



## FALKLAND ISLANDS GOVERNMENT TAXATION OFFICE

# TAX GUIDE FOR FARMERS

### ***Taxation & Retirement Pension Contributions***

The following is a summary of the Falkland Island Tax and Retirement Pension Contribution (RPC) system for the self-employed farmer i.e. those farms that are not run as limited companies. If you need to contact the Falkland Island Government Taxation Office (FIGTO) then our details are shown at the end of this summary.

Taxation and RPC can affect farmers in a number of ways:

1. Your own tax affairs
2. Your own RPC contributions
3. The tax and RPC of anyone that you employ
4. The reporting rules for contractors that you use

### **How Tax Affects You as a Self Employed Farmer**

The following also applies to your business partners if you are farming in partnership. If you are self-employed then the profits that your business makes are taxable. Therefore you need to draw up business accounts every year to work out what your profits are. You will need to keep your books and prepare accounts for other reasons. You may need them for grant purposes or if you wish to apply for a loan. You will also need accounts to show that you are allowed to get RPC contributions paid for you under the Camp Assistance Scheme.

Your accounts should be based on your business records. Business records should keep details of your income and your expenditure. It is up to you how to keep these records but FIGTO recommends that you keep books regularly and in as much detail as possible. Your accounts should normally be for the 12 months to 31 December each year. You may find the Agricultural Department booklets on bookkeeping helpful. Once you have prepared your accounts you need to adjust the profit or loss to take account of what is or is not allowable for tax purposes.

You then need to send these accounts (with the tax adjustments) to FIGTO every year as a part of your tax return by the 30<sup>th</sup> of June in the following year.

#### **Accounts**

Although the Tax Office staff is happy to help with a person's tax affairs it is not FIGTO's job to prepare accounts or give tax advice. You should consider obtaining professional advice.

#### **What should I include in my accounts?**

Your accounts should show your business income and your business expenses. The difference between the two is your profit, but this still may need to be adjusted for tax purposes.

#### **Income**

Your accounts should incorporate all the business income earned by you in the year. This will include:

- Any items sold, even though you have not received the money yet;
- Any cash sales;
- Any general agricultural grants or subsidies that you receive;
- Sales of any livestock;
- Any stocks that you take for your self should normally be included as income.

Your business income will not include:

- Sales of “capital items”, such as equipment, land or buildings. These are dealt with separately – see later;
- Agricultural grants given for the purchase of specific capital equipment. Again, see later;
- The treatment of these grants for tax purposes is discussed below at “Depreciation Allowances”;
- Any employment income. For example squidding work or road gang work for FIG. This should be included in your tax return on the “employment income” section and not as a part of your business accounts.

## Expenses: What Can I Claim?

### General Rules

There are some general rules of what you can and cannot claim as a business expense for tax purposes. You can only claim a tax deduction for business expenditure that is wholly and exclusively for business purposes. This means you cannot claim for private costs. For example you *cannot* claim for:

- Any money *you* take out of the business (your ‘drawings’),
- Personal telephone charges;
- Private vehicle running costs;
- Your own retirement pension contributions;
- Life insurance:
  - Your own RPC costs and life insurance costs are allowable elsewhere on your tax form and should not be included as a business expense.
- Capital costs:
  - Tax relief for capital items such as machinery, vehicles and buildings is given by way of depreciation allowances. This is discussed further below. Capital items are assets that you keep in the business e.g. farm machinery, buildings etc. as opposed to items that you sell to make money from e.g. wool.

### Special Cases

The cost of Livestock replacements can be deducted in your accounts as an expense. Although if the replacement is also an improvement on the quality of the previous animal then only a part of the cost can be deducted, the replacement expense. The ‘improvement’ part is not allowable as a deduction.

### Depreciation Allowances

These allowances are designed to give tax relief for capital items. The amount of relief is calculated as a percentage of the cost of the capital items and this allowance is set against your profits. You can get more information on depreciation allowances by asking for FIGTO’s leaflet on this subject. What follows is a general guide.

There are different allowances available for different types of assets:

Asset	Allowance per annum	Method of Depreciation	See Note
Plant, Machinery & Vehicles	up to 40%	Reducing Balance	1
Ships & Aircraft	up to 20%	Straight Line	
Buildings	up to 10%	Straight Line	2
Other Buildings	None		3

Note 1 The ‘Plant and Machinery’ category includes aircraft, fencing, office equipment, tools and equipment, etc. Pooling of assets can be used for plant, machinery and vehicles.

Note2 “Buildings” includes industrial, commercial, agricultural, mining, fishing and hotel buildings.

Note 3 “Other buildings” includes residential accommodation. Please note that there are special rules for depreciation allowances relating to let residential accommodation – please consult the Taxation Office if you need further advice.

When you dispose of an asset then you have to compare the amount you sold the asset for with the amount of allowances you have claimed so far. You then either get a further balancing allowance or if you have already received too many allowances then the difference is clawed back (a balancing charge).

Special care is needed if you received grants towards the cost of a specific capital item. The amount of expenditure you can claim tax relief on is reduced by the amount of the grant that you got.

Depreciation allowances are available at different rates on different types of assets. You can choose not to claim an amount of depreciation allowances in one year and have that relief in a later year instead. Whether you want to do this will probably depend on the amount of your total income (including your farming business profits) and the personal allowances that you are entitled to. As depreciation allowances involve tax claims covering many years you need to keep good records of the capital items that you buy and sell.

### **What is 'Pooling of Assets'?**

Pooling of assets is only allowable for Plant, Machinery and Vehicles. This is where all assets are added together and the total is taken as the balance for the category. The total is then depreciated at up to 40% if you choose to do so. This cuts down on administration and eliminates confusion over values on the calculation of balancing allowances and charges when individual assets are sold.

Further information on depreciation allowances is available on request from the Taxation Office.

Other Tax Reliefs:

Training - You can get extra tax relief for the costs of training your employees or yourself. You can deduct 1 ½ times the actual costs.

## **PENSIONS**

### **How RPC affects you as a self employed farmer**

The rules on Old Age Pensions were changed on 6 January 1997. Retirement Pension Contributions started on that date. This summary is only intended as a basic guide to show how these changes may affect you and the amount of any pension you may be entitled to.

Who must contribute to the Pension Scheme?

A person must contribute if he or she:

- is between the ages of 17 and 64 and;
- is resident in the Falkland Islands and;
- earned more than £160 per week during the year 2004.

However, if you fulfil certain criteria then FIG will pay your current contributions for you from 1 January 2001 under the Camp Assistance Programme if:

- You lived *and* worked in Camp for at least 240 days in a calendar year (ie you were ordinarily resident in Camp) and
- your own taxable earnings or profits are under £15,000 per person per year between 1 January 2001 and 31 December 2003
- your own taxable earnings or profits are under £8,320 per person per year from 1 January 2004

This scheme only affects any contributions you were due to make since 1 January 2001, and will continue until such time as funding for this project ceases. If you have not paid RPC for any weeks before Any unpaid RPC prior to 1 January 2001 is not eligible for payment then these contributions will

not be paid under the terms of this scheme. Special rules apply to those working on boats or who are absent from the Falklands for medical or training reasons.

### **Old Age Pensions Ordinance 1952**

Transitional arrangements exist for contributors who made contributions under the Old Age Pensions Ordinance 1952. This means that if you have made pension contributions prior to 6 January 1997 and are still contributing to the scheme you will receive a full standard rate pension if your record on reaching pensionable age of 64 years is complete. This does not apply if you had all your contributions refunded on departure from the Falklands Islands and did not return until after 6 January 1997.

These transitional arrangements also apply to married women who were previously prevented from contributing under this Ordinance as they will be granted deemed contributions for periods of residence prior to 6 January 1997 provided they were resident in the Falkland Islands on 31 December 1996. If a married woman makes contributions for every week after 6 January 1997 until 64 years of age, and providing these total more than 728 consecutive contributions, she will be entitled to a full standard rate pension.

### **Retirement Pensions Ordinance 1996**

If you have only registered since 6 January 1997 the provisions of the Retirement Pensions Ordinance 1996 mean that in order to qualify for a partial retirement pension you must have made a minimum of 250 weekly contributions prior to 70 years of age. In order to qualify for a full pension you must make 2200 contributions, or more, prior to age 64. If you make between 250 and 2200 contributions you will receive a partial pension, when you retire, based on the number of contributions you have made. If you make less than 250 contributions and cease contributing you will not get a refund and will not be eligible for a pension. However, you may register as a voluntary contributor and continue to contribute.

Your pension is calculated using the following formula:

$$\frac{(\text{number of contributions made}) \times (\text{full pension rate})}{2200} = (\text{your pension})$$

E.g. for a minimum pension, assuming the current full pension is £102.00 per week:

$$\frac{250 \times \text{£}102.00}{2200} = \text{£}11.59 \text{ per week}$$

However, please remember that:

- You can make voluntary contributions to make sure that you reach the minimum 250 weekly contributions.
- If you have already made more than 250 contributions you can make further voluntary contributions to increase the amount of pension you will get.

If you want to know more about voluntary contributions please contact the Treasury.

Please remember that it is your responsibility to make sure that you have a complete pension contribution record.

If you have any further queries on PRC and pensions please contact the Pensions Office at the Treasury and not the Taxation Office.

### **You as an Employer**

You have a number of tax obligations as an employer. A brief summary of these duties is as follows. More details can be obtained from FIGTO. If you have not employed recently then contact FIGTO and we will send you an Employers Pack giving you all of the forms and detailed instructions you need.

If you take on an employee

If an employee starts to work for you then you need to tell FIGTO. Fill in a New Employee form (EMP-03) and return it to the FIGTO within 7 days from the start of the employee's employment. If your employee has more than one employment you will also have to fill in an additional form detailing other employment, this will be included in the Employers Pack.

The most important piece of information is the employee's Tax Identification Number (TIN). You will need this for all of the forms that you need to fill in. If you or your employee does not know this TIN then contact FIGTO.

Every Payday

If the wages you pay are over a certain amount then you must deduct tax – Payment on Account of Tax (POAT) - from the wages and pay this POAT to FIGTO. POAT deducted in one month should be paid to FIGTO by the 14<sup>th</sup> day of the next month. You also need to give us the pay and tax details of your employees by the same date, the 14<sup>th</sup> of the next month. FIGTO can supply the forms for this in a paper format or also on a computerised format. FIGTO will also supply the Tax Tables that you need to work out how much tax to deduct from the wages.

Please be aware fines will be imposed for late filing of POAT returns and late payments, £50.00 for each. Also, returns are required if you pay wages and no POAT is deducted or if you have no employees during part of the year.

When an employee leaves

If an employee leaves you have to tell us within 7 days after your employee leaves. You should give the employee a tax deduction certificate summarising the pay and tax details so far that year. You should send a copy of this summary to FIGTO.

End of the Year

At the end of each year we will send you a form for you to summarise the wages paid to *all* employees you had during the year, not just those that had POAT deducted. This form has to be completed and returned to FIGTO by the 2<sup>nd</sup> of February of the following year to which the income relates. The Certificate of Tax deducted has to be given to all employees working for you at 31 December no later than 31 January in the following year.

Other

If you are in doubt about whether someone is an employee or self-employed then contact FIGTO. FIGTO charge penalties and interest if the POAT returns and payments do not reach us on time.

RPC and Your Employees

If you have employees then you may have to pay RPC for them (Employer's Contribution) and also deduct RPC from your employees' wages (Employee's contribution).

Check the rules above about whom have to contribute. If RPC is not due for that employee then you do not need to do anything else.

If that employee has to contribute to the RPC scheme then go onto check whether the Camp Assistance Programme will apply. If the scheme does not apply to this employee then you have to pay RPC. The rates for the contributions are shown at the end of this booklet. The RPC payments should be paid at the same time and in the same way as any POAT would be. See the rules above about POAT.

## **You and Payments to other Individuals**

At the end of the year FIGTO will send you a form for you to report the amounts paid by you to other Individuals during the year. This will **not** include payments to employees, Ltd companies or PLC companies. Some examples of Payments to other Individuals are:

- Someone from whom you purchase eggs
- A private person who charges for transport of wool or supplies

- Shearer

This will be sent to you at the same time as we ask for the summary of the payments made to your employees during the past year.

*Note: This is a brief summary of the law and practice at the time of writing. It is not binding in law and does not affect your rights of appeal. You should bear in mind that the information offers general guidance on how the rules apply, but whether the guidance is appropriate in a particular case will depend on all of the facts. You should therefore consult the Taxation Office or the Treasury on how the rules apply in your own case.*

### **Contact Points**

FIG Taxation Office (FIGTO)  
St Mary's Walk  
Stanley  
Tel: +500 27288  
Fax: +500 27287  
Email: [general@taxation.gov.fk](mailto:general@taxation.gov.fk)

Retirement Pensions Board of Management  
The Treasury  
Stanley  
Tel: +500 27011  
Fax: +500 27144  
Email: [ndodd@sec.gov.fk](mailto:ndodd@sec.gov.fk)

Opening hours: Monday to Friday 0800 – 1200; 1300 – 1630

### **Main Allowances, Tax Reliefs and Tax Rates - For Income Earned in the Year Ending 31 December 2004**

Limit for POAT (per person)	£1000 per month or £231 per week
Personal Allowance	£12,000

### **Retirement Pension Contribution Rates from 1 January 2004**

Weekly Earnings, Lower limit	£160.00 per week
Employee's contribution	£9.50 per week
Employer's contribution	£9.50 per week
Self-employed person's contribution	£19.00 per week

***A leaflet showing rates and allowances over recent years is available from the Taxation Office.***