Budget 2017

Summary of the main measures including those affecting the farming sector.

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Main Headline Items

- No change to the income tax rates or bands
- The Earned Income Tax Credit has been increased by €400 to €950
- The first three Universal Social Charge rates have been reduced by 0.5% with a small upward adjustment in the second band to match in with the minimum wage
- An elect-out of Income Averaging has been introduced
- The DIRT rate will decrease by 2% from its current rate of 41% to 39% for 2017 and will decrease by a further 2% each year until it reaches 33% in four year's time
- The flat rate farmer VAT rate will increase from 5.2% to 5.4% with effect from 1st January 2017.
- No change in the Capital Tax rates - Capital Gains Tax (CGT), Capital Acquisitions Tax (CAT)and Stamp Duty rates.
- The CAT thresholds have been increased with the Category A threshold increasing by €30,000 and the other thresholds increasing by 8% as shown below
- The deadline for CGT restructuring relief has been extended to the end of 2019
- Energy Efficiency Accelerated Capital Allowances now potentially available to all farmers carrying out qualifying investment
- A general increase of €5 per week is to be applied to most Social Protection payments for 2017
- Certain social insurance supports are to be extended to farming self-employed PRSI contributors – including entitlement to dental and optical benefits

Income Tax Rates, Bands and Credits

The income tax rates (20% & 40%) and bands remain unchanged for 2017.

Standard Rate Bands

	At 20% Rate – the first		At 40%
	Existing 2016	**Proposed for 2017**	
Single/Widowed	€33,800	**€33,800**	**Balance**
Married One Income	€42,800	**€42,800**	**Balance**
Married Two Incomes - Max	€67,600	**€67,600**	**Balance**
One Parent / Widowed Parent	€37,800	**€37,800**	**Balance**

Selected Tax Credits

There was no change in the tax credits for 2017

	Existing 2016	Proposed 2017
Personal Tax Credits		
- Single	1650	1650
- Married	3300	3300
Single Person Child Carer Tax Credit	1650	1650
PAYE credit	1650	1650
Earned Income Tax Credit (Max)*	**550**	**950**
Fishers Tax Credit**		**1,270**
Home Carer Tax Credit	**1,000**	**1,100**
Dependent Relative Tax Credit	70	70
Age Credit		
- Single	245	245
- Married	490	490

Tax Credits are applied as a straight deduction from an individual's income tax as calculated by applying the two tax rates and using the bands outlined above.

* The Earned Income tax credit is calculated at 20% of an individual's earned income (excluding earned income that is taken into account for the PAYE Tax Credit) subject to a maximum of €950. ***Where an individual has earned income that qualifies for the Earned Income Tax Credit and PAYE Tax Credit, the combined tax credits cannot exceed €1,650***

** Fishers who have fished for wild fish or wild shellfish for at least 80 days (8 hrs per day) in a tax year can claim an income tax credit of up to 20% of fishing income subject to a max of €1,270 per annum.

Age Exemption Limits

There are income thresholds set for people aged above 65 years and below which they can earn income and pay no income tax. These thresholds remain unchanged.

	2017 Limit
Single	€18,000
Married	€36,000

PRSI

Farmers pay the self-employed rate of PRSI known as Class S PRSI. This is applied to all income and there is only one rate so no bands apply. The Class S rate remains unchanged at **4%**.

'Reckonable income' for the purposes of PRSI is profit after capital allowances but before reliefs and deductions

Universal Social Charge

The Universal Social Charge is payable on gross income after relief for certain trading losses and capital allowances, but before relief for pension contributions.

The lower exemption threshold above which income becomes liable to the USC will remain at **€13,000** for **2017**. So where an individual earns below this amount no USC applies. Where the income exceeds €13,000 in 2017 then the revised rates apply as in the table below.

The first three USC rates have been reduced by 0.5% with a small upward adjustment in the second band to tie in with the minimum wage level.

2016 USC Income Bands	2016 USC Rates	**2017 USC Income Bands**	**2017 USC Rates**
€0 - €12,012	1%	€0 - €12,012	**0.5%**
€12,013- €18,668	3%	€12,013- **€18,772**	**2.5%**
€18,669- €70,044	5.5%	€18,772- €70,044	**5.0%**
€70,045 - €100,000	8%	€70,045 - €100,000	8%
> €100k (self-employed only)	11%	> €100k (self-employed only)*	11%

* Self-employed individuals with annual income exceeding €100,000 are subject to a 3% additional surcharge – an effective 11% rate of USC. Those in receipt of PAYE income only in excess of €100,000 will be subject to a max USC rate of 8%

The maximum USC rate paid is reduced from 3% to **2.5%** for individuals who are EITHER above 70 years OR who hold a medical card AND whose aggregate income (not including Dept. of Social protection payments) is €60,000 or less.

The marginal rate of tax for employed / self-employed individuals (**under 70 years**) with a maximum income **below €70,000** is as follows:

Income Tax	40%
PRSI	4%
Universal Social Charge	5%
Total	**49%**

Income Averaging "Elect-Out"

The current Income Averaging regime allows a farmer's taxable profit to be averaged out over a 5-year period. The averaging mechanism is being amended to allow a farmer tax payer to "elect out" of averaging in a single year of unexpectedly poor income and pay tax based on taxable income in that current year. The deferred tax liability on the averaged profits will be payable in instalments over subsequent years. This elect out option will be available for the 2016 tax year of assessment and subsequent years.

Stock Relief

There were no changes made to stock relief in this budget

The legislation enacting the enhanced **stock relief for young trained farmers** (100% relief for up to 4 years for qualifying farmers) outlined in *Section 667B TCA 1997* contains a requirement for the applicant to submit a business plan to Teagasc for certification in order to qualify for the relief. This is a requirement under EU State Aid provisions.

Energy Efficiency Accelerated Capital Allowances

These accelerated allowances which were previously only available to companies will now be made available to sole traders (and other trading structures operated by farmers?) who invest in energy efficient plant. This measure allows the purchaser to write off 100% of the purchase value of qualifying energy efficient equipment against profits in the year of purchase.

Further information on the categories of investment covered are available from the SEAI - http://www.seai.ie/your_business/accelerated_capital_allowance/

Value Added Tax (VAT)

The **flat rate farmer rate** will increase from 5.2% to **5.4%** with effect from **1st January 2017**.

The standard rate of VAT remains at **23%**. The **13.5%** rate also remains unchanged The **9%** reduced rate for tourism related services is to be maintained

Deposit Interest Retention Tax (DIRT)

This is a tax on interest paid or credited on deposits of Irish residents. The current rate of DIRT is 41%.

From **1st January 2017** this rate will decrease by 2% to **39%** and will decrease by a further 2% each year until it reaches 33% in four year's time

Succession Farm Partnership Model

This model allows farmers to enter into a partnership with an appropriate profit-sharing agreement which makes provision for the transfer of the farm to the younger farmer at the end of a specified period. An income tax credit, called the **succession tax credit**, worth up to €5,000 per annum for five years will be allocated to the partnership and split according to the profit-sharing agreement.

The new section that provides for this new incentive- Section 667D stipulates that;

- the transfer takes place within 3 – 10 years,
- at least 80% of the farm must transfer and
- the successor must not have reached 40 years of age on entering the partnership.
- **a business plan in respect of the farm partnership must be submitted to, and approved by Teagasc**

Where the farm does not transfer within the specified period, the tax credits are clawed back by Revenue

This measure was announced in Budget 2015 but was only granted State Aid approval in July 2016.

Stamp Duty

The Stamp Duty Rates remain unchanged

Non Residential rates

Consideration	Rate of Duty
Entire Consideration	2%

Residential rates

Consideration	Rate of Duty
Up to €1,000,000	1%
Over €1,000,000	2%

Stamp Duty Exemption for Young Trained Farmers

Was extended last year until 31st December 2018.
Last year's budget introduced an additional requirement (specified by the European Commission under State Aid rules) that the Young Trained Farmer applicant must complete a **Business Plan** and present it to Teagasc for certification prior to claiming this relief. A revised guideline document reflecting this change is to be issued by Revenue shortly.

Consanguinity relief for Stamp Duty (non-residential property)

[There was no change to this relief in this budget. The points highlighted below are included to draw attention to the expiry of this relief at the end of 2017]

This relief which gives a 50% deduction on the rate applying to transfers between related persons.(i.e. blood relations including lineal descendant, parent, grandparent, step parent, husband or wife, brother or sister of a parent or brother or sister, or lineal descendant of a parent, husband or wife or brother or sister & foster children)
This relief reduces the rate that applies on transfers of non-residential property from 2% to 1%.

In Budget 2015 Consanguinity Relief was extended until the **end of 2017**

- For transfers executed **from 1st January 2016 and before 1st January 2018** then for the relief to apply
    - The **transferor** must be **under the age of 67** at the date of the transfer
    - The **transferee** must, for a period of **6 years** from the date of transfer either:

- Farm the land on a commercial basis AND either hold (or within a period of 4 years obtain) a recognised agricultural qualification OR spend 50% of their normal working time farming on a commercial basis (including the transferred land)
- Lease the land to a farmer who has a recognised ag. qualification OR spends 50% of their normal working time farming on a commercial basis (including the transferred land)]

Consanguinity Relief was previously abolished in Budget 2011 for transfers of **residential property.**

Capital Acquisitions Tax (CAT)

The rate of CAT is unchanged at **33%**

The CAT thresholds have been increased with the Category A threshold increasing by €30,000 and the other thresholds increasing by 8% as shown below

	Group	2016 Threshold	Revised Threshold (effective from 11th Oct 2016)
A	Son/ Daughter, minor child of deceased child	€280,000	€310,000
B	Lineal Ancestor/ Descendent, brother sister, niece, nephew	€30,150	€32,500
C	Any other person	€15,075	€16,250

Capital Acquisitions Tax - Agricultural Relief - [no change in this Budget]

From 1st January 2015 the conditions for a donee (receiving a gift) or successor (receiving an inheritance) to avail of CAT agricultural relief are as follows

- They must continue to meet the Farmer Test (the 80% agricultural property test) that has applied up to now

And in addition an individual must either

- Hold (or obtain within 4 years of receiving the property) a recognised agricultural qualification (as listed for the young farmer stamp duty exemption qualifications listed in schedule 2, 2A or 2B to the Stamp Duties Consolidation Act 1999) AND who farms the property on a commercial basis with a view to the realisation of profits for a period of 6 years from the valuation date for the property OR
- Spend 50% of that individual's normal working time* farming agricultural property (including the property received) on a commercial basis with a view to the realisation of profits for a period of 6 years from the valuation date for the property OR

- Lease the whole or substantially the whole of the agricultural property, comprised in the gift or inheritance for a period of not less than 6 years commencing on the valuation date of the gift or inheritance, to an individual who satisfies either of the previous two criteria.

*Definition of "normal working time"

- Normal working time including both on-farm and off-farm working time approximates to 40 hours per week
- An individual spending an average of 20 hours per week working on the farm will meet the 50% of normal working time criteria
- Where it can be shown that an individual's normal working time is less than 40 hours a week, then the 50% requirement will be applied to the actual hours worked, subject to the overriding requirement that the farm be farmed on a commercial basis and with a view to the realisation of profits

Capital Gains Tax (CGT)

The general rate of CGT is unchanged at **33%**

CGT Entrepreneur Relief

This relief is being further amended under this budget. The current reduced capital gains tax rate of 20% under this measure will be further reduced to a new rate of **10%**. This measure targets the net chargeable gains resulting from the disposal of qualifying business assets subject to an overall lifetime limit of €1 million in chargeable gains. The relief is available to farmers in respect of the disposal of assets used in the farm business, subject to meeting the conditions of the relief.

Capital Gains Tax Retirement Relief

- ***CGT Retirement Relief on disposals of land that has been rented out under a conacre arrangement***

[There was no change to CGT Retirement Relief in this budget - these points are highlighted due to various deadlines relating to the relief (in BOLD)]

Under this provision land that is currently let under a conacre arrangement which is **either**

- disposed of on or before **31st December 2016** **OR**
- is **leased** out on or before **31st December 2016** for a minimum of 5 years and up to a maximum of 25 years and which is then subsequently disposed of

where the disposal is to a child of the transferor or to a person other than a child of the transferor, will, subject to meeting the other qualifying conditions of the relief (outlined below), qualify for CGT Retirement Relief.

[NB: Prior to the first letting the land must have been owned and used by the individual for the purposes of farming for a minimum period of 10 years, ending at the time of first letting. The 55 year minimum age condition and the 10 year usage rule must be met at the time of transfer.]

This provision is to encourage those landowners who are continually letting out land on short–term conacre arrangements to convert those into leases of a minimum of 5 years in order to re-establish their rights to CGT Retirement Relief.

[NOTE that the decisions around a lifetime transfer of land within the family must also take into account the transferee's eligibility for various CAT reliefs and therefore the structure of asset ownership and usage must be examined in the round. Persons in this position are advised to get detailed tax advice from a qualified tax adviser prior to making any decisions regarding leasing or transferring their land assets.]

CGT Farm Restructuring Relief

To enable farm restructuring, relief from Capital Gains Tax has been available (subject to conditions) where land disposed of by either sale or exchange has been reinvested into other land.

The deadline for the completion of the **first** restructuring transaction has been further extended until **31st December 2019**. Both restructuring transactions must still be completed within a 24 month period.

Raised Bog Restoration Incentive Scheme Payments

Payments to relevant owners and rights holders under this scheme will be **exempt from Capital Gains Tax**

Statutory Minimum Wage

The statutory minimum wage was increased to €9.15 per hour from 1st January 2016. There were no additional changes announced in this budget.

Social Welfare Changes

Child Benefit Rates (€/ Child)

Child Benefit Rates have not changed and remain at €140/ month.

Farm Assist

The payment rate for farm assist has increase by €5 per week as per table below.
An extra 500 applicants for the payment will be provided for (up to 3,100 in total).
In the calculation of means for the scheme payments the ability to use child disregards will be restored and reductions for off farm income will be reduced from 100% of the total off-farm income to 70%

Selected Social Welfare Rates

The changes to some selected social insurance and social assistance payments are highlighted in bold below

	2016	From January 2017
State Pension (Contributory) (<80)	€233.30	**€238.30**
- Qualified Adult Increase	€155.50	**€158.80**
State Pension (Non-Contributory) (Max)	€222	**€227**
- Qualified Adult Increase	€146.70	**€150.00**
Jobseekers Allowance (aged 26 +)	€188	**€193**
Farm Assist	€188	**€193**
Invalidity Pension	€193.50	**€198.50**

An 85% Christmas Bonus will be paid by 8th December to certain recipients of a long-term Social Welfare payment.

Full details of all changes to Social Protection payment rates available here
http://www.welfare.ie/en/Pages/bud17s1.aspx

Extension of supports to self-employed PRSI contributors

- Invalidity Pension eligibility is being extended to self-employed workers (including farmers) from December 2017.
- Dental and Optical Benefits and the Medical Appliances scheme (hearing aids) will be extended to self-employed workers (including farmers) from March 2017.

Specific Measures Relating to Agriculture

The Department of Agriculture, Food and the Marine has been allocated €1.3 billion to cover both current and capital spending.

- **Agri Cash Flow Support Loan –** loan scheme for amounts up to €150,000 at a rate of 2.95% and available to livestock, tillage and horticulture farmers – total loan fund €150 million. Loan product developed in partnership with Strategic Bank Corporation of Ireland (SBCI) but will be administered by mainstream financial institutions
- **Agri- environmental measures** – funding of €241.7 million to fund GLAS & Organics– will cater for 12,000 more GLAS participants
- **Sheep Welfare Scheme** - €25 million to be made available next year
- **Areas of Natural Constraint (ANCs)** – funding of €201 million
- **Beef Data Genomics Programme** – funding of €52 million.
- **Targeted Agriculture Measures (TAMS) -** funding of €50 million.
- Knowledge Transfer Programme – funding of €25.6 million
- **Forestry** – Funding of €111.6 million
- **Horticulture Sector Funding** – Fund of €4.3 million to support capital investment in horticulture provided.
- **Rural Innovation and Development Fund** – Targeted at Female Rural Entrepreneurs - €1.5million has been allocated for the continuation of this fund

Schedule for Finance Bill and Finance Act 2016

The Finance Bill will be published on 20th October 2016
It will then be debated by both houses of the Oireachtas and will be signed into law as Finance Act 2016 before the middle of December.

Note:

This summary is based on the author’s interpretation of the relevant Budget measures and should not be taken as a definitive interpretation of these measures. For all individual tax queries you are advised to seek professional tax advice from your own accountant/ tax adviser.

References

Department of Finance Budget Section -
http://www.budget.gov.ie/Budgets/2017/2017.aspx

Revenue Budget Information - http://www.revenue.ie/en/press/budget/index.html

Department of Social Protection - http://www.welfare.ie/en/Pages/Budget-2017.aspx

Department of Agriculture, Food & the Marine -
https://www.agriculture.gov.ie/press/pressreleases/2016/october/title,102860,en.html