Extensions of averaging period for farmers: HMRC consultation document

OMB

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CIOT responds to the HMRC consultation

The CIOT and ATT have recently responded to HMRC's consultation document Income Tax: Extension of averaging period for farmers. This considers the extension of the averaging period for farmers' profits to five years from tax year 2016/17, and how the extension could be designed and implemented.

The consultation notes that a change to an extended averaging period of five years provides an opportunity to reconsider some of the fundamental design aspects within the existing regime with a view to simplifying it. Factors that HMRC want to consider are:

(a) Should a 'volatility' test be retained?
(b) Should averaging relief be automatic or optional?
(c) What transitional rules would be required?

The consultation puts forward two options. Option A builds on the current framework with modification and some simplification. Option B designs a new, simpler framework overall that would reduce the qualifying conditions and provide automatic averaging for a fixed period.

Overall, both responses support the proposals so long as they are adapted so that, if averaging is possible under the current rules, it will also be possible under the proposed new rules. We believe there is an overriding need for any changes introduced to provide a flexible and workable regime.

The CIOT suggests that a two-year averaging period will in many cases produce an equivalent outcome to a five-year rolling average. Accordingly, the CIOT proposes that the two-year period should be retained as an option, in addition to an extended five-year period. In some cases, averaging over two years may be all that is required to smooth the level of profits. In other cases, income may be more volatile over a prolonged period, such that a five-year averaging would be beneficial. Although the CIOT accepts that the provision of either a two- or five-year averaging period would be an additional complexity, it would give more flexibility to the farming sector and should be adopted.

Both CIOT and ATT prefer option A, adapted to continue the choice of two-year averaging, because it is based on current rules and we think that there will be a better take-up than option B. It will be difficult for a taxpayer to take the decision to make (or an adviser to recommend that their client makes) an irrevocable 'opt in' election for five years in advance (option B) because income cannot usually be predicted. However, if option B were to be implemented, we think that consideration ought to be given to making it a revocable election. We also believe that retaining the current two-year averaging as an additional choice should be included with option B, just as for option A. The reason is to improve flexibility to cater for widely differing personal circumstances.

Picking up on the flexibility point, the ATT recommends that consideration should have been given to allowing averaging over between two and five years at the farmer's option. The ATT response also questions the need to retain the volatility test.
We understand that some taxpayers do not claim averaging when it would have been worthwhile for them to do so, so we ask that along with these changes HMRC produce targeted publicity to ensure that all those affected are aware of the options available.

The full text of the CIOT's submission can be found on the CIOT website.

The ATT's response can be found on the ATT website.

HMRC's consultation document can be found on GOV.UK.