

## Farm Finance

Advice  
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Most farmers employ contractors to carry out the major harvesting and cultivation work on their farms and they are probably wise to go that route as the scale of their farming operations would not justify investing in the equipment to do their own work.

However, there is still a significant cohort of farmers who do their own silage harvesting, slurry spreading and cultivation works such as re-seeding.

The justification for having the necessary gear to carry out this work is on cost and independence grounds, but my own opinion is that the 'boys love toys' factor may be a significant influence in some instances and the economic justification may not hold water.

That said, every case is different and the scale of the farming operation and the availability of labour will be important considerations.

There are of course situations where owning one's own equipment can be well justified. There may also be situations where cooperating with neighbouring farmers may be an opportunity for sharing equipment thereby lessening the need for a full range of machines.

### COSTS

Assessing the feasibility of owning your own equipment is as relevant to the farmer who simply owns his own mower, baler and wrapper as it is to the farmer who makes bulk silage.

It's really all about the output achieved relative to the capital and running costs incurred. In other words, what is it costing you to harvest and ensile a ton of silage or spread a thousand gallons of slurry and would it be cheaper to get a contractor to do the work?

In assessing the feasibility of buying your own equipment the primary consideration should be:

- Scale of farming operation.
- Need for independence and convenience.
- Availability of good contractors in your area
- Range of equipment required and annual future replacement cost.
- Ability/capacity to maintain machines.
- Labour availability
- Opportunity for co-operation with other farmers.
- Tax status
- Time spent on work
- Cost compared to contractor

The scale of the farm enterprise will need to be such that justifies having your own equipment.

Occasionally, farmers will do a limited amount of contract work for neighbouring farmers and that can create the scale to justify purchasing the equipment in the first place.

However, the cardinal error frequently made by such individuals is that they generally under charge for the service provided thereby making life more difficult for themselves not to mention local contractors.

Machinery is costly to buy and to maintain. Knowing what your aver-



**Hard questions:** Farmers splashing out on their own gear need to ask themselves how much it is costing to harvest and ensile a tonne of silage or spread a thousand gallons of slurry? Would it be cheaper to get a contractor to do the work?

# Do the figures add up on your farm machinery investments?

The scale of your farming enterprise is the most important factor in deciding whether or not to invest in your own machinery

age annual replacement cost is or will be is vital.

This can easily be established from your annual accounts by taking a historic look-back and establishing an average. For those farmers considering doing their own work it can be assumed that your machines will depreciate by in or around 12-15% per annum on average.

The ability to maintain one's own equipment will be a decided advantage as maintenance, particularly on older machines, will be a significant cost.

### INDEPENDENCE

Many farmers will place great importance on the independence of owning their own equipment and being in a position to do whatever

work it is they want to do on any given day.

This may be influenced by the availability or otherwise of good reliable contractors in your area.

However, the country is, by and large, well-served with good contractors and the lack of a good service will rarely be a justification for owning your own gear.

In many instances the next-door neighbour who is of a similar scale to you may well be managing fine with little more than a 25-year-old tractor and a yard scraper and possibly a fertiliser spinner.

Generally, farmers who are highly mechanised will not be one-man operators and typically will have employed labour or adequate family labour.

Nevertheless, a secure and reliable labour supply is absolutely crucial.

One possible way of overcoming a labour deficit while also lessening the need for a full range of equipment is a collaborative arrangement with neighbouring farmers where tractors and equipment can be shared to do work such as silage harvesting.

### THE TAX INCENTIVE

Depending on the farmer's tax and trading status, purchasing machinery can be an effective way of mitigating large tax bills, particularly for sole traders or partners who are sub-

*The next-door neighbour of similar scale to you may be managing with little more than a 25-year-old tractor, yard scraper and fertiliser spinner*

ject to up to 54% in tax and levies.

Tractors and equipment are fully allowable against tax, albeit spread over 8 years, so for a high rate tax payer the net cost of a machine can be more than halved.

The tax benefit in a limited company is considerably less as the tax rate is only 12.5%. While tax saving can be an added benefit of mechanisation it should not be the primary justification.

Sitting up on a nice shiny tractor with an expensive piece of equipment on behind will always boost the mood but you also need to consider the impact on workloads, cash-

flow, and borrowing requirements. Achieving and maintaining the fundamentals of profitability on any enterprise be it dairy, beef or sheep aren't always easy, but they certainly require time.

When time is spent operating machinery, more often than not the key performance indicators tend to suffer. Perhaps your time could be better spent on improving your grassland management, breeding policies or on general animal husbandry.

### THE TRUE COST

The cost compared to employing a contractor will in most instances be greater due to the high capital cost of the equipment relative to the scale of activity.

Table A sets out an example of a farmer using a baler and wrapper or forage wagon making 100 acres of silage and spreading 100,000 gallons of slurry. The contractor charge works out at €10,500 less.

When tax relief is factored in, the net saving in employing a contractor will be reduced further and many larger farmers may view the additional cost as being an acceptable price to pay for the independence of having their own equipment.

A farmer using a forage wagon could expect that the cost difference would be double that of baling and wrapping.

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### Farmer cutting 100 acres silage and spreading 100,000 gallons of slurry

Tractor, Mower, Baler & Wrapper along with a Slurry Tanker.  
Total est. capital cost is €200,000

|                                   |                |
|-----------------------------------|----------------|
| Depreciation (8 yr av.)*          | €12,500        |
| Repairs & Maintenance             | €7,000         |
| Diesel                            | €2,000         |
| Insurance                         | €1,100         |
| Labour                            | €900           |
| <b>Total</b>                      | <b>€23,500</b> |
| <b>Comparable Contractor Cost</b> | <b>€13,000</b> |

\*Adjusted to take account of the tractor being required on farm through the year