



farming **finance**



Employing family members can deliver substantial tax savings

advice

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THIS article is in response to queries which continue to land on my desk following on from an article on this topic that appeared in the Farming Independent in late 2015.

Registering family members who help out or indeed work full time on the farm can be quite beneficial from a tax point of view.

In many instances a son or daughter will not pay income tax or universal social charge as the amount they are likely to earn will fall under the threshold that would give rise to a liability.

The current single person's tax credit will enable a son or daughter earn up to €8,250 free of income tax and Universal Social Charge provided that they do not have any other taxable income in that tax year.

Most employees are liable to pay PRSI but exceptions to this general rule may apply in the case of certain family employments.

A family employment describes a situation in which a farmer either employs, or is assisted in the running of the business by a spouse or by other family members. There is

a requirement that the son or daughter resides with their parents on the farm to be exempt from PRSI.

However, it should be noted that if the business does not operate on a sole trader basis — for example if it is a Limited Company or a Partnership — it is not considered a family employment Social Welfare and any wages paid will be liable to PRSI at 4pc.

This seems rather unfair if the partners or shareholders and directors are family members.

PAYING YOUR CHILDREN A WAGE AND CLAIMING TAX RELIEF.

Revenue will require that the wages are actually seen to be paid and are not simply an adjustment to personal drawings. This could be achieved by a bank or Credit Union account being opened in the joint names of the parent and child. Once the child is eventually seen to benefit from the money in the account Revenue will have no issue.

Under labour law a young person between 14 and 15 years may be employed for light work provided it does not interfere with their schooling which is the answer to the question

that I am frequently asked, namely, what age can my child be in order to pay them a wage and claim it against my tax? The maximum amount one can pay their children will depend on their age and the nature of the work they do but anything between the relevant hourly minimum wage and the Farm Relief rate should be acceptable.

Children aged 15 may do eight hours a week light work in school term time. The maximum working week for children outside school term time is 35 hours.

The maximum working week for young people aged 16 and 17 is 40 hours with a maximum of 8 hours a day.

Generally these rules will not impact on family employments but they do set a basis for the amount of wages than be paid and deducted from profits, particularly in the case

of children under 16 years.

FULL TIME SON OR DAUGHTER

A son or daughter employed full time on the farm is entitled to their personal tax credit along with the employee credit which will enable them to can earn up to €16,500 per annum or €317 per week free of income tax provided that they do not have any other taxable earnings.

He/she will not be liable to PRSI if they are residing at home and the parent is operating as a sole trader. They will however be liable to Universal Social Charge once the earnings exceed €13,000. Where the parent is paying tax at the 20pc band and USC at 5pc the net overall tax saving in employing his son or daughter and paying them say €300 per week, is €3,900.

If the parent was paying the top rates of tax and USC, the saving would be €7,956. Typically, wages to family employees fall far short of what could be justified in certain family situations so it may be worth the parent's while considering paying a higher wage that could be set aside for some future cost that the son or daughter might incur such as a house, wedding, car etc., that the parent may have to contribute toward.

While the increased wage may result in the son/daughter paying tax at the 20pc rate, the savings for the parent would be 40pc in income tax and possibly 4pc in PRSI depending

on whether they are living at home or not..

SPOUSES

Most farming spouses contribute in no small way to the operation of the farm business whether dealing with the myriad of administration tasks and/or out in the yard.

Accordingly they could well justify a wage where they do not already have a taxable income. One option is to create a partnership which may also provide spouse's pension benefits. Farmer's on income averaging may in some instances find the creation of a partnership costly from a tax perspective in the short term and perhaps a simpler solution may be to pay the spouse a wage.

The benefit of paying a wage is that it will extend the 20pc tax band. Currently a married couple where one spouse has no income can earn up to €42,800 at the 20pc rate of tax.

However, the 20pc band could be extended to €67,600 by paying the spouse a wage of €24,800.

This will provide a saving in tax of €4,960 where the farm profit is €67,600 or greater.

The family income will be unchanged as generally a wage of this nature can be legitimately funded out of personal drawings thereby creating no additional drain on the farm cash flow.

PARTNERSHIPS AND LIMITED COMPANIES

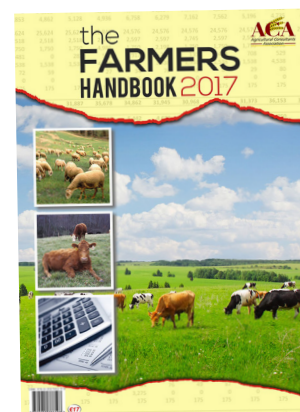
As stated above, family employ-

ees of farming partnerships or limited companies will be liable to pay PRSI.

This may result in an enhanced pension benefit for many farming spouses who already have some PRSI contributions whether through previous employments or through having been allocated them through the 'farming spouse' or 'home makers' provisions.

It's important to check your PRSI contribution status as increasing the number of contributions between now and retirement age may increase your pension. This information can be applied for online by typing in 'Request a copy of your Social Insurance contributions' and then entering the details requested

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