Teagasc
Agriculture and Food Development Authority

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Long-Term Land Leasing

What the Seven Year rule means in relation to long-term land lease and income tax relief…

Farmers have been leasing out land to avail of the income tax relief exemptions since its inception in the 1990's. Depending on the term of the lease, rental income received can be exempt from income tax up to a threshold as outlined in table 1 below. This is eligible where the lease is for more than 5 years in duration and the lessor and lessee are not connected (see s10 of the taxes consolidation act 1997 for details, located here).

Lease Term	Tax Exemption Threshold Per Year
5-7 years	€18,000
7-10 years	€22,500
10-15 years	€30,000
15+ years	€40,000

As part of the 2024 budget summary that was announced on the 10th of October, a new requirement was included whereby a lessor who has purchased farm land for a consideration equal to market value on or after 1 January 2024 must have owned the land for a period of at least 7 years before they can make a claim for income tax relief on the rental income received. This takes effect for contracts to purchase land entered from the 1st of January 2024. Leases entered or signed before the 31st of December 2023 will not have this condition imposed on the lessor. Where a taxpayer has entered into and signed a contract to purchase farm land in December 2023, but the sale is completed in (or after) January 2024, the seven-year holding requirement will not apply in respect of that purchase.

Further clarity was given in relation to this under ministerial questions on the 6th of December where it was stated that it applies to lands that were purchased "for a consideration equal to the market value of the land at the date of purchase". This would confirm that this new restriction would not apply where land was transferred by way of gift/inheritance from a parent to a child who subsequently chose to lease it out as it was not transferred at market value. This leasing option is often used when the beneficiary does not meet the active farmers test and therefore they lease it out to an active farmer to meet the requirements for agricultural relief/consanguinity relief.

Subsequent to this, there were fears that the specific wording could have led to a manipulation of the definition. Fears were that, when land that was purchased after the 1st of January 2024 on the open market at full market value it might then be transferred to a connected person with the intention of it being leased out and tax relief then claimed on the rental income. To dispel these fears, new sub-sections (1A) to (1D) were included in section 664 of the Taxes Consolidation Act of 1997 (here) to avoid this situation. This section states that if such a transfer was completed with the aim of avoiding the requirement to own the land for seven years then is states that "the transferred farm land shall be treated as having been purchased by the transferee for a consideration equal to its market value at the date of transfer" and therefore the seven year limit will commence from that date.

In summary, any land purchases they were entered into from the 1st of January 2024 where the land was purchased at market value, must be retained for seven years before the owner is eligible to apply for the income tax relief exemptions on leased income when the land is leased for 5 years or more and the lease is registered and stamped by revenue.