Farm Finance

The tax benefits of keeping it in the family

Farmers can make significant tax savings by registering family members who work on the farm as employees

Big money: Tax savings of up to €4,537 can be achieved for each family member employed

Advice
Martin O'Sullivan

My previous article on tax saving tips generated a large number of queries on employing family members and whether it was still a good idea in light of Revenue's new on-line PAYE filing system, introduced in January of this year.

Gone are the days when employees, particularly family members, could be back-registered as a means of reducing the tax bill.

Under the new system employers are required to report their employees' pay and deductions to Revenue as they are being paid — and this can only be done online.

Most people will rely on their accountant to do this work, for which there will generally be an annual charge depending on the number of people registered.

This will not be a significant cost when compared with the potential tax savings associated with registering family members.

TAX SAVINGS

Tax savings of up to €4,537 can be achieved for each family member employed.

In many instances a son or daughter will not pay income tax, PRSI or Universal Social Charge (USC) as the amount they are likely to earn will fall under the threshold for these taxes.

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

The parent(s) can offset this wage against farm profits, thereby saving tax, PRSI and USC at their marginal tax rates. Most, but not all, family member employees will be exempt from PRSI.

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 and any wages paid will be liable to PRSI at 4pc.

This seems rather unfair where the partners or shareholders and directors are family members, but such is the case.

EVIDENCE OF WAGES

Revenue will require that 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.

I am frequently asked, 'what age can my child be in order to pay them a wage and claim it against my tax?'.

The maximum amount you can pay your children will depend on the child's age and the nature of the work they do. Anything between the relevant hourly statutory minimum wage and the Farm Relief rate should be acceptable.

Children aged 15 may do eight hours per week light work in school term time. The maximum working week for such 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.

Generally, these rules will not impact on family employments but they do set a basis for the amount of wages that can be paid and deducted from profits, particularly in the case of children under 16.

FULL-TIME WORK

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 earn up to €16,500 per annum or €317 per week free of income tax, provided they do not have any other taxable earnings.

They 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 USC 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 a 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 €8,580. Typically, wages to family employees fall far short of what a non-family employee could command, so it may be worth the parent's while to consider paying a higher wage.

This could be set aside for some future cost that the son or daughter might incur such as a house, wedding or car, that the parent might otherwise have to contribute towards.

While the increased wage may result in the son/daughter paying tax at the 20pc rate, there would be a 40pc saving for a high-rate tax-paying parent plus a saving in USC of up to 11pc and possibly a 4pc saving in PRSI if the son or daughter is living at home

SPOUSES

Most farming spouses contribute in no small way to the operation of the farm business.

Accordingly, they could well justify a wage if they do not already have a taxable income. One option is to create a partnership, which may also provide spouse's with State pension benefits.

Another alternative is to simply pay the spouse a wage, but this will not qualify for State pension credits.

The benefit of paying a wage or creating a partnership is that it will extend the 20pc tax band, where some of the profits are liable at the 40pc tax rate.

Currently a married couple where one spouse has no income can earn up to €44,300 at the 20pc rate of tax. However, the 20pc band could be extended to €70,600 by paying the spouse a wage of €26,300.

This will provide a saving in tax of €5,260 where the farm profit is €70,600 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.

PENSION ENTITLEMENTS

As stated above, family employees 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.

A record of your PRSI contribution history can be requested online from Social Welfare.

This information will enable you decide if a pension in your right is preferable to availing of the Qualified Adult Allowance.

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