FOCUS

23 TAX-SAVING TIPS FOR 2023

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Agribusiness editor

The only thing worse than paying tax is paying more tax than you need to. With the year just beginning, now is a good time to take a look at where savings can be made and how a little bit of planning can help avoid any nasty surprises in the future.

This article is not going to try to show you any "interesting tricks" to avoid paying more tax, or tell you to set your farm up as a corporation and sell it your pitchforks for €70,000. We'll leave those kinds of adventurous policies to your private discussions with your accountant.

Instead, we'll focus on the perfectly simple, fully compliant and easy to understand tax rules that you might not be fully taking advantage of.

Marty Murphy
head of tax, ifac

We understand that every farmer is different, and there's no one answer to cover all scenarios. However, there are several tax-saving tips that can reduce taxable income. Farmers should use every available tip because over-looked tax deductions are wasted opportunities.

From reducing your income tax to ensuring you qualify for inheritance tax and capital gains tax relief, this Focus supplement is a must-read for all farmers. Use it to work out which tips are applicable to you and how to take advantage of them.

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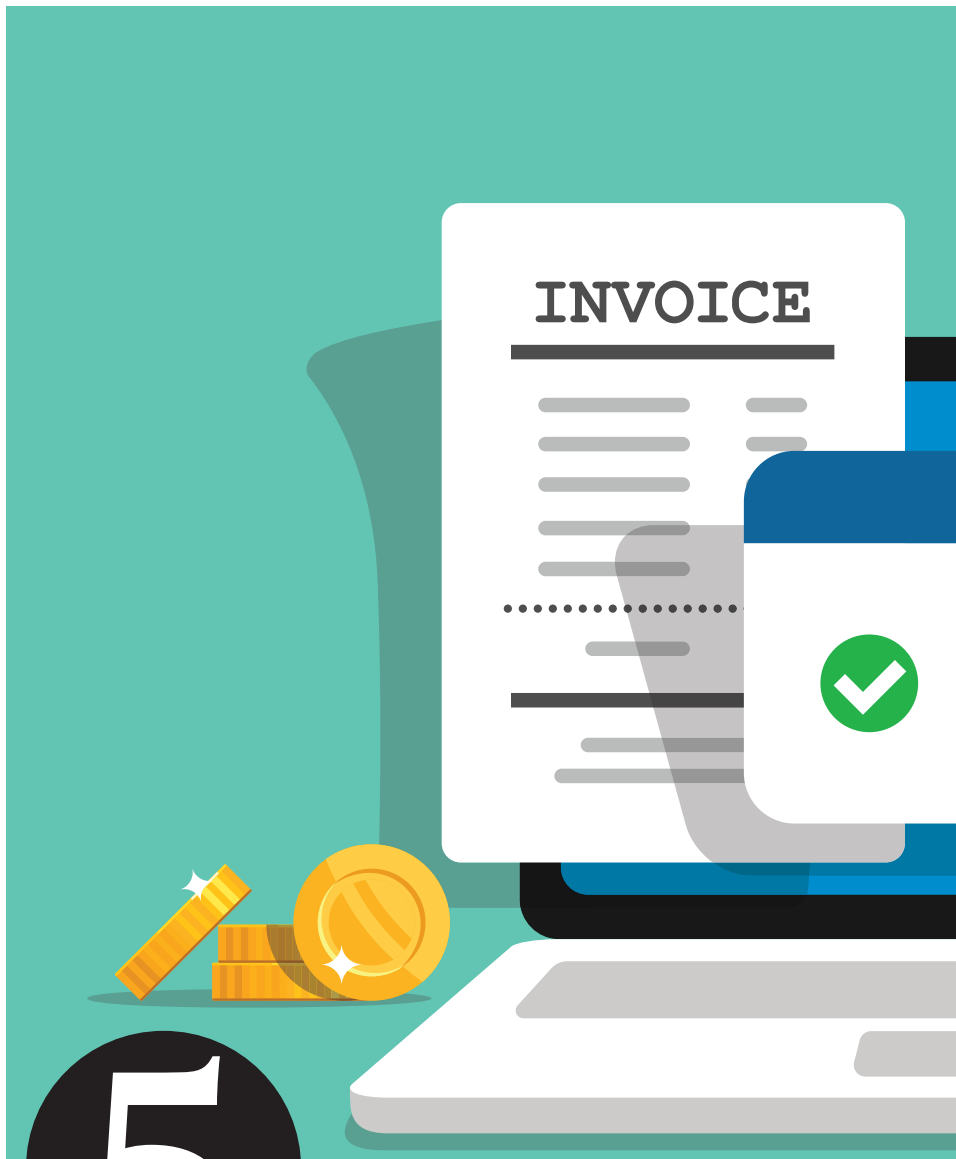
2 Tax credits

Once you have that taken care of, the next thing you need to do is make sure you are taking advantage of all the tax credits you are entitled to. See Table 1.

Table 1: Tax credit comparison for 2022 v 2023

Tax credit	2022	2023
Single person	**€1,700**	**€1,775**
Married person or civil partner	€3,400	€3,550
Employee tax credit (formerly known as the PAYE tax credit)	€1,700	€1,775
Earned Income tax credit	€1,700	€1,775
Widowed person or surviving civil partner in year of bereavement	€3,400	€3,400
Widowed person or surviving civil partner without dependent child	€2,240	€2,315
Widowed person or surviving civil partner with dependent child	€1,700	€1,700
Widowed parent tax credit (bereaved in previous year)	€3,600	€3,600
Single person child carer credit	€1,650	€1,650
Incapacitated child credit	€3,300	€3,300
Age tax credit		
Single, widowed or a surviving civil partner	€245	€245
Married or in a civil partnership	€490	€490
Dependent relative tax credit	€245	€245
Home carer tax credit	€1,600	€1,600

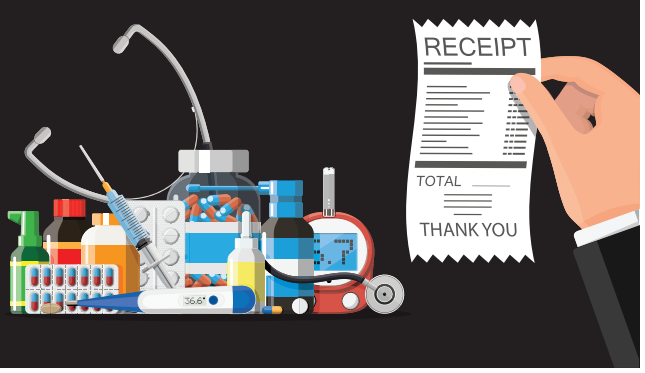


5 BUSINESS/PERSONAL BILLS

If you spend money on things that are used for both personal and business use, then you can claim a deduction for part of the expense. For bills like a mobile phone, internet and car running costs a portion of the expenses, based on use, can be claimed.

3 Medical bills

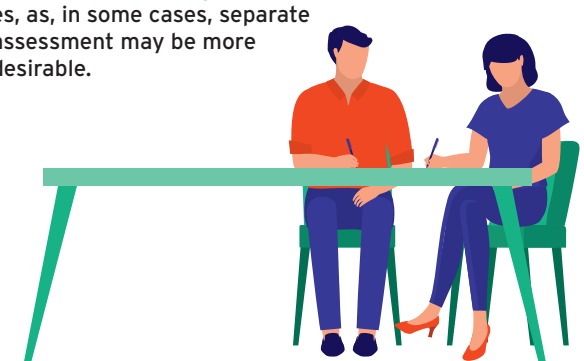
Keep receipts for all your medical expenses, and those you pay for your spouse and children as you can reclaim 20% of the expenses, net of anything you receive from a health insurance policy. You can claim for expenses from the past four years. Note, only some expenses relating to nursing home care can get relief at the higher 40% tax rate.



4 Dual income benefit

Joint assessment is the tax treatment that best suits most couples (whether married or in a civil partnership), even if one of them is self-employed. Joint assessment allows tax credits to be shared, and generally means more money can be earned at the lower 20% tax rate.

Speak to a tax professional to find out what is best for your circumstances, as, in some cases, separate assessment may be more desirable.



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6 Stock relief

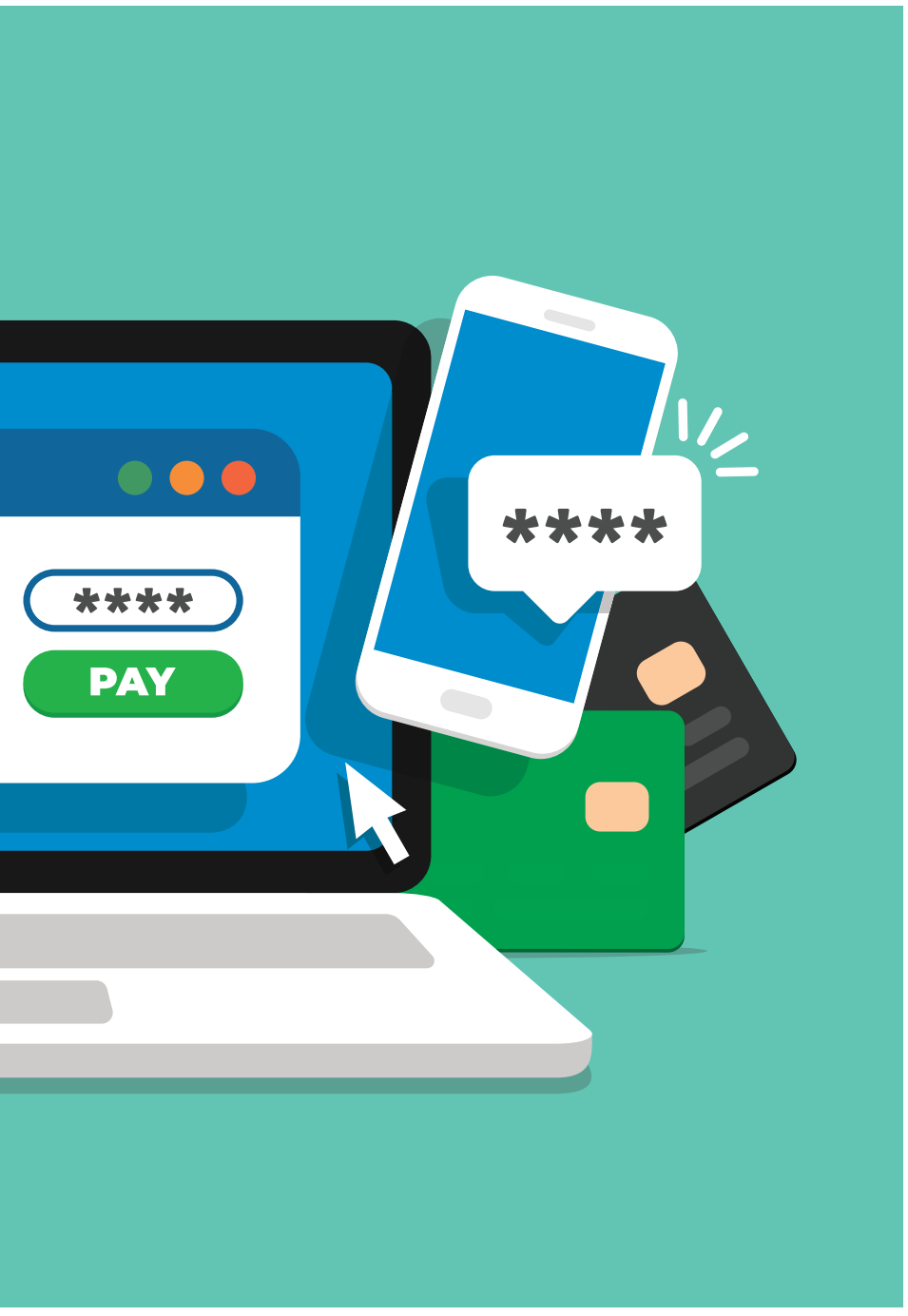
In any accounting year, a farmer may reduce their trading income by 25% of the increase in value of their trading stock. For farm partnerships, the 50% of the increase in value can be used, while for young farmers the relief is 100%.

The enhanced benefits for young farmers and partnerships were extended to the end of 2024 in Budget 2023. There is no clawback on the stock relief when animals are sold. Stock relief cannot be large enough to allow a farm to report a loss for the year, and reliefs cannot be carried forward to following years. Stallions are not included in the relief programme.

The Revenue's tax manual on stock relief specifically warns farmers against buying cattle at the end of a year and selling them back once the year as passed in order to create a relief for that year. Revenue labelled this as "tax avoidance" which, if detected, can lead to substantial extra expense.

Table 2: Stock relief

	€
Opening stock 1 Jan	40,000
Closing stock 31 Dec	50,000
Increase in value	10,000
Farm profit for year	12,000
Less stock relief reduction (10,000 x 25%)	2,500
Revised farm profit	9,500



7 Income averaging

This allows farmers to pay tax based on the average of five years' farming profits and losses. Generally, you must remain in the scheme for a minimum of five years, but it is possible to step out for a single year. Note, this scheme is more about cashflow management than making outright tax savings over the longer term.

8 Capital allowances

Large-value items which will be used over several years have their cost written down over several years. It is this writedown that is a deductible expense. In the case of farm buildings and land improvements, they are written down over seven years, while plant and machinery (including tractors) are written down over eight years.

9 Slurry tanks

There is an exception for 2023 from the above rules for slurry storage facilities, the cost of which can be written off against earnings over two years. If you are building a new slatted unit, only the cost of the slurry storage facility can be written down in two years. The cost of the shed will still be written down over seven years.

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10 Energy-efficient equipment

Farmers are allowed write off the full cost of qualifying energy-efficient equipment in the current tax year. This is called an "accelerated capital allowance." The SEAI maintains a list of qualifying equipment on its website. While the list includes a large number of fully electric vehicles, there are as yet no electric tractors. Cars can avail of the ACA, based on the lower of either the purchase price of the vehicle or €24,000.

11 Farm safety equipment

2023 is the last year of the current capital allowance for farm safety equipment. Once certified, the purchase can be written off over two years, rather than the usual eight.

12 Family wages

Where a member of the family is employed full-time on the farm, they are entitled to the employee tax credit. A child living at home can earn €13,000 before incurring any income tax or USC liability. The child must make a commercial contribution to the farm, be a registered employee and an annual employer return must be made.

13 Paying a wage to spouse

If your spouse is not earning an off-farm income, it may be worthwhile looking into paying them a wage to extend to 20% tax band availability. Farming spouses are usually heavily involved in the running of the farm and can justify the wage.

14 Small benefits scheme

You can give your employees (even if they are your child or spouse) up to €1,000 each in the form of vouchers each year. This €1,000 can be given in one or two payments and is tax- and PRSI-free.

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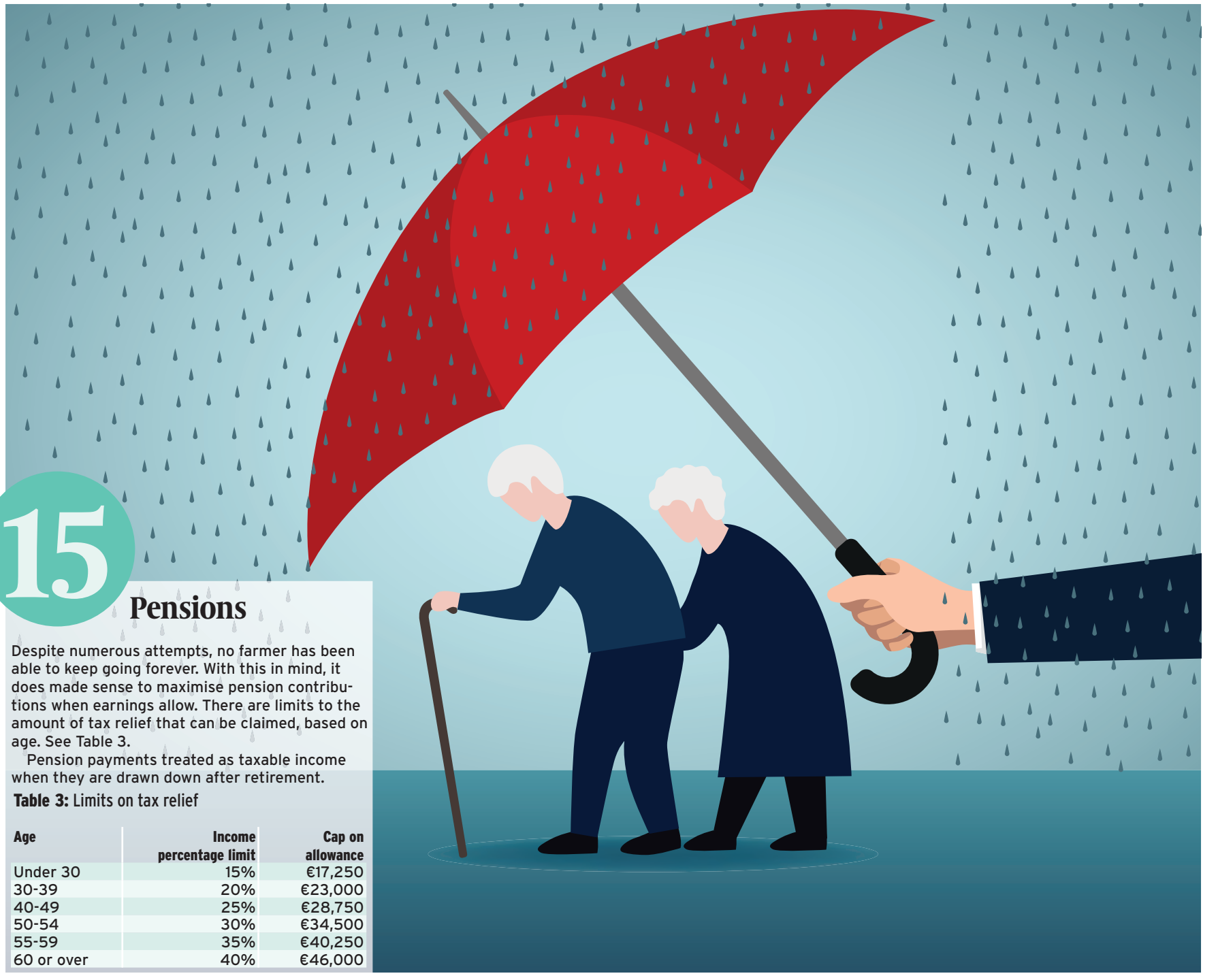


15 Pensions

Despite numerous attempts, no farmer has been able to keep going forever. With this in mind, it does made sense to maximise pension contributions when earnings allow. There are limits to the amount of tax relief that can be claimed, based on age. See Table 3.

Pension payments treated as taxable income when they are drawn down after retirement.

Table 3: Limits on tax relief

Age	Income percentage limit	Cap on allowance
Under 30	15%	€17,250
30-39	20%	€23,000
40-49	25%	€28,750
50-54	30%	€34,500
55-59	35%	€40,250
60 or over	40%	€46,000

16 SUCCESSION TAX CREDIT

How land is passed through the generations is often a difficult challenge and decisions around it will rarely be governed by tax allowances. However, in the case of succession planning where there is a farm partnership in place, tax credits of up to €5,000 per year for five years are available for the partnership. In order to qualify, the younger member of the partnership has to be under 40 during each of the five years.

VAT

17 VAT

Farmers who are not registered for VAT can get refunds on the VAT element of any invoices relating to capital expenditure. This means VAT on spending on fencing, farm buildings, land improvement and fixed equipment can be claimed back. Farmers are entitled to claim VAT back on items purchased in the past four years.

18 VAT payment

Unregistered farmers should ensure they are being paid the flat-rate VAT refund on all sales. From 1 January 2023, this rate dropped to 5% from the previous 5.5%.

Understanding how to be tax-efficient

As well as the tips provided on these pages, it is important for farmers that they understand how to be tax-efficient.

What I mean by this, is making sure that while the tax liability or write-off from a transaction should be always taken into consideration, there are many cases where the tax position should carry very little weight.

A farmer on the high rate of tax who spends an extra €1,000 on farm expenses will get to write that off against profits, meaning there will be around a €500 reduction in the tax bill for that year.

This means the taxman gets €500 less, but also the farmer has €500 less than they would have had if they had not spent the money on an expense and had just paid the tax instead.

Spending to reduce tax makes even less sense if a farmer is on the lower rate, and it makes no sense at all for those who may be exempt from tax – such as farmers over 65 whose joint income with their spouse is under €36,000.

Basically, the less money the farm makes, the less rationality there is behind spending money on it to reduce taxes. Low-income farms should concentrate on reducing costs and only making investments that will add to long-term profits.

That being said, the most important thing for farmers is to get good tax advice.

What is included on these pages is a starting point when looking at where savings can be made, but every farmer's situation is different and so bespoke advice is important.

It is also critical that farmers do meet their tax liabilities.

Make sure you are up to date with local property tax. The closing date for submissions to local authorities on zoned land passed on 1 January, so if a farmer has land that is zoned as residential they will be liable to pay tax of 3% on the value of that land.

Annual payment

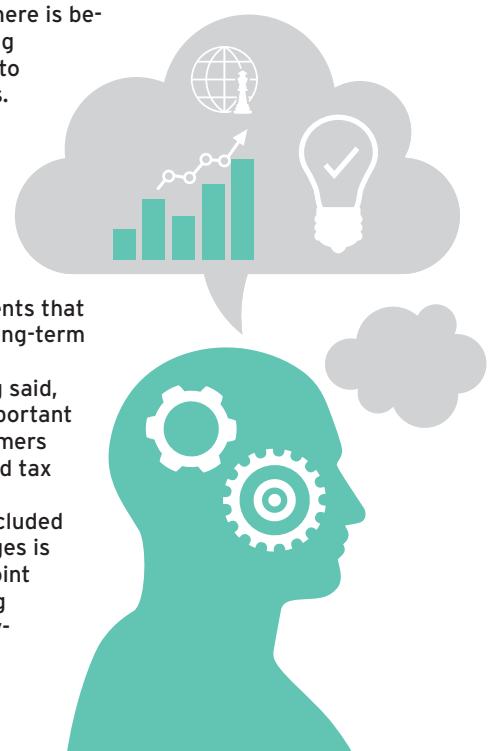
The first annual payment is due in May 2024 on land where development has not commenced.

If the tax is unpaid, the land cannot be sold or transferred.

Finally, try to keep abreast of Government subsidies and policies and how they might change from year to year.

Many incentives are introduced for a fixed number of years, so if you are planning to take advantage of a measure, keep an eye on its expiry date.

– LORCAN ROCHE KELLY



19 CONTRACTING

If you are doing contract work on other farms where the total turnover is greater than €37,500 you are obliged to register for VAT. Careful tax planning will be needed to avoid bringing the whole farm operation into the VAT net.

20 Capital gains tax

This tax is payable at 33%, so it is key to take advantage of exemptions, particularly in large transactions like transferring a farm. Obviously, in such cases, you will need to speak to a tax professional, but here are the general exemptions that matter for farmers:

- Retirement relief – if you are between 55 and 65, and dispose of the farm to close family, then you can claim full relief. If you are over 65, then there is a €3m cap in place.
- If you sell to someone outside the family the relief is capped at €750,000 if you are between 55 and 65 and capped at €500,000 for over 65s.
- There is no capital gains tax payable if you transfer a site of less than one acre and €500,000 value to a child, so long as the child builds a house for their main residence.

21 Capital acquisitions tax

The flipside of capital gains tax is capital acquisitions tax (CAT), paid by the receiver of the asset if it is a gift. There is no CAT on gifts between spouses or recognised civil partners. In all other cases, there is an annual €3,000 CAT-free gift limit in place. In the case of a farm transfer there are two reliefs applicable.

Agricultural relief: in cases where they qualify, this relief allows the value of the property for taxation purposes to be reduced by 90%. CAT is then paid on the balance. The recipient must pass an "active farmer" test to qualify for this relief. If the recipient does not qualify for agricultural relief, then they may qualify for business relief. Talk to your tax adviser for details on this.

Group thresholds: parent to child transfers generally have a €335,000 lifetime allowance. Other direct relatives qualify for a €32,500 lifetime allowance, while non-blood relatives have €16,250 allowance.

22 Stamp duty

Speaking of property transfers, it is important to keep on top of stamp duty reliefs. Normally, stamp duty on transfers of property is 7.5%. This can be reduced to 1% under consanguinity relief – where farmland is transferred to a relation, and where that relation engages in active farming for a period of six years. This relief is set to expire at the end of 2023.

If the person receiving the farm qualifies for "young trained farmer relief" then they can get a complete exemption from stamp duty. There are several conditions governing this relief, including that the receiver is under 35 years of age and has a recognised qualification.

23 LEASING AND FORESTRY

If you are stepping back from farming, but do not want to sell the land, then leasing is an attractive option. Tax-free lease incomes depend on the length of the lease, ranging from €18,000 for a five-year lease to €40,000 for a lease of more than 15 years. Income from forestry is exempt from income tax. This includes forestry grants, annual premiums, sale of thinnings and clearfell, all of which attract no income tax liability. However, they are still subject to universal social charge and PRSI.

Before making any decision on taxation, it is essential to talk to an expert who can best help you take the right decisions for your own circumstances.

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