Australian Government
Australian Taxation Office

Tax averaging for primary producers

Tax averaging enables you to even out your income and tax payable over a maximum of five years to allow for good and bad years. This ensures that you don't pay more tax over time than taxpayers on comparable but steady incomes.

Your **basic taxable income** is your **taxable income** excluding the following amounts:

- net capital gains (/general/capital-gains-tax/working-out-your-capital-gain-or-loss/working-out-your-net-capital-gain-or-loss/)
- certain superannuation lump sums (/individuals/super/accessing-your-super/super-withdrawal-options/) and death benefit termination payments (/Business/Your-workers/In-detail/Taxation-of-termination-payments/?page=17#Death_benefit_ETP)
- above-average income (/forms/income-averaging-for-special-professionals-2016/?page=5#Above_average_special_professional_income) of an author, inventor, sportsperson or other special professional.

Deductions excluded under the non-commercial loss provisions (/Business/Non-commercial-losses/In-detail/Income-requirement-and-excepted-business-activities/?page=3#Excepted_business_activities/) are excluded from the calculation of basic taxable income.

The amount of the averaging tax offset or extra income tax is calculated automatically and your notice of assessment will show you the averaging details.

The averaging rules take into account the:

- **comparison rate of tax:** the rate of tax that you would pay in the current year at basic rates of tax on your average income. Medicare levy is not included in the basic rate of tax
- **averaging component:** that part of your basic taxable income that can be subject to an averaging adjustment. It is made up of both taxable primary production

income and taxable non-primary production income

- **gross averaging amount**: the difference between the tax payable at the comparison rate and the tax payable at basic rates.

When your average income is **less** than your basic taxable income you receive an averaging tax offset. When your average income is **more** than your basic taxable income you must pay extra income tax on the averaging component of your basic taxable income.

Find out about:

- Taxable primary production income
- Opting out of the averaging system
- Choosing to restart averaging in certain circumstances
- Working out tax payable with income averaging

See also:

- TR 97/11 (/law/view/document?DocID=TXR/TR9711/NAT/ATO/00001) *Income tax: am I carrying on a business of primary production?*
- Use our Simple tax calculator (/Calculators-and-tools/Simple-tax-calculator/) to calculate the basic rate of tax.

Taxable primary production income

A primary producer has a taxable primary production income when the producer's assessable primary production income exceeds the deductions. Assessable primary production income is that part of the basic assessable income derived from carrying on a primary production business. This includes interest on a primary producer's term deposit account opened as a condition of obtaining finance to purchase a new farming property.

Primary production income does not include Exceptional circumstances relief payments (http://www.agriculture.gov.au/ag-farm-food/drought/drought-policy/history/exceptional_circumstances_relief_payment_and_interest_subsidy_survey_reports) (ECRP).

When your income is less than deductions, the taxable primary production income is treated as being nil. Similar rules apply for calculating taxable non-primary production income.

Taxable primary production income always forms part of the averaging component. Taxable non-primary production income is included in the averaging component according to the following rules:

- It is included in full where it is less than $5,000.
  In this circumstance the averaging component will equal basic taxable income.
- When it is between $5,000 and $10,000, a non-primary production shade-out amount is included. This amount is generally the amount remaining after deducting the taxable non-primary production income from $10,000. Where a primary producer makes a loss from primary production activities, the amount of that loss is also deducted, but the non-primary production shade-out amount cannot be less than nil.
- It is not included at all when it is $10,000 or more.

Opting out of the averaging system

If you wish, you may choose to withdraw from the averaging system for 10 income years and pay tax at ordinary rates. This means you'll be taxed on the same basis as taxpayers not eligible for averaging provisions.

Once you make this choice, it will affect all your assessments for 10 income years and can't be revoked. After this period has ended, your income will automatically be subject to tax averaging, however you can choose to opt out again at this time.

Choosing to restart averaging in certain circumstances

You may choose that the averaging system recommence if you show the Commissioner that, because of retirement from your occupation or from any other cause, your basic taxable income for the reduction year is permanently reduced during that year to less than two thirds of your average income. This will affect all of your assessments for subsequent years as if you had not been in the averaging system prior to that year but you will still be taxed using the averaging provisions.

Working out tax payable with income averaging

The following examples use tax rates for the year ended 30 June 2016.

Note that the calculations are estimates only: the exact amount of your income tax can only be calculated on the basis of all of the information disclosed in your income tax return.

Example 1: Average income is less than basic taxable income

Luke is a primary producer whose basic taxable income for 2016–17 is $46,000, made up of $37,000 in taxable primary production income and $9,000 in salary or wages income. His basic taxable income for the previous years was:

- $14,000 in 2013–14
- $32,000 in 2014–15
- $28,000 in 2015–16.

He has an average income of:

($46,000 + $14,000 + $32,000 + $28,000) ÷ 4

= $30,000

Step 1: Calculate the comparison rate of tax

The basic rate of income tax on $30,000 is $2,242.

Income tax at basic rates on average income divided by average income multiplied by 100:

($2,242 ÷ $30,000) × 100

= 7.47%

Step 2: Work out the averaging component

Since Luke's non-primary production income ($9,000) is between $5,000 and $10,000, his non-primary production shade-out amount is $1,000 ($10,000 − $9,000). His averaging component is:

$37,000 + $1,000 = $38,000

Step 3: Compare the tax payable at the comparison rate of tax with the tax payable at basic rates of tax

The tax payable on Luke's basic taxable income at the comparison rate of tax is:

$46,000 × 7.47% = $3,436

The tax payable on the basic taxable income at basic rates is $6,497.

The gross averaging amount is:

$\$6{,}497 - \$3{,}436 = \$3{,}061$

Step 4: Calculate the averaging adjustment

The averaging adjustment is the averaging component (step 2) multiplied by the gross averaging amount (step 3) divided by the basic taxable income:

$(\$38{,}000 \times \$3{,}061) \div \$46{,}000$

$= \$2{,}528.65$

Step 5: Calculate the tax payable

Luke is entitled to a tax offset equal to the averaging adjustment, as the tax payable at the comparison rate is less than the tax payable at basic rates.

Tax payable at basic rates on Luke's basic taxable income of $46,000 (excludes Medicare levy) $6,497.00

Tax offset $2,528.65

Luke's tax liability is $3,968.35

Example 2: Average income is greater than basic taxable income

Kate is a primary producer whose basic taxable income for 2016–17 is $22,000, made up of

- $15,000 in taxable primary production income, and
- $7,000 in salary or wages income.

She has an average income of $37,500.

Step 1: Calculate the comparison rate of tax

The basic rate of income tax on $37,500 is $3,734.50.

Income tax at basic rates on average income divided by average income multiplied by 100:

($\$3{,}734.50 \div \$37{,}500) \times 100$

$= 9.95\%$

Step 2: Work out the averaging component

Since Kate's non-primary production income ($7,000) is between $5,000 and $10,000, her non-primary production shade-out amount is $3,000 ($\$10{,}000 - \$7{,}000$). Her averaging component is:

$\$15{,}000 + \$3{,}000 = \$18{,}000$

Step 3: Compare the tax payable at the comparison rate of tax with the tax payable at basic rates of tax

The tax payable on the basic taxable income at the comparison rate of tax is:

$\$22{,}000 \times 9.95\% = \$2{,}189$

The tax payable on the basic taxable income at basic rates is $722.

The gross averaging amount is:

$\$2{,}189 - \$722 = \$1{,}467$

Step 4: Calculate the averaging adjustment

The averaging adjustment is the averaging component (step 2) multiplied by the gross averaging amount (step 3) divided by the basic taxable income:

$(\$18{,}000 \times \$1{,}467) \div \$22{,}000$

$= \$1{,}200.27$

Step 5: Calculate the tax payable.

Kate is liable for extra income tax equal to the averaging adjustment, as the tax payable at the comparison rate is more than the tax payable at basic rates.

Tax payable at basic rates on Kate's basic taxable income of $22,000 (excludes Medicare levy) $722.00

Extra income tax $1,200.27

Kate's tax liability is $1,922.27

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