Farm Finance

10 steps to cutting your tax bill

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Performing a health check on your tax affairs can be quite beneficial in the same way as a health check can be for your physical well-being. Seldom a week goes by that I do not encounter a farmer client who has missed out or is currently missing out on some worthwhile tax relief or other.

More often than not, such omissions only emerge in the course of a conversation about some unrelated matter such as financial or succession planning. The value of allowances or reliefs foregone can range from insignificant to hugely significant depending on the relief in question and whether it is a once-off or a recurring omission.

It may also depend on whether the error can be corrected, which often may not be possible as Revenue have a four-year time limit on claiming tax back. Needless to say, there is no such time limit on the collection of taxes due. Below are my top 10 tax-saving tips.

1. Failing to make best use of tax bands

A married couple are currently entitled to earn up to €70,600 at the 20pc tax band. However, where there is only one earner, the maximum is €44,300 so, if the farm income could be spread between both spouses, it could ensure that maximum use is made of the low tax band. This can be done by way of paying the non-earning spouse a wage or creating a partnership. This will be at no extra cost to the farmer, but could save up to a maximum of €5,260 per year.

2. Registering children as legitimate employees

A child can earn up to €8,250 without incurring tax, so paying wages to your children through the PAYE system can save a significant amount of tax. 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. 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 eight hours a day. 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. 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.

3. Don't use income averaging for short-term gain

Dairy farmers whose accounting year end was March 31, 2018, will have seen a significant uplift in their profits, and income averaging may offer an opportunity to reduce what might otherwise be a substantial tax bill based on their 2018 tax return. Considerable thought should be given to opting for income averaging as once you enter on to this particular tread mill, you are obliged to stay with it for five years, and opting out could see a review of the previous four years and a possible clawback of benefit gained.

Accordingly, your plans for the next four years are very important, especially where there is a possibility of scaling back. This could mean that the benefits of income averaging could be quickly eroded. In the right circumstances, Stock Relief can be a valuable tool, but careful planning is required.

4. Most suitable trading structure

The three types of trading structures currently in use on Irish farms are the sole trader, partnerships or limited companies. Typically, a sole trader who has a substantial tax bill will look towards changing his structure and the decision can lie between a partnership or a limited company. Circumstances will vary widely, but a thorough appraisal should be done as to which structure is likely to prove the most effective in the medium to long term.

Family partnership can work very well, but people who are currently on income averaging need to have their situation appraised, as do people who are carrying forward prior year losses. High-rate tax payers should seriously consider the Limited Company option, but again, serious appraisal is required.

5. Tax allowable life insurance

Certain types of life cover are allowable against tax and this can represent a significant saving. Providing the policy is not required for the purpose of securing bank debt and providing that it does not have a surrender value, it can issued in a format whereby the premiums are tax allowable. People contemplating taking out life cover or, indeed, people with existing cover should consider this option if the conditions of claiming relief can be met. Having a financial advisor review your existing life cover might prove well worthwhile.

6. Claiming personal pension relief

For high-rate tax payers, personal pension relief can be very attractive in that it gives an immediate 40pc return on investment by way of a tax saving. Nowadays, one's options for mature pension funds afford huge flexibility and gone is the day when your pension necessarily died with you.

7. Clever leasing options

Farmers who have land that is some distance from the home farm could consider leasing out the remote lands and leasing in lands closer to home. Apart from the benefit of having lands closer to home, some or all of the rental income from the lands which are leased out will be tax free and all of the rent payable on the leased-in land will be tax allowable. I should enter a note of caution on this one: it is not possible to claim the tax exemption where you are leasing out to the same person that you are leasing in from.

8. Putting the farm in joint names

Placing the farm in joint names or not placing the farm in joint names, as the case may be, can result in certain benefits being gained or, indeed, lost. For example, if it is your intention to lease out the farm at some point in the future, the leased land tax exemption would be doubled. However, if a spouse is claiming or will in the future be claiming a means-tested State Benefit, having a joint ownership share in the farm may render that person ineligible for the particular benefit.

Furthermore, transferring a farm into joint names is a disposal for the purposes of claiming Capital Gains Tax Retirement Relief. Accordingly, if a future disposal was being contemplated, part or all of the relief may have been used up on the transfer into joint names.

9. Opting for a succession partnership

Where a farmer intends to transfer the farm to his son or daughter, a succession partnership can be worth up to €25,000 in tax savings. The primary condition of the scheme is that the farm must be transferred to the son or daughter no sooner than three years and no later than 10 years from the commencement of the partnership.

10. Not transferring before age 66

For larger farm holdings in excess of €3m in value, the Capital Gains Tax Exemption that can apply to persons under 66 is limited to €3m once they reach 66 or over. This means that any excess value over €3m will be subject to Capital Gains Tax which, in most cases, will mean that the entire farm cannot be transferred and part of it can only be passed on by way of inheritance in order to avoid Capital Gains Tax.

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