Finance

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How Budget 2023 will put money in your pocket

Income tax is down, pensions are up, there are incentives for slurry storage… but transfer farm property while the going is still good

Martin O'Sullivan

In the lead up to Budget 2023 rumours of bad things to come for farmers abounded. Thankfully, none of them proved to be true.

All the Capital Tax or Stamp Duty measures so valuable to farmers were left untampered with, and some were extended.

It is fair to say that the current and recent governments appreciate the vital role that farming plays in sustaining the national economy, not to mention rural Ireland.

Policies that support young farmers and facilitate farm succession are vital, and clearly the Government recognises that fact.

Any curtailment in reliefs would quickly undo any progress that has been made in recent decades and would halt succession in its tracks.

The reality is that most farmers simply could not afford to hand over the farm if there was a tax cost involved. Some readers will recall Death Duties and their devastating impact on some farm families. We do not want to go back there.

Those false rumours served as a reminder to redouble our efforts to promote farm succession while the reliefs are still there because they may not always be there.

Because I am not sure that every politician in Dáil Éireann recognises the importance of farmers to the national and rural interest.

Income tax and pensions

From a farmer's perspective, Budget 2023 had few negatives, apart from the VAT flat-rate refund reduction.

Income tax and USC changes will benefit most earners and are not insignificant.

The increase in the personal tax credit plus the increase in the earned income/employee credit will mean a saving €150 for an individual in 2023, and for those in the high tax bracket, there is a further potential saving of €640 from the raising of the 40pc tax threshold.

There will also be a reduction in USC of €32.50. And many farmers get the State pension, which will be worth an additional €636 in 2023.

So a farmer who is getting the contributory pension and paying tax at the high rate will benefit to the tune of up to €1,458.50 in 2023.

The benefit could be up to twice that amount for a married couple.

An individual not in the high tax bracket will benefit to the tune of €818.50.

As my bachelor farmer neighbour commented when I announced this good news to him, "if you found it under your pillow in the morning, you would be fair impressed with the tooth fairy".

Farm Restructuring Relief

Over the past year or two, I have dealt with a number of people who have benefited handsomely from the measure.

In short, what the relief means is that if you sell land and replace it with land closer to home within two years and subject to a number of conditions, you can offset one against the other to avoid Capital Gains Tax, and you only pay Stamp Duty (at 1pc) on the excess of the purchase price over the sale proceeds.

This is an extremely valuable relief that could have relevance in many parts of the country where holdings are fragmented. It has been extended until December 31, 2025.

Stock Relief schemes

The 100pc Stock Relief Scheme for young trained farmers and the 50pc Scheme for registered farm partnerships are part of a suite of measures designed to encourage farm succession. Both have been extended until December 31, 2025.

The general 25pc Stock Relief scheme runs until December 31, 2023.

Slurry storage facilities

The Budget includes an accelerated capital allowance measure for the construction of slurry storage facilities, to promote environmentally positive farming practices.

The new scheme will allow farmers to write off over two years the capital cost incurred in building these facilities rather than the usual seven years.

It is set to be introduced from January 1, 2023 and will run for three years.

This measure, coupled with the new On-farm Capital Investment Scheme under the CAP Strategic Programme 2023-27, will make the construction of new slurry storage facilities very affordable.

Flat-rate VAT refund reduction

The one small negative for farmers in the Budget was the reduction in the flat-rate Vat refund from 5.4pc to 5pc.

This will impact on milk, grain and factory beef and sheep prices.

So a bullock worth €1,500 will suffer a reduction of €6 while a litre of milk will be impacted by about 0.3c. A tonne of grain will be reduced by €1.20.

Capital taxes

The tax-free Group A threshold for gifts or inheritances from parent to child has been retained at its current level, as have Agricultural Relief and Business Property Relief.

Recent recommendations in a report from the Commission on Taxation & Welfare propose a number of measures which could substantially impact those looking to pass on their farms, or the family home to the next generation, during their lifetime or on their death.

For example, proposals to impose Capital Gains Tax on transfers on death and substantially reduce the Group A threshold (currently €335,000) would add a significant tax cost to many inheritances.

In addition, the Commission's proposals to restrict Agricultural Relief and Business Property relief could fundamentally reduce the opportunity available to parents to pass assets to the next generation without fear that the associated tax burden will force the sale of some or all of these assets.

My advice to anyone in a position to hand on their farm property is to do while the going is still good.

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