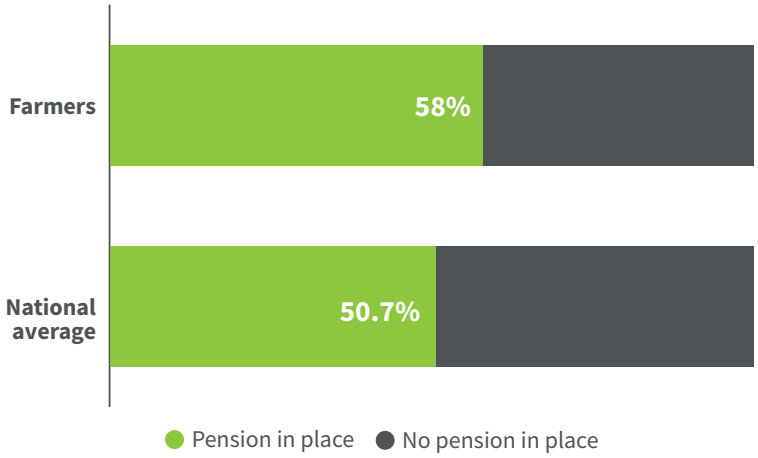
The answer is based on what age they plan to retire and the level of income they will require. Most farmer's, however, find it difficult to respond to these queries. So, to answer their question we would say, the minimum fund you should aim for is €166,667.

To understand why we recommend this amount as a minimum, you need to be aware of the Income Exemption Limit. A single person aged 65 or over is exempt from Income Tax where their total income is less than the exemption limit, which is currently €18,000 (married couple is €36,000).

The full state contributory pension is €12,911 per annum. This leaves circa €5,000 per annum in income that could be received and be exempt from Income Tax.

Revenue rules allow you to take 25% of your pension fund as a tax-free lump sum. On a pension fund of €166,667, this equates to €41,667. The balance of funds (€125,000) can be invested in an Approved Retirement Fund (ARF), which requires that you draw down a minimum income of 4% per annum. This gives you an annual income of €5,000.

So, the minimum pension fund that farmers should aim for is €166,667. This will give clients a tax free lump sum of €41,667 and an annual income that will top-up their state pension and keep many of them within the Income Tax Exemption limits.



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Employers: Achieving Workplace Compliance

We are beginning to hear more about Workplace Relations Commission visits.

Mary McDonagh
Head of Payroll Services

When a farm is selected for inspection, the farmer will usually receive written notification containing a proposed date and time for a visit, however in some instances an inspector may turn up unannounced.

What prompts inspection?
The reasons for an inspection range from routine visits to WRC having received a complaint alleging non-compliance with employment legislation. Some visits are triggered by WRC compliance campaigns focusing on specific sectors (e.g. Agriculture) or specific legislation (e.g. Work Permits).

What is the purpose of the inspection?
The purpose of the inspection is to check that the employer is complying with employment legislation. The inspector is therefore likely to examine employment contracts, terms and conditions of employment, annual leave records, timesheets, and various other employee records.

Where does the inspection take place?
As employers are required to hold employee records at their place of business, this will usually be the venue for the inspection. While an employer can request an alternative location if they have a good reason for doing so, it is crucial to contact the inspector in advance and advise him/her of that reason. Inspectors also need to be informed if the inspection will take place in a private residence as they do not enter private residences without the consent of the householder or a Court Warrant.

Preparing for the visit
If you receive notification of a proposed inspection, it will come with a template containing a number of questions to be completed in advance of the visit and available for inspection on the day. Details of other documentation which the inspector will seek to examine are available in WRC's 'Employer's Guide to WRC Inspections'.

> The reasons for an inspection range from routine visits to WRC having received a complaint alleging non-compliance with employment legislation.

What to expect during the inspection
At the outset of the inspection, there will be an interview with the employer or his/her representative. The inspector will ask to examine the relevant documentation. While they can look for employment records going back 3 years, usually they focus on the previous year's records only.

Once the relevant records have been examined, a sample of employees will be interviewed to check the veracity of records and information provided during the inspection. The WRC can interview employees without the employer's permission, however they usually request permission as a matter of courtesy. The employer can ask to have employee interviews conducted off site.

A sample Employee Questionnaire is available on the WRC website.

Inspection findings
Once the records have been examined and the employer and employee interviews have taken place, the inspector will hold a further interview with the employer to outline the findings. If minor breaches have been uncovered during the visit, the inspector will usually request that these are rectified and will follow up to ensure that issue/s have been corrected in line with legislation. Once everything is in order, a letter is issued to conclude the inspection. Where serious non-compliance and/or non-cooperation issues arise, the WRC may invoke sanctions.

Where serious non-compliance and/or non-cooperation issues arise, the WRC may invoke sanctions.

EMPLOYER'S CHECKLIST

Do I have the following items?

- ☐ My employer's registration number with the Revenue Commissioners
- ☐ A list of all my employees: including full names, address and PPS numbers
- ☐ Dates of commencement and, if relevant, dates of termination of employments
- ☐ Written terms of employment for each of my employees
- ☐ Employees' job classification
- ☐ A record of annual leave and Public Holidays taken by each employee
- ☐ Hours of work for each employee (including start and finish times)
- ☐ Payroll details including: gross to net, rate per hour, overtime, deductions, commission, bonuses and service charges, etc.
- ☐ Evidence that I provide employees with payslips
- ☐ A register of any employees under 18 years of age
- ☐ Details of any board and lodgings provided
- ☐ Employment permits or evidence that permit is not required as appropriate for non EEA nationals
- ☐ The completed template sent with the appointment letter or the same information available in a similar format.

Source: Workplace Relations Commission, 'An Employer's Guide to WRC Inspections', September 2018.

Protecting the Environment

When it comes to protecting the environment, 93% of farmers who participated in this year's research want to reduce their carbon footprint. Over two-thirds are open to increasing their use of renewable energy (up from 55% last year) and 73% favour additional grant aid for renewables such as wind, solar and LED.

Interest in renewable energy as a means of diversifying farm income has been growing in recent years. In regions with suitable wind patterns, farmers can obtain a good return on investment through the sale of electricity to the national grid. The usual arrangement is that a renewable energy developer purchases an 'option' to acquire access to your land and execute a lease if they wish to develop it at some time in the future. Typically, in exchange for entering into an option agreement, you receive payment from the developer. How this is structured depends on the terms and duration of the agreement.

Investing in solar energy also helps diversify farm income. Solar panels on dairy, beef and tillage farms can now qualify for TAMS grant aid.

As with all farm investments, the timing and business case for investing in renewable energy needs to be carefully assessed and advice should always be sought from accountants with experience in the farming sector.

More than two-thirds of land in Ireland is grassland. To reduce grassland greenhouse gas emissions, 55% of this year's respondents would use alternative fertilisers such as protected urea. Other measures to reduce carbon footprint include increasing the area of land under forestry or other carbon storing options (cited by 21% of respondents) and some CAP funding going to environmental measures (cited by 24%). Unsurprisingly, an overwhelming majority (91%) of respondents believe that carbon tax collected from the agri sector should be ring-fenced for use on farm initiatives.

CARBON FOOTPRINT

93%

of farmers who participated in this year's research want to reduce their carbon footprint.

GRANT AID

73%

favour additional grant aid for renewables such as wind, solar and LED.

Climate Change Tax Incentives

Robert Johnson,
Senior Tax Consultant

Among various incentives introduced in recent years to help Ireland meet its climate change targets, the Accelerated Capital Allowances (ACA) scheme is particularly relevant for farmers.

This scheme, which is administered by the Sustainable Energy Authority of Ireland (SEAI), is designed to encourage investment in energy-efficient equipment. It runs until 31 December 2020.

What are the benefits of ACA?
The ACA allows qualifying businesses, including farmers who pay Corporation Tax, to deduct the full cost of equipment from their profits in the year of purchase. This is significantly more attractive than the long-standing 'wear and tear' capital allowance which spreads the tax reduction over an 8-year period.

> The ACA allows qualifying businesses, … to deduct the full cost of equipment from their profits in the year of purchase.

ACA Criteria
The ACA scheme is available to companies and unincorporated businesses that incur expenditure on eligible energy-efficient equipment for use in their trade.

To qualify for the ACA, the equipment purchased must be new and cannot be leased, let or hired to any person, body or organisation.

In addition, the equipment must fall into one of ten designated classes of technology specified by the SEAI. These are:

- Building Energy Management Systems;
- Lighting;
- Heating and Electricity Provision;
- Motors and Drives;
- Information and Communications Technology;
- Process and Heating, Ventilation and Air-conditioning (HVAC) Control Systems;
- Electric and Alternative Fuel Vehicles;
- Catering and Hospitality;
- Electromechanical Systems;
- Refrigeration and Cooling.

A minimum amount of expenditure applies which varies depending on the particular category to which the product belongs.

For cars coming under the category 'Electric and Alternative Fuel Vehicles' the accelerated allowance is based on the lower of the actual cost of the vehicle or €24,000. For employers purchasing electric vehicles, the ACA allows you to front-load the depreciation which can result in substantial savings on your tax bill.

Claiming ACA
You do not have to obtain approval for expenditure on the energy-efficient equipment however it is important to ensure that the required conditions are met. The allowance should be claimed on your income tax return (Form CT1 or Form 11) along with any other wear and tear allowances for machinery and plant.

Energy-efficient equipment that is machinery or plant but that has not been approved can avail of the normal wear and tear allowances (12.5% over 8 years).

Timing and Business Case
If capital expenditure on energy efficient equipment is planned for 2021, it may make sense to bring this forward into 2020 so as to avail of the ACA before the deadline at the end of this year.

Bear in mind that where farmers invest in buildings or equipment for farm use, other allowances in respect of Income Tax and Corporation Tax may also be available on the expenditure net of grants and VAT. As always, the timing and business case for capital investments should be carefully assessed.

Building Resilience to Tackle Stress

Richard Burke
ResilienceMatters.ie

Richard is a psychotherapist, engineer, MBA qualified manager and director of Resilience Matters; Ireland's leading specialists in personal and organisational stress. They were winners of the Best Consultancy Partnership award at the IITD Awards in 2015.

I was in the midlands a few months ago, running a workshop for a discussion group. It was designed to tackle stress and was sponsored by the IFA Skill-net. One of the first questions I asked the group was whether anyone was ever out of action due to stress. The reaction around the table was interesting. Everyone looked at everyone else for a couple of beats before one brave farmer admitted that he had lost time because of stress. What intrigued me was the fear around giving this answer. Why was it that this group, who had hired me to address this very issue, were reluctant to give me this most basic of information? What was immediately apparent was that this was a conversation they were uncomfortable to have not only with me, but also amongst themselves. One man said jokingly that 'pressure is for tyres boy' followed by raucous laughter which broke the tension I had created.

I have never experienced any workplace where stress is because of a single problem. It is always a stew of business and personal issues, and it turned out to be no different in farming. They needed help to identify the individual ingredients in this stew.

So how do you separate out those ingredients? Is the farm and the environment responsible, or are you? If you take the analogy of an orange. If you squeeze the orange, you get orange juice. If you squeeze a lemon, you get lemon juice. And if I work for you and you squeeze me, you get Richard juice. The point being that a person's reactions to being squeezed will vary from person to person. Some will thrive on it and others will begin to crumble quietly under the strain.

> 'pressure is for tyres boy'

In other words, there are work issues and personal issues. Ask yourself these questions about your own farm.

- Are there increasing and conflicting demands on your time?
- How much control do you have over the way you do your job?
- How much support do you have from other people?
- Do you ever ask for help or are you stubborn and see that as a weakness?
- How much time do you spend on your own?
- Are you the strong and silent type?

It is in the answers to these questions and others that you will identify the sources of your stress.

So that's the squeezer, what about the squeez-ee? Everyone has a natural stress threshold and a learnt stress threshold which comes from life and work experiences. In reality, and this might be a hard one to swallow initially, but all stress is self-induced. Most of us believe that we have no control over our stress response or feelings. This is simply not the case. Take the example of any politician getting abuse from protestors. You don't see any juice. Why? Because he has learned to separate himself from the drama and protect his own emotions. Like him or loathe him, his reactions are under his own control rather than a slave to the environment in which he finds himself.

So, imagine the situation where you have been trained to manage your own personal response. So now, not only are you happy healthy and hard at work, but when you go into to your family, you are happy healthy and there too.

As a gift to you, I have made an audio recording to teach you how to control your reactions when you are being squeezed particularly during this pandemic. Listen to it in bed a handful of times over the next few weeks and it will teach you how to reduce your stress and get back into a decent sleeping pattern.

youtu.be/IRzGVNOJNlI

Sound advice, independent solutions

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

Our process

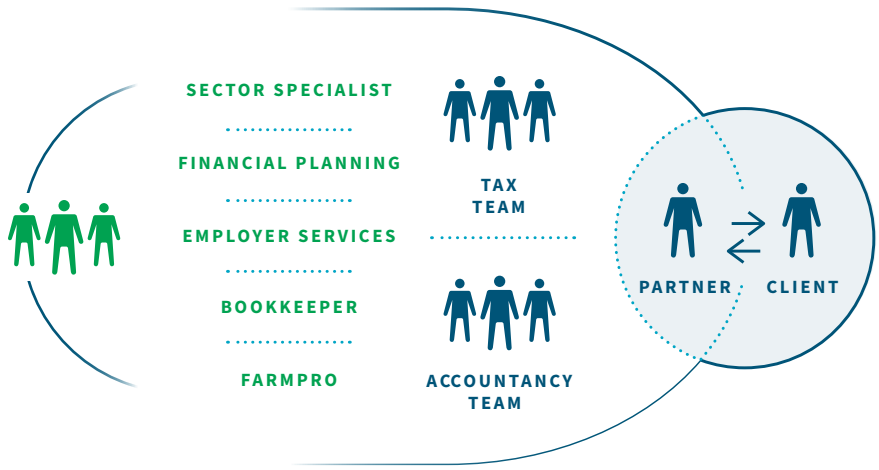
We want to know what matters most to you. No one knows your business better, so by listening to you, we gain a deep understanding of your business, your challenges and your ambitions.

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

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

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

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



OUR APPROACH

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

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

Finance

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

Taxation

Our specialist tax team ensure your taxes are structured as efficiently as possible by planning your affairs with one of our specialist advisors.

Specialist Advisory

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

Capital Planning

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

Accounts

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

Audit and assurance

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

Financial Planning

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

Payroll

As PAYE modernisation is introduced, our payroll team will ensure accurate and compliant payroll management.

Food & AgriBusiness

Whether you're looking to access funding, export to new markets or seize a new opportunity, our Food & AgriBusiness team can help you maximise your potential for growth.

Making Connections

After 40 years in the farming, food and agribusiness sector the *ifac* team have unrivalled contacts and connections.

SECTOR SPECIALIST

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- Payroll Services Centre, Co. Kilkenny
- Kilkenny SME, Co. Kilkenny
- Mullingar, Co. Westmeath
- Portlaoise, Co. Laois
- Trim, Co. Meath
- Tullamore, Co. Offaly
- Wicklow, Co. Wicklow

Munster

- Bandon, Co. Cork
- Blarney, Co. Cork
- Agri Support, Cahir, Co. Tipperary
- Dungarvan, Co. Waterford
- Ennis, Co. Clare
- Limerick City, Co. Limerick
- Mallow, Co. Cork
- Mogeely, Co. Cork
- Nenagh, Co. Tipperary
- Skibbereen, Co. Cork
- Templemore, Co. Tipperary
- Tralee, Co. Kerry

Connaught

- Athenry, Co. Galway
- Balla, Co. Mayo
- Roscommon, Co. Roscommon
- Collooney, Co. Sligo

Ulster

- Cavan, Co. Cavan
- Monaghan, Co. Monaghan
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