

## **Budget Changes and Tax Tips for 2010**

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### **Introduction**

Recent figures from the Teagasc National Farm Survey (NFS) showed that overall family farm incomes (FFI) were down 30% in 2009 compared with 2008. Compared with 2007 the FFI in 2009 was down a massive 40%. The biggest reductions occurred on tillage and dairy farms. Reduced incomes will have reduced the size of tax bills.

In 2010 income prospects on farms have improved again, particularly on dairy farms and this is encouraging, but it will result in tax bills rising again.

Taxation is increasing with the introduction of the new income levy, increase in the health levy and reduction in medical expenses relief. Also tax credits and tax bands for 2010 have remained static and the more exotic tax reliefs are being further restricted or phased out.

Check how these income and tax changes will impact on your preliminary tax bill for 2010. There may be less requirements for pension contributions to reduce the tax bill in 2009/2010 for farmers who have new capital allowances available following substantial investment in farm buildings/facilities in recent years. Also some farmers will still have a carry-over of cash-flow problems from reduced incomes and this will limit their scope to invest in pensions.

However, where possible, it is still prudent to build up an adequate pension fund for the retirement years.

Farmers planning to retire and gift or sell assets need to check the capital taxes as tax rates have increased and tax free thresholds have reduced in the past two years. Further changes may come in the December 2010 budget and in 2011.

Talk to your Accountant in good time and estimate your likely tax bill to finalise 2009 and pay preliminary tax for 2010. Plan for this bill in your cash-flow for October/November 2010.

The normal deadline for tax returns and tax payments is 31<sup>st</sup> October 2010 for self-employed taxpayers. Those who file and pay using the R.O.S. (revenue on line) system get an extra 16 days to complete their returns on or before 16<sup>th</sup> November, 2010.

### **The new income levy**

The income levy is a new tax on gross income first introduced from 1<sup>st</sup> January 2009. The income levy was doubled and the income thresholds were reduced from 1<sup>st</sup> May 2009.

To simplify the application of the income levy to the self-employed, including farmers, the composite rates outlined in Table 1 apply for the full year 2009.

**Table 1: The new rate self-employed composite annualised rates for the income levy in 2009**

<b>Income levy threshold</b>	<b>Rate of levy</b>
(a) Income up to €75,036	1.67%
(b) Next €25,064 of income	3.0%
(c) Next €74,880 of income	3.33%
(d) Next €75,140 of income	4.67%
(e) Balance of income	5.0%

The rates of income levy for 2010 are outlined in Table 2.

**Table 2: The income levy rates applying to income in 2010**

<b>Income levy threshold</b>	<b>Rate of levy</b>
(a) Income up to €75,036	2.0%
(b) Income from €75,037 to €174,980	4.0%
(c) Income above €174,980	6.0%

Important points to note re the income levy include the following:

- Persons aged 65 and over are exempt from the income levy if under the low income exemption (single person = €20,000/married couple = €40,000)
- The income levy is payable on farming profits before deductions for capital allowances or contributions to private pensions in 2009 and 2010. However, for 2010, farmers will be allowed deduct capital allowances related to expenditure on works associated with compliance with the Nitrates Directive.
- Income from forestry and eligible long term land leasing is exempt from income tax but is subject to the income levy.

- No income levy applies on social welfare payments including contributory and non-contributory social welfare pensions.
- The EU farmer's retirement pension is exempt.
- Deposit interest/credit union dividends subject to DIRT tax are exempt from the income levy (DIRT tax was raised from 23% to 25% from 08<sup>th</sup> April, 2009). {DIRT tax = Deposit Interest Retention Tax}
- Persons under 65 with incomes under €15,024 are exempt from the income levy.
- Holders of full medical cards are exempt from the income levy.
- Wages paid to hired labour or family members are also subject to the income levy unless under the income limits.

### **Health levy changes**

The health levy rates on income were doubled from 1<sup>st</sup> May 2009 and the income thresholds at which the rates apply were reduced.

A composite special rate of health levy applied to the self-employed and farmers in 2009 and the new high rate applies for the full year 2010 (see Table 3)

**Table 3: The health levy for 2009 – self-employed composite special rate**

<b>Health levy threshold</b>		<b>Rate of levy</b>
(a)	First €75,036 of income	3.33%
(b)	Next €25,064 of income	4.0%
(c)	Balance of income	4.167%
<b>Health levy for 2010</b>		
(a)	First €75,036 of income	4.0%
(b)	Income above €75,036	5.0%

When total income is under €26,000/year in the 2009 and 2010 tax years, then the taxpayer is exempt from the health levy.

The PRSI (Pay Related Social Insurance) rate for self-employed and farmers (Class S) remains at 3% on all taxable income. For employers/employees in the wider economy, the limit on income subject to PRSI has been increased from €52,000/year up to €75,036/year since 1<sup>st</sup> May 2009.

### **Off-farm incomes**

Farmers and their spouses who work in full or part-time employment off-farm also pay the income and health levies on their gross earnings. Farmers' spouses who work in the public or semi-state sectors (for example, civil servants, teachers, nurses

etc.) have to pay a new pension levy contribution. This pension levy ranges from 3% on income of €15,000 up to 8.1% on income of €65,000 and over 9% on very high incomes. It was introduced from 1<sup>st</sup> January 2009 and continues in 2010.

Public sector wages/salaries have also been subject to a new range of pay cuts from 1<sup>st</sup> January 2010. Pay cuts and job losses are also occurring in the private sector. Reductions in pay or loss of off-farm employment mean lower incomes and consequently less income tax from this source.

### **Health expenses relief**

Tax relief on allowable health expenses was reduced from the high tax rate of 41% down to the standard rate of 20% from 1<sup>st</sup> January 2009. This will have an impact on families with large health bills. Nursing home expenses retain the 41% tax relief to the end of 2010 and will be kept under review until the new "Fair Deal" financing system for nursing home costs has settled in. Tax relief on medical insurance premiums remains at 20% in 2009/2010 and this relief is applied at source by the health insurance companies.

### **Private pension contributions**

Private pension contributions are an important method of saving tax for farmers. However, confidence in pension investments was severely dented by the drop of approximately 35% in fund values across the sector in 2008 due to the severe economic downturn. Growth has returned to the funds through 2009 and into 2010 and about half or more of the drop in fund values has been recovered.

Another positive angle is that investments made into pension funds when share prices are lower will purchase more units in the funds. Cash-flow will continue to be restricted on many farms in 2010 and this will reduce the scope for pension investment.

Also farmers who invested substantially under the Farm Waste Management Scheme in 2007/2008 will have new capital allowances available to reduce their tax bill in 2009/2010 and future years. This will reduce the need for pension contributions. Commission for Taxation proposals to reduce tax relief from 41% tax rate to a 33% tax rate may be implemented for pension contributions sometime after 2010.

### **High earner's restriction**

This restriction has been increased in the 2010 tax year. Persons with incomes above €125,000 per year (down from €250,000 previously) who benefit from certain specified income tax reliefs and exemptions will be subject to certain restrictions in order to affect a minimum tax yield from taxpayer. Some very large farms with high profits and other outside income sources are likely to fall into this category. This is a complex area which should be discussed with the Accountant in good time.

## **Changes in capital taxation**

A number of important changes have been announced in the capital tax area in recent budgets. Further changes which would reduce some of the reliefs available to farmers were proposed in the Commission for Taxation Report of August 2009 and these may be partially or fully implemented in future budgets. The main points to note under each tax heading are summarised as follows:

### **1. Stamp Duty**

The top rate of stamp duty applying to the purchase/gift of commercial property and farmland has been reduced from 9% to 6% for transactions over €80,000 from 15<sup>th</sup> October, 2008.

Family relief of 50% applies for transactions between closely related persons (consanguinity relief).

The 100% relief for young trained farmers under 35 years is extended to 31 December 2012.

The stamp duty relief scheme for farm consolidation has been extended for two years to 30 June 2011.

### **2. Capital Gains Tax (CGT)**

Capital gains tax applies to gains on the disposal (by sale or gift) of farmland, sites, investment properties, stocks and shares etc. The rate of tax on capital gains increased from 20% to 22% from 15 October, 2008 and from 22% up to 25% from 8 April 2009.

However, the size of capital gains will have reduced due to the reduction in the market values of land and property. Capital Gains Tax bills can be substantial if a person does not qualify for the valuable retirement reliefs available to farmers.

There is now a windfall 80% capital gains tax on the sale of development land introduced under the recent NAMA legislation. It applies to disposals of land on/after 30 October 2009 where the land has been re-zoned since that date. It also provides that the sale of once-off sites under one acre and valued at less than €250,000 are not subject to the windfall tax, but are subject to normal CGT rules. It is not yet clear if the exemption applies to one site or multiple sites – Revenue are expected to clarify this soon.

Land disposed of by Compulsory Purchase Order (CPO) is exempt from the 80% windfall CGT but is subject to normal CGT rules.

### **3. Capital Acquisitions Tax (C.A.T.)**

Capital Acquisitions Tax applies to gifts or inheritances which a person receives above the level of their tax free thresholds and after any relevant reliefs have been taken into account. C.A.T. tax rates increased from 20% to 22% from 21 November 2008 and from 22% to 25% from 8 April 2009.

Also the amount a person can receive tax free by way of gifts/inheritances has been reduced by 20% from 8 April 2009 and by a further 4.4% from 1<sup>st</sup> January 2010 due to deflation.

However, the size of gifts/inheritances will tend to be lower now due to the reduction in the market values of land and property, but tax bills can still be high if a farmer does not qualify for the various reliefs available.

### **Tax Planning**

Farmers should meet their Accountants early to estimate their likely tax bills this year, while maximising the use of the various tax planning options. In particular check options under Stock Relief and Capital Allowances for Buildings as these could change post 2010 if Commission for Taxation recommendations are implemented.

The poor profits on dairy farms in 2009 will keep down the “averaged profit” and therefore the tax bill for those on the income averaging system. Despite improvements expected in 2010 farm incomes, cash flow and availability of credit is still tight on many farms and they need to make provision for their tax payments.

### **In short/tax tips**

- Farm incomes were down in 2008/2009 but are likely to increase in 2010 which leads to higher tax bills.
- Higher income and health levies and static tax allowances also put upward pressure on tax bills
- Cash-flows and the availability of credit will remain tight on many farms so they need to plan carefully to meet their tax bills on time.
- Farmers planning for retirement and asset transfers need to be aware of proposed changes to Agricultural Relief and Capital Gains Tax Retirement relief and reliefs on sites to children as recommended by the Commission for Taxation. Any changes introduced in future budgets would have most impact on bigger farms.
- There may be further tax changes following the December 2010 budget for implementation in 2011.
- Meet your Accountant in good time for 2010 tax planning and keep in touch on relevant tax issues.