

Key Personnel

Senior Partner

Robin Winter

Partners

Jonathan Adamson

Ian Palfrey

Mark Robertson

Matthew Struthers

Associates

Moira Kinloch

Lynn Marshall

Consultants

John Stewart

For full details please see our website at
www.hendersonblack.co.uk

The information in this leaflet is a general description only and specific advice should always be obtained before taking any action.

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Henderson Black & Co

CHARTERED ACCOUNTANTS

PROFIT AVERAGING

FOR FARMERS

AND CREATIVE ARTISTS

ANSTRUTHER
CUPAR
ST ANDREWS



Profit averaging relief is available to certain taxpayers whose trading income tends to vary from year to year.

These variations can result in higher rate tax being payable for one year with lower rates the next. Averaging profits can result in tax and/or National Insurance savings.

QUALIFYING INDIVIDUALS

Individuals (sole traders or partners) qualify if they are:

- ◆ Farmers/market gardeners
- ◆ Creative artists eg authors, designers and composers. Profits must come from royalties or the disposal of work rather than services provided.

CRITERIA FOR AVERAGING

Averaging relates only to trading income – rental income does not qualify.

It is available for successive tax years where the profits of one are less than 70% of the other.

A more limited relief is also available where one is between 70% and 75% of the other.

The averaged profits of the second year can then be averaged again with the next year (and so on) if the above criteria are met.

LOSSES

Where there is a loss in one of the tax years this is treated as nil for averaging purposes. The loss is still available for relief separately.

CLAIMS

The relief must be claimed – it is not available automatically.

Profits of the first and final years of trading cannot be averaged.

A claim can only be made after the end of the second of the two years being averaged.

There is a time limit on making claims.

ADJUSTMENT TO LIABILITIES

The adjustment to the first year's tax is calculated for that year but is paid/repaid along with the second year's liability.

Note that an increase in the second year's tax as a result of averaging will also increase payments on account for the following year.