

Cow Leasing “A New Collaborative Arrangement”

- **Benefits to the lessor**
 - A financial return on surplus cows
 - Access to cow capital at short notice
 - Surplus cows are retained for future expansion
 - Suits a farmer who is rapidly expanding
- **Benefits to lessee**
 - A reduced financial outlay to start up a dairy enterprise
 - Inability to get a loan to buy stock due to other investments
 - A tax deductible expense
 - Improved cash flow versus buying the animal

Benefits to the lessor

Cow leasing is a collaborative arrangement where a dairy farmer with cows that are surplus to requirements can lease these cows out to another farmer. When cow numbers are expanding there is a lot of capital tied up in the extra replacement stock and there is also the financial cost associated with rearing the extra stock. Leasing out cows is an opportunity for the dairy farmer to get a financial return on these retained animals. It is also an opportunity for the lessee to increase numbers at a lower cost than buying them outright. The lease can be short-term for 1-2 years or for a longer term arrangement of 4 to 5 years. In general cows on a short-term arrangement will return to the owner whereas those on a long-term lease generally do not return.

Teagasc developed a template agreement for long-term cow leasing some time ago but were awaiting the revenue clarification on the treatment of leasing income for income tax and VAT. The template agreement and the Revenue clarification are available to download at http://www.teagasc.ie/collaborativearrangements/cow_leasing.asp

Short-term leasing

Cows can be leased out on a short-term basis for 1-2 years. In this case, the same animals would return to the owner less any animals that do not go in-calf over the duration of the arrangement.

For example, 50 cows leased out in January 2015. 10 cows are not in-calf by November 2015. The lessee can sell the culls and replace them with equivalent cows in terms of EBI status and lactation number. At the end of year 2, 10 more cows are not in-calf; these can again be sold and replaced with equivalent cows in terms of EBI and lactation number. There are now a group of 50 cows ready to be returned to the owner after the two year

agreement has come to an end. Only 30 of these are part of the original group of cows and 20 are cows that have been bought in as replacements.

The criteria for the replacement of animals must be set out and agreed at the start of the arrangement. These include: lactation number, age, disease status etc.

Long-term Leasing

Cows leased out on a long-term basis for 4 to 5 years generally do not return to the owner. They are replaced with an equivalent group of cows at the end of the agreement. The profile of the leased cows should be noted at the start of the agreement and the group of cows returned must be at a minimum equivalent in terms of age, lactation and disease status and superior in terms of EBI status. These criteria must be agreed between the parties at the beginning of the agreement and written down.

Calves born out of the leased cows are the property of the lessee and this allows him to build up a stock of replacements for the herd but also to cover the return of the cows as part of the lease agreement.

Benefits to the lessee

There are a number of situations where a farmer might consider leasing in cows. Leasing cows can be good option for a new entrant to dairy farming. In a start-up or conversion farm, capital is required for milking facilities, farm infrastructure, reseeded and buying cows. Leasing in the cows reduces the financial outlay and can help to ease the pressure on cash flow in the early years after set-up. Cow leasing may also be an option for established dairy farmers to increase cow numbers quickly at a lower initial cost outlay.

The Agreement

Like any other collaborative arrangement, it is essential that two farmers entering into a cow leasing arrangement have a written agreement. Working through the template document requires both parties to come to agreement on the various issues and then sign the document as a commitment to the arrangement. The cow leasing template agreement sets out a number of key components for the arrangement to be successful.

The personal details: These include the names, addresses and PPSN of the farmers taking part in the arrangement.

Commencement Date: It is important to agree a commencement date and duration of the lease. This is also recorded in the template agreement.

The payments schedule: A schedule and method of payment has to be agreed at the start and documented in the agreement as set out.

Animal Identity and value: A critical part of the agreement is the identity of the animals to be leased. The BTE tag numbers can be entered into the tables provided in the agreement.

Facilitation: The agreement becomes a written record of what is agreed between the parties before the start of the lease period. In the event of any difficulties arising, the agreement can be viewed by the parties to resolve the issue and in cases where a disagreement can not be resolved, there is a facilitation process built in.

Building a working Relationship: The two farmers involved in the agreement must work towards building up a good working relationship. This has benefits to both parties. It can reduce the risk for the lessor by working with the young farmer. The lessor farmer can provide a mentoring role by sharing their experience so that the young person learns from the established farmer.

For young farmers who are considering cow leasing, it is important not to rush into the first opportunity that comes along. There are two things to consider; the lessor farmer as a person and the quality of the stock that is being offered. The lessor can be an individual who is just in it for the money or someone who takes an interest in the young person and offers a mentoring role to them. The quality for the stock offered has a big bearing on the profitability of the enterprise. For example: high EBI cows with above average milk solids can deliver a higher milk price.

Costs of leasing

The two parties must agree an average value per cow at the outset of the agreement and this value is included in the written agreement. They must also arrive at a leasing cost that is fair to both parties and document the payment schedule in the written agreement.

Income Tax and VAT clarification

The Revenue Commissioners have clarified that income earned from the leasing out of surplus cows will be treated as farm income. The lessor (owner) can claim stock relief on the leased cows provided that the cows have not been purchased with a view to leasing them out.

The farmer leasing in the stock can claim the cost of leasing as a tax deductible expense but they cannot claim stock relief as they do not own the animals. The cost of replacement animals is also an allowable expense.

Cow leasing is liable to VAT at the standard rate of 23% and is not regarded as an agricultural production activity for VAT purposes. If the leasing income is greater than €37,500 in a continuous period of 12 months then the lessor is obliged to register and account for VAT on all farm income.

Veterinary Advice

It is vitally important that both parties in a cow leasing arrangement consult their own veterinary surgeon on managing any potential disease risk. In any situation where cows are moving from one herd to another, there is a potential if not almost certain disease risk. Where cows are leased into an existing herd or a young farmer is putting a herd together, cows are faced with a new disease challenge. Contacting the vet and getting good veterinary advice before the start of the cow leasing arrangement can avoid a lot of problems once cows have moved into a new herd.