



## Case study

### Rural and agriculture sector

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# Farm partners save £500 tax with farmers averaging.

They say that every little helps, and in a small farming business this is often truer than in bigger operations.

A new client came to us from an accounting practice that did not specialise in the agriculture sector and asked if we could help reduce their tax bill. They were a small farm partnership with just a hundred acres or so and had a good year followed by a poor year. This meant that they had a big tax bill in the first year, followed by no tax due the year after because of the drop in profits.

#### USE AVERAGING TO SMOOTH OUT THE TAX BUMPS

A special tax rule can be used by farms to help out when they experience two dramatically different years in terms of profits.

This rule is called averaging. Simply put, it allows you to even out peaks and troughs by averaging the two years profits so that you do not end up having to pay a large tax bill in a year when you have little or no profits. The averaging system is designed to help you to cope with the vagaries of the British weather, as well as changes in market prices of your produce.

#### £500 MORE CASH THANKS TO AVERAGING

In this case, the first year's profits from the small farm put the partner's earnings into the 20% tax bracket, while the second year profits did not even cover the tax free band.

By applying the averaging rules to the profit from the two years, one partner utilised her tax free band in both years and comfortably saved over £500.

#### COULD AVERAGING INCREASE INCOME FROM YOUR FARMING BUSINESS?

Farming businesses are unique and require specialist understanding of the tax rules for both business and farming.

#### THE NEXT STEP

For further information or to arrange a meeting to discuss your specific requirements, please contact one of our specialists:

<http://rural-and-agriculture.uhy-uk.com>.

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