Build better futures

Are you a farm owner?

Capital Acquisitions Tax for Farm Owners

Are you planning to leave your farm to your family on your death?
If so, you need to make sure the real value of these agricultural assets is not reduced by Inheritance Tax.

Here we are focussing on you as a farm owner, and have set out the conditions which you need to be aware of when looking at tax efficient succession planning for your farm assets.

Agricultural Relief the taxable value of farmland, buildings and stock can be reduced by 90% where the beneficiary is a qualifying farmer and holds the property for a minimum of 6 years.

Points to consider

How can you reduce your children's tax bill?

Questions to ask yourself and your children

> Will your child qualify as a farmer?

> Has your child got the relevant qualification or will they obtain it within 4 years?

> Will your child work the farm for at least 50% of their time for at least 6 years?

> What personal assets does your child have? This may impact on the 80% rule.

> Will your child inherit other non-agricultural assets?

> Will the agricultural property be continued as a working farm?

Will your children be able to avail of agricultural relief?

The following conditions must be met in order for agricultural relief to apply:

Agricultural Property:

The relief applies to "agricultural land, pasture and woodlands situated within a Member State and crops, trees and underwood growing on such land and also includes such farm buildings, farm houses and mansion houses (together with lands occupied therewith) as are of a character appropriate to the property." The relief also applies to stock and farm machinery. Any milk quota attaching to lands will also qualify for reduction as part of the market value of the lands. With effect from 25th December 2017 land under solar panels, where solar panels are not installed on more than half of the land comprised in the gift or inheritance, will also qualify as 'agricultural property'.

80% Rule:

After taking the agricultural inheritance not less than 80% of the beneficiaries gross assets must be represented by the value of agricultural property, including livestock, bloodstock and farm machinery and land under solar panels where the acreage of such land does not exceed more than 50% of the land comprised in the gift or inheritance. A beneficiary is allowed to offset borrowings for the purchase, repair or improvement of an off farm principal private residence against the value of the property for the purpose of the 80% test.

Beneficiary:

The beneficiary must be Irish domiciled.

For inheritances received after 1 January 2015 the beneficiary must:

i) have a relevant agricultural qualification or attain such a qualification within four years of the date of the inheritance, and must farm the agricultural property for a period of not less than six years on a commercial basis with a view to realising a profit,

or

ii) spend not less than 50% of their normal working time farming the agricultural property for a period of not less than six years on a commercial basis with a view to realising a profit . Normal working time approximates to 40 hours per week.

Leasing the property:

Where the beneficiary leases the agricultural property the individual to whom the property is leased must satisfy either condition i) or ii) above.

Clawback of relief:

The relief is withdrawn in certain circumstances:

> if within 6 years of the 'valuation date' the beneficiary ceases to qualify as a farmer as outlined and does not lease the land to a lessee who will farm the land for the remainder of the 6 year period.

or

> if within six years after the date of the inheritance lands are disposed of in the lifetime of the donee or successor, and the agricultural property is not replaced within a year following a sale, or within 6 years following a compulsory acquisition.

or

> if the inheritance consists of development land and is disposed of in the period commencing 6 years after the date of the inheritance and ending 10 years after the date there will be a partial claw back of the relief.

Will your children be able to avail of agricultural relief?

If tax is not paid by the relevant payment dates interest will be charged. Unpaid tax attracts interest which is not tax deductible.

Therefore if you make no advance provision for your children's Inheritance Tax liability they may have to either:

> Sell part of their inheritance,

or

> Borrow money to pay Inheritance Tax.

If you think they will still have a liability to inheritance tax, there may be a solution!

The Solution

Make advance provision:

The solution could be for you to take out a Revenue approved life assurance plan, available from Irish Life, which could provide a lump sum on your death to pay any Inheritance Tax arising, in a tax efficient manner. This assumes that you are accepted, keep up payments, and that certain qualifying conditions are met throughout the term of the plan.

The benefit of using a 'qualifying' life assurance protection plan to fund for the payment of Inheritance Tax is that, as long as certain conditions are met, the proceeds of the plan when used to pay your beneficiaries' Inheritance Tax bill, will not increase their Inheritance Tax liability.

Whereas, if you leave them money to pay the Inheritance Tax bill in your deposit account, this will be seen by Revenue as an additional inheritance and they could lose 33% of the amount in the deposit account.

If this is an area which affects you please talk to your Financial Broker or Adviser for further details of Irish Life's Life Long Cover Inheritance Tax Plan.

However, we recommend that you also seek professional legal and tax advice.

Irish Life

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Please Note: This is an outline of the current tax and legal issues that may need to be considered when you are looking at the subject of Inheritance Tax planning and it is based on an interpretation of current legislation and Revenue practice (January 2018). It is recommended that you seek professional legal and tax advice to ensure that any arrangement you decide to put in place is appropriate to your individual and business circumstances.

Whilst every care has been taken to ensure that the information in this guide is accurate, Irish Life Assurance plc does not accept responsibility for errors contained in this document. This Guide does not constitute tax or estate planning advice and has not been prepared based on the financial needs or objectives of any particular person, and does not take account of the specific needs or circumstances of any person.

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