Holding you to account

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Compiling your farm tax accounts is an annual chore, an unavoidable step in arriving at your final tax liability. But there is a lot more information to be gleaned from these figures than just the size of yet another bill. For some, the tax bill is small, as the farm's performance may have been poor (or markets weak) and by drilling into the accounts you should be able to find where the problems lie.

The accounts contain two main statements: profit and loss and the balance sheet. These statements deal with different financial measures of your business but they are closely related.

Profit and loss statement

The profit and loss statement summarises whether the farm has made a profit or loss. The reference period is usually 12 months and often, but not always, runs in line with the calendar year: from the start of January to the end of December. Some farm businesses have "accounts years" that end on dates other than 31 December and this is usually done on the advice of the accountant because it best matches the timing of sales or purchases of stock on the farm.

The point is that the profit and loss statement represents the financial story that happened during a period of time – the title at the top of the profit and loss statement is usually worded as – trading, profit and loss statement for John Smith (for example) for the year ended 31 December 2018. The profit and loss statement tells the story of trading events such as those outlined in Table 1 below.

Net profit is often referred to as the bottom line as it is what is left over after the cost of running the business for the year is deducted from the value of what the business produced.

The balance sheet

The other financial statement included in the tax accounts is the balance sheet. This statement is often overlooked as people tend to focus on whether the business made a profit, and whether this was higher or lower than expected, or different from previous years.

The balance sheet differs from the profit and loss statement in that, instead of focusing on the financial "movements" due to farming activity, the balance sheet gives a snapshot of the farm business at a specific point in time showing the value of assets (things owned), liabilities (things owed) and the difference between these two, which is the net worth or,

Table 1: Trading events represented in the profit and loss statement.

Sales	The value of the product sold by the farm business for the period
Purchases	The total value of all livestock that was purchased during the year
Adjusted for any change in value of livestock held	The value of stock held on the farm may change from the start of the accounts period to the end due to additional animals being born but not sold, delaying selling animals (or on the flip side selling animals sooner than planned) or buying or selling additional stock
Less cash expenses	The cost of the inputs required to run the farm business and produce the product either sold or held as additional inventory for the year
Less Depreciation	The deduction for the use of machinery and buildings which will continue to be used in the business for a number of years
= Net profit	What is left to reward the business for both its management and the owner's invested stake in the business

to put it another way, the owner's stake in the business.

The balance sheet is often laid out side by side with the previous year's figures for ease of comparison. It helps to answer the following, revealing, questions:

Did the farm's assets increase or decrease in value? Was this due to acquiring assets or did existing assets increase in value? Perhaps the opposite happened and there was a decline in the total value of farm assets due to a sale or annual depreciation in value.

Did the farm's liabilities or debt levels change? If the liabilities increased during the year, was this due to more long-term borrowing to fund asset investments? Or was the increase in liabilities related to increases in short-term debt such as merchant credit, bank overdrafts or stocking loans?

This distinction is important as a significant rise in short-term debt should be investigated and compared with the normal trend in farm spending for the year. Did you have to dip into your overdraft earlier than usual this year, and if so, why was that?

If liabilities declined, was this due to clearing either short-term or long-term debt? This is likely where some of the profit earned by the farm during the year was used. You should also be able to trace other links between the profit and loss statement and the balance sheet.

By examining these statements and linking them back to what your memory and insight of what happened on the farm that year, you should be able to develop an even greater understanding of what affects the farm finances.

To get into more detail on the figures, the Teagasc Profit Monitor is also available to analyse your farm enterprise data and allow you to better compare farm performance, year on year, or farm to farm.

There is a lot more information to be gleaned from your accounts than just the size of yet another tax bill.

Budget 2020 – the headlines

Around the same time that you were in contact with your accountant regarding your tax affairs, the government of the day also released their budget for the following year which usually involves a number of tax changes. These will not have any impact on your upcoming tax bill – remember you are now taxable only on the last fully completed financial year, which is 2018.

The changes proposed in the October 2019 budget and which are summarised here will impact your tax bill next year.

Income tax

There were no changes to the two income tax rates of 20% and 40% or the tax bands which set out how much of your income is taxable at the 20% and 40% rates.

The earned income tax credit has been increased by €150 to €1,500/year – this will reduce the final tax bill for the self-employed, including farmers.

There were no changes to either the rates of Universal Social Charge (USC) or Pay Related Social Insurance (PRSI) which are also direct taxes on income.

For those in receipt of dividends from holding shares in companies, the rate of Dividend Withholding Tax has increased from 20% to 25% but since these dividends were already taxable as part of the annual tax return, this is more a timing issue of when the tax is applied rather than a tax increase.

Corporation tax

For those farmers in companies the corporation tax rate remains at 12.5%

Capital taxes – taxes on movement of assets such as land

Stamp duty

Stamp duty, which is levied on the purchase or lifetime transfer of commercial property (including land), was increased. It went up from 6% to 7.5%. This will add to the potential expense for those farmers who buy land.

As before, for those receiving land via an inheritance, there is no stamp duty levied on this transfer. Also, reliefs such as young trained farmer relief and consanguinity relief will either eliminate or greatly reduce the stamp duty bill for those that qualify.

Capital acquisitions tax (CAT)

This tax is levied on the receiver of gifts or inheritances of assets such as land. There was no change in the rate of CAT applied, which stays at 33%. What did change was the tax-free threshold which deals with gifts or inheritances received by children from their parents – this increased by €15,000 to a lifetime threshold of €335,000.

Capital gains tax (CGT)

There was no change in the rate of capital gains tax, which remains at 33%. This tax applies on disposals such as a sale or a transfer to a family member of assets such as land. Like its near neighbour CAT, mentioned above, there are also some very useful reliefs including retirement relief and site to child relief.

One CGT relief which is specifically directed at farmers is farm restructuring relief. This relief was due to expire at the end of 2019 but was extended in this budget until 31 December 2022. This relief allows any potential CGT arising on a sale or transfer of land to be relieved if the money from this land disposal is reinvested into new lands which result in a more consolidated farm holding with a shorter distance between the parcels of land that make up the farm holding.

This extension in the availability of the relief should be taken as a positive statement indicating that Revenue is keen to assist farmers to restructure their holdings.

There were other significant measures announced in the October 2019 budget relating to measures around carbon in fuels and vehicles and also funding for Brexit-related issues. More detail on all these issues will be available in the Finance Bill.

Just prior to Christmas, this will be signed into law by the President as the Finance Act.