

Woodland taxation in the Republic of Ireland

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This information is based on the Law at 24/10/2020 and is a general summary only. This article has been prepared for general information purposes and the author and the Irish Timber Growers Association will bear no liability to readers acting on the basis of this summary information. All readers are advised to take independent advice on any tax or associated issues relating to their forestry.

Income Tax: Income from the occupation of woodlands in the State, managed on commercial basis and with a view to the realisation of profits, is exempt from Income Taxes for individuals and companies regardless of their residence or domicile.

The High Earners Income Tax restriction which limited the exemption to €80,000 per annum was abolished from 1/1/2016. This change followed various ITGA submissions on the issue.

Woodland Grants are not treated as income but in the preparation of Annual Accounts by an owner the cost of planting and maintenance should be shown as net of grants received.

PRSI: Income from commercial woodlands, including the forest premium, is reckoned for the purposes of PRSI.

Universal Social Charge: Income from commercial woodlands, including the forest premium, is reckoned for the purposes of USC.

Rates of Charge from 1/1/2021:

0.5% on income up to €12,012

2.0% on income from €12,013 to €20,687

4.5% on income from €20,688 to €70,044

8.0% on income over €70,044

11% on Self-employment income over €100,000

CGT: Commercial woodlands occupied by individuals are exempt from CGT on the growing timber. The underlying land is not exempt but chargeable gains are restricted to the surplus over inflation adjusted cost. CGT is not applicable to a disposal on death. The exemption does not apply to companies which occupy woodlands. The current rate of CGT is 33%.

VAT: Commercial forestry operation is regarded as agricultural production and exempt from VAT but the exemption may be waived. It may be efficient to waive exemption and thus recover VAT on all the inputs of goods and services supplied to the woodland occupier. Repayments of VAT are made promptly even though the woodland may not produce any taxable supplies for many years. Once registered for VAT, any supply by the woodland owner, including disposal, will attract a charge to VAT.

An unregistered woodland owner can add flat rate VAT of 5.6% (from 1/1/2021) to an invoice to compensate for VAT inputs that were incurred but cannot be recovered.

Stamp Duty:	Non-residential property:	7.5%
	Residential up to €1m:	1%
	Over €1m:	2%

Transfers of property between spouses and within group related companies are exempt.

Growing timber in commercial woodlands is exempt from Stamp Duty but the underlying land is not.

There are two significant discriminations against Woodlands in Stamp Duty law and practice.

1. Young Farmer Relief provides an exemption from Stamp Duty now 7.5% on the purchase of agricultural land. It defines agricultural land as land not occupied as woodlands or land suitable for woodlands. If the land is switched to woodlands in the first 5 years after purchase and initial farming use then the original Stamp Duty at 7.5% falls due. This result is due to Section 81AA Stamp Duty Consolidation Act 1999.

2. Woodlands Relief as described in the Revenue Tax and Duty Manuals requires at least 75% of the area purchased or transferred to be occupied by trees in order to be exempt from Stamp Duty. There is no such percentage in the legislation and the 75% is merely Revenue practice. Attempts to apply the 75% test in inappropriate circumstances should be resisted.

Capital Acquisitions Tax (CAT) i.e. (Inheritance and Gift): Commercial woodlands in the State are subject to CAT on gifts to, or inheritance by, individuals regardless of the residence or domicile of the disponent and beneficiary. In addition to specified exempt thresholds, relief is available to commercial woodlands as agricultural property.

The relief, as a reduction in market value is as follows:

- A flat rate reduction of 90% applies to both inter-vivo gifts and inheritance of commercial woodlands.
- All gifts and inheritance between husband and wife are exempt from CAT.
- The woodlands can be located in any member State of the European Union and still attract Agricultural Relief.

Agricultural relief is restricted and is subject to the '80% agricultural property' test and 'active farmer' requirements. The recipient of the woodlands must retain them for 6 years but can sell and purchase replacement woodlands in the 6 year period without losing the 90% Relief. Sale of Timber in the 6 year period does not affect the Relief.

The Revenue Commissioners formally confirmed in January 2018 that Business Relief is available for forestry. Up to then it was available only by concession. This change followed various ITGA submissions on the issue.

Where a beneficiary of a Gift or Inheritance cannot qualify for Agricultural Relief as less than 80% of their assets is in Agricultural property they may be in a position to claim Business Relief. Like Agricultural Relief, it allows a 90% discount from market value to arrive at the taxable value of a Gift or Inheritance. However there are some differences in the conditions to qualify for Business Relief compared to those for Agricultural Relief and advice should be sought. The tax-free parent to child exemption is €335,000 from 9th October 2019.

Relevant Contract Tax: This is not a tax on forestry but is a procedure to ensure tax compliance by forestry contractors. It can apply where a forest owner engages a contractor to harvest timber. If in doubt Revenue should be contacted and set procedures followed. Revenue will then instruct on any relevant deductions.



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