Farm Finance

10 steps to cutting your tax bills in 2021

Analysis
Martin O'Sullivan

It's the time for New Year's resolutions and where better to start than your tax affairs.

In this time of a worldwide pandemic, Benjamin Franklin's saying that "in this world, nothing can be said to be certain except death and taxes" rings truer than ever.

Despite the Corona virus the taxman is alive and well and hasn't been laid off or made redundant.

However, in fairness to him, the taxman only wants you to pay what is correctly due and no more. It is up to you, the taxpayer, to ensure that is all he gets and you cannot blame him if you do not claim all of the reliefs that you are entitled to.

The start of a new year is always a good time to perform a health check on your tax affairs. It can be quite beneficial to your finances 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. I will list my 10 tax saving measures below.

Savings: The value of allowances or reliefs foregone can range from insignificant to hugely significant, says Martin O'Sullivan

Many farmers are still not taking full advantage of the reliefs and trading structures that can substantially cut their tax bills

1 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.

It should be noted that under the new live Revenue PAYE filing system. Retrospective registration of employees is not possible.

2 Making best use of tax bands

A married couple are currently entitled to earn up to €70,600 at the 20% 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.

3 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. If your tax bill is beginning to show signs of getting out of hand, now is the time to act before you get into the more profitable part of the year.

4 Income averaging

Considerable thought should be given to opting for income averaging as once you enter onto this particular treadmill you are obliged to stay with it for 5 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, particularly in the case of an expanding enterprise, income averaging can be a valuable tool but careful planning is required and you should be tempted by the attraction of a short term saving.

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 be 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.

> **Discarding a medical receipt for €50 is the same as throwing a tenner in the dustbin**

6 Claiming all health expenses

Many people are a bit lazy when it comes to retaining all health expense receipts. Health expenses attract unlimited tax relief at 20pc so discarding a doctor's receipt for say €50 is the same as throwing a tenner in the dustbin.

I'd wager that not too many readers are guilty of that, but how many are certain that they have retained all of their 2020 medical receipts.

7 Land leasing options

Farmers who have land that is somewhat 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 Placing 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 and it should not happen just because it is a nice or fair thing to do. It will depend entirely on one's circumstances and the best advice should be sought. 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 Passing on the farm before age 66

For larger farm holdings in excess of €3,000,000 in value, the Capital Gains Tax Exemption that can apply to persons under 66 is limited to €3,000,000 once they reach 66 or over.

This means that any excess value over €3,000,000 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.

10 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.

This is an excellent scheme and provides for an adequate lead-in time to transfer. Ideally it should be entered into before the successor reaches his/her 32nd birthday in order to ensure that they can also avail of the Stamp Duty exemption scheme.

Martin O'Sullivan is the author of the *ACA Farmers Handbook*. He is a partner in O'Sullivan Malone and Company, accountants and registered auditors: www.som.ie