

Explanatory Note

Clause 19: Averaging profits of farmers etc

Summary

1. This clause provides for an extension to the period over which an individual carrying on a qualifying trade of farming, market gardening, or intensive rearing of livestock or fish, can average fluctuating trading profits. For 2016 to 2017 and subsequent years they will be able to claim to average trading profits for income tax purposes over two or five consecutive tax years. The clause also removes marginal relief from the two-year averaging rules for farmers and creative artists, so that from 2016 to 2017 full two-year averaging relief will be available where the profits of one year are 75% or less of the profits of the other year.

Details of the clause

2. Subsection (2)(b) provides the definition of "qualifying trade, profession or vocation" for the purposes of new section 222A.
3. Subsection (3) inserts new section 222A into Chapter 16 of Part 2 of Income Tax (Trading and Other Income) Act (ITTOIA) 2005. This section sets out the circumstances in which a claim for five-year averaging may be made.
4. Subsection (1) of new section 222A provides that a claim for 5 year averaging may be made if the "volatility" condition is met.
5. Subsection (2) of new section 222A details the circumstances when the volatility condition is met because of a difference in the amount of the relevant profits being compared or because the relevant profits of one or more of the years is nil. For these purposes references to the relevant profits of a tax year being nil includes where the individual makes a loss, as detailed in section 221(5) of ITTOIA 2005.
6. Subsection (4) makes consequential changes to section 222 of ITTOIA 2005.
7. Subsections (5) amends section 223 of ITTOIA 2005. The effect of the amendments is to remove the marginal relief that was provided by that section, so that from 2016 to 2017 full two-year averaging relief will be available where the profits of one year are 75% or less of the profits of the other year.
8. Subsection (6) makes consequential changes to section 224 of ITTOIA.
9. Subsection (7) makes consequential changes to section 225 of ITTOIA.
10. Subsection (8) makes consequential changes to paragraph 3 of Schedule 1B of the Taxes Management Act (TMA) 1970.
11. Subsection (9) makes consequential changes to paragraph 4 of Schedule 1B of TMA 1970.

12. Subsection (10) provides for commencement. New section 222A of ITTOIA has effect from tax year 2016 to 2017 meaning that a five-year averaging claim with 2016 to 2017 as the final year would involve averaging the profits of the years 2012 to 2013 to 2016 to 2017. The amendments to the two-year averaging rules also have effect where the latest year is 2016 to 2017 or a subsequent year.

Background note

13. At Budget 2015, the government announced that it would extend the period for which self-employed farmers can average their profits for income tax purposes from two years to five years.
14. Following consultation, the government decided to retain the existing framework providing for averaging of fluctuating profits over two years and to provide an additional option of averaging over five years, for an individual carrying on a qualifying trade of farming. The changes take effect for the tax year 2016 to 17 and subsequent years.
15. If you have any questions about this change, or comments on the legislation, please contact Mark Bingham on 03000 511496 (email: fa.consultation@hmrc.gsi.gov.uk).