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# Budget Report

March 2010

## Introduction

A number of announcements included in the Budget Report (published 24 March 2010) are relevant to agriculture and horticulture. Many of the announcements are however simply confirmation of measures announced in the Pre-Budget Report. This report reviews these specific announcements. Each relevant announcement and paragraph reference is listed, as published in the full report (http://www.hm-treasury.gov.uk/d/budget2010_complete.pdf). Where appropriate, commentary has been added to provide additional background and information on who will be impacted by the announcement. Individual announcements have been grouped under categories inline with the original budget document.

## Summary

We welcome both the announcements that the Annual Investment Allowance will be doubled to £100,000 and that the lifetime limit for Entrepreneurs Relief will be doubled to £2,000,000.

We are however dismayed by the decision to increase employer National Insurance contributions that was announced last year. This will further raise the cost of employment in the farming sector and undermine business competitiveness. The NFU is also questioning the logic of reducing the incentive to participate in Climate Change Agreements, agreements which have already produced significant carbon savings.

Diversified farm businesses will also be disappointed that the repeal of the Furnished Holiday Lettings legislation has been enacted, despite significant lobbying for a continuation of the legislation with stricter conditions being applied.

Those businesses producing cider will be annoyed at the lack of consultation or warning over the increase in duty. This is particularly so when there has been a significant increase in investment in cider production over the last few years where there is of course a lengthy lead time required to increase production.

Both the CCL relief reduction and the cutting of some of the national co-financing for agri-environment schemes show yet another example of government disconnect. We need to see farmers investing more to meet the challenges of growing demand for food, climate change and protecting natural resources. Defra agrees. But both these decisions by the Chancellor work against this ambition.

There has been little attempt to reduce public expenditure. Commitments made about Education, Health and Afghanistan create pressure on other departmental budgets as well as question the UK's ability to sustain public sector debt levels beyond this economic cycle.

The fundamental economic situation as described in the Pre-Budget Report is broadly advantageous to farming. The prospect of a weak sterling, weak labour market and low interest environment should enable UK farmers to compete internationally and obtain finance cost effectively.



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# How the Budget Report will affect Farming

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| Capital Allowances | The Government will increase the threshold of the AIA to £100,000 for expenditure incurred from April 2010. |

### What is it?
Capital allowances on the cost of plant & machinery are available at either 20 or 10% depending on the type of expenditure. The annual investment allowance accelerates this relief on the first £50,000 of plant & machinery expenditure. The first £100,000 of expenditure will now qualify for accelerated allowances.

### NFU Reaction
This is a measure which the NFU has called for and which will be good news for those investing significantly in plant & machinery.

This will accelerate the tax relief for those members that spend more than £50,000 on plant & machinery in any one year.

An example of where this may benefit members will be where they are required to invest in new slurry storage as a result of NVZ regulations.

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| Entrepreneurs relief | This Budget announces an extension of Entrepreneurs' Relief from the first £1 million to the first £2 million of gains made over a lifetime". |

### What is it?
Entrepreneurs' Relief supports business owners and those investing in businesses with growth potential by providing an effective 10 per cent Capital Gains Tax rate on qualifying disposals.

This announcement means that the relief is extended from the first £1 million to the first £2 million of gains made over a lifetime

This change will take effect from 6 April 2010.

### NFU Reaction
This is a welcome announcement and will mean those members making gains in excess of £1 million on the sale of their farm will pay less capital gains tax.

It should however be borne in mind that the conditions for qualifying for entrepreneurs relief are far more restrictive than those for taper relief and it should not be assumed that all disposals of assets will qualify. Advice should therefore be taken well ahead of any planned sale to ensure that the relief will be available.

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| Climate Change Levy Reduction of Relief from 2011/12 | The entitlement to pay a 20 percent reduced rate of climate change levy under Climate change agreements is to be amended so that a 35 percent rate will instead be payable from 1 April 2011. |

### What is it?
The Climate Change Levy (CCL) is a tax on energy delivered to businesses in the United Kingdom. Its aim is to provide an incentive to increase energy efficiency and to reduce carbon emissions by increasing the cost to business.
When it was introduced, revenue from the levy was offset by a 0.3 percent employers' rate reduction in National Insurance which has subsequently been raised by 0.5 percent twice in consecutive Budgets.



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Some business sectors negotiated Climate Change Agreements (CCAs) which allow eligible energy-intensive businesses to receive up to an 80 percent discount from the Climate Change Levy (CCL) in return for meeting energy efficiency or carbon-saving targets.

The discount has been reduced from 80 to 65 percent for businesses participating in Climate Change Agreements from 2011/12.

### NFU Reaction

The discount obtained by some farming businesses participating in Climate Change Agreements from the Climate Change Levy (CCL) will be reduced from 80 per cent to 65 per cent.

NFU President Peter Kendall said: "The change in the Climate Change Levy relief is a kick in the teeth for our horticulturalists and pig and poultry farmers who are captured by the levy. They have worked hard to reduce emissions and have received scant recognition or financial support for their efforts. This announcement will have a significant negative impact on these businesses which previously could have claimed up to 80 per cent relief for investments in energy-saving equipment and processes.

"But what makes this worse is the contradictory signal it sends when you have a desire from Defra to assist the farming sector to meet the challenge of climate change on the one hand and a decision by the Treasury which will discourage farmers and growers from participating in a scheme that has helped businesses reduce their environmental impacts on the other."

"When the CCL was introduced it was on the basis that it was neutral for the economy as a whole - the new levy was offset by a reduction in National Insurance. This change in the levy breaks the promises it was established on. To make matters worse, there is actually an increase in NI contributions at the same time. The pig, poultry and horticulture sectors are big employers, as well as being subject to the CCL, so they will effectively suffer a double whammy."

The NFU estimates that this may cost farming £1 million per year after 2011/12 and may mean 15% of agricultural and horticultural participants may leave the scheme.

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| Public Spending Savings | The additional £3 billion of savings a year by 2012-13 includes, £92 million from protecting the environment more cost-effectively and making more efficient use of funding available under the Rural Development Programme for England. |

### What is it?

The Rural Development Programme for England is jointly funded by the EU and Government. The current programme has a budget of £3.9 billion and covers the time period 2007-2013. Of this, some £600 million is made available to make agriculture and forestry more competitive and sustainable and to enhance opportunity in rural areas. Approximately £3.3 billion of the total budget is allocated to agri-environment and other land management schemes. Exchange rate shifts mean that the EU element can be used to contribute proportionately more towards these shared budget lines, reducing the Government contribution under co-financing.

### NFU Reaction

The claim that the Treasury intends to find £92 million through "more cost-effective management and efficient use of the RDPE" in fact amounts to a decision to cut some of the national co-financing for agri-environment schemes while drawing down additional EU rural development funding made available due to the weak Pound. The NFU believes that UK co-funding should have been retained and made available to improve the resilience of vulnerable farm businesses, such as those in LFAs, and to help them become more competitive and tackle climate change.

"Farmers in Scotland have recently heard that the sustained weakness in the Pound will lead to a £10m annual increase in LFA support. They will benefit from the weakness of the Pound; similarly



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disadvantaged farmers in England will get nothing. What makes matters worse is that when the NFU has made enquiries about the potential windfall that might come from the weak Pound to RDPE, Defra has persistently told us that new money would not be available. This proves that it has and it has been used to line the Treasury's coffers."

"The RDPE is small in comparison with many other EU countries. There would have been exciting opportunities to spend at least some of the extra money on helping our farmers become more competitive, encouraging innovation, and mitigating climate change. I am extremely disappointed that this opportunity has been missed."

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| National Insurance Changes | An additional 0.5 per cent increase in the employee, employer and self employed rates of NICs from April 2011, alongside an increase in the point at which individuals start to pay NICs to protect 15 million people on incomes below £20,000. |

### Who is likely to be affected?

This policy hits employees, employers and the self-employed.

### What is it?

The Chancellor announced in the Pre-Budget Report that from 6 April 2011 National Insurance Contributions (NIC) will rise by 0.5 percent for the self employed, employees and employers. However, when combined with the 0.5% rise already announced in the 2008 Pre-Budget Report this gives a 1% overall increase for both employees and employers.

Along with this announcement the Chancellor pledged that individuals earning £20,000 or less would not be affected by these increases.

### NFU Reaction

The NFU believe that this increase in employment costs will undermine business competitiveness.

Using Defra's Farm Business Survey information the NFU has estimated the cost of these increases. As Class 4 NICs is scheduled to increase in April and then again a year later, increases will cost the average farmer £230 next year and £460 the year after.

The increase of 0.5 percent on Class 1 Secondary NICs is likely to cost the average farmer £99 per year however the average grower in the horticultural sector will face £307 next year and double that the year after.

The NFU calculates the total cost to agriculture of both increases to Class 4 NICs will be £16.5 million in 2010/11 and £35 million in 2011/12 and both increase to Class 1 Secondary will be £5 million next year and £10.6 million in 2011/12.

The combined effect of the NICs rise and the reduction in CCL relief clearly disadvantages horticultural, pig and poultry producers. This is likely to cause change in land use and ultimately reduce employment in rural areas.



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| Income Tax Changes | For 2010-11 the basic and higher rates of income tax will remain at 20 pence and 40 pence respectively. The personal allowance and basic rate limit will be maintained at their current levels.<br><br>The point at which individuals start to pay the higher rate of income tax will be frozen in 2012-13. |

### What is it?
Effectively the tax free allowance everyone gets each year will remain the same next year despite rising average earnings. The same will happen to the higher rate threshold in 2012/13. This is essentially a stealth tax.

### NFU Reaction
When this measure was announced in the Pre-Budget Report the RPI was negative, now it is 3% CPI and Earnings have and will continue to rise the volatile nature of prices and incomes in farming mean that the Higher Rate freeze in 2012/13 is likely to cost the industry £100 thousand a year and if farm incomes rise by 1.5 percent next year the average farmer will pay an extra £152 tax that would usually have been incorporated into the tax free allowance.

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| Furnished Holiday Lettings | The Government announced at Budget 2009 that Furnished Holiday Lettings rules would be repealed from April 2010. |

### Who is likely to be affected?
Businesses subject to the furnished holiday lettings rules.

### What is it?
There is to be an abolition of Furnished Holiday Lettings rules with effect from 6 April 2010. These are rental properties which meet certain strict short term letting conditions. They have attracted favourable trading treatment for income tax and capital gains tax purposes.

### NFU Reaction
The NFU is extremely disappointed with the decision to abolish furnished holiday lettings.

The NFU believes that the Government has unfairly compared furnished holiday lettings with residential lettings, when in many cases they are more closely comparable to running a hotel or B&B business, which are both accepted as having trading status.

The guidance issued at the Pre-Budget Report by HMRC on the tax position of furnished holiday lettings after the repeal largely ignores the many points made by the NFU and other interested parties. We will therefore be seeking to engage with HMRC in order to seek further clarification on the distinction they are making between hotels and B&Bs and some furnished holiday lettings businesses supplying a significant level of services as well as accommodation.

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| Small Companies Rate of Corporation Tax | To provide further support for small companies during the recovery, the Government is deferring, for an extra year, the planned increase in the Small Companies' Rate of corporation tax. The rate will remain at 21 per cent during 2010-11. |

### What is it?
The proposed increase on the rate of Corporation Tax payable by smaller companies has been deferred. The small companies' rate will remain at 21% until 31 March 2011 and thereafter the proposed rate will rise to 22%.



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### NFU Reaction

Although few in number, this will be a welcome announcement for those members who trade as small companies.

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| Biofuel Duty Differential | Budget 2008 announced that the 20 pence per litre duty differential for biofuels would cease in 2010-11, as the tax discount cannot distinguish between sustainable biofuels and those that increase greenhouse gas emissions or raise wider sustainability concerns. The Pre-Budget Report confirms that the duty differential will cease from 1 April 2010. |

### What is it?

The pre-announced decision to remove the duty differential for Biofuels will go ahead with effect from 1 April 2010. The one exception to this is an extension of the duty differential for Biodiesel produced only from waste cooking oil for two years.

### NFU Reaction

The NFU is disappointed that the duty differential is being removed without additional support being put in place for producers of Biofuels.

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| Rates on Empty Property | To give support during the transition to recovery, the Government is maintaining for a further year the temporary increase in the threshold at which an empty property becomes liable for business rates. For financial year 2010-11, empty properties with a rateable value of less than £18,000 will be exempt from business rates, exempting an estimated 70 per cent of empty properties. |

### Who is likely to be affected?

Properties with a rateable value of less than £18,000.

### What is it?

Business rates are now charged on empty business property, subject to certain exemptions. This temporary exemption means that business rates will not be charged where the empty business property has a rateable value of less than £15000 2009/10 and £18,000 2010/11.

### NFU Reaction

The NFU are disappointed that the exemption is not to be extended beyond April 2011, as called for in our Budget submission. The NFU remains opposed to the concept of empty business property rates and hope that the existing exemption period will be used to reconsider whether this legislation is likely to achieve its stated intention of increasing the availability of commercial rental premises.

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| Cider Duty | Cider duty rates will increase by 10 percent above inflation. |

### Who is likely to be affected?

Cider drinkers, cider apple growers and cider producers.

### NFU Reaction

The increase in Cider duty means that it has increased by 40.6% since 2006, equivalent to 5p a pint more and constitutes 20p of the price of a pint of cider. By 2014-15, if inflation runs at 2%, duty could have risen by a further 13% from today's level.

Moving the goal posts as quickly as this will lead to rapid changes in both consumer expenditure and business prospects. This is terrible news for growers who have responded to market signals and converted their land to orchards. The heavy investment that has been put into their businesses and the lost income that growers relinquished as their orchards grew will not yield as much as they hoped.



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