



**FROM THE PRESIDENT: PETER KENDALL**

Rt. Hon, George Osborne MP  
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*Dear Chancellor*

#### **Emergency Budget**

As you are of course aware the Conservative farming manifesto recognised the increasing importance of food and agriculture to Britain in the future and talked of prioritising research and development and developing a long-term strategic agenda across the food chain that reflects the importance of raising production sustainably. I trust that these aims will now be maintained by the Coalition Government.

I do fully recognise the immense challenge that you face in reducing the budget deficit. I also understand the scale of the reductions required in Government spending over the next few years, which all government departments will have to play a part. However it is imperative that any action taken now does not have an adverse impact on investment made to increase the competitiveness of our industry or impact on the long term strategy of raising agricultural productivity sustainably.

#### **Research and development**

Following decades of underinvestment in applied agricultural research, there have recently been welcome developments from funders, arising from the widely recognised link between R&D investment and addressing food security. The Technology Strategy Board's Sustainable Agriculture and Food Innovation Platform has committed up to £90 million over 5 years from across government. This has significant potential to give an industry focus to research that would ensure much greater economic impact from public-funded science. We want to see this type of investment protected.

The multi-agency Global Food Security research programme launched in March 2010, and the BBSRC's latest strategic plan, Crop Improvement Research Club and Advanced Training Partnerships, all contain vital longer-term signals to the UK research community that agricultural science is central to finding solutions to global challenges. The Royal Society, in its report of October 2009 'Reaping the Benefits', called for a grand challenge to secure at least £2 billion over 10 years for global crop production science. These signals must be sustained for long enough to make a real difference. The balance of funding for science must enable these initiatives to incentivise and reward those working in applied agricultural R&D so that the UK

can maintain its world-class standing in these fields of research and the economy can benefit from this excellence.

### **Stimulating farm investment**

Under the former Government the publication of Food 2030, a twenty-year cross-departmental strategy for the farming and food industries, recognised the need for the UK farming sector to increase production and productivity whilst impacting less on the environment. If our industry is to rise to the challenges set out in this document it will need to make considerable investment in the next 20 years. This investment can be broken down in to three key areas which are:

1. The investment requirements resulting especially as a result of environmental and animal welfare legislation
2. The need to reduce the carbon footprint of the farming industry through more energy efficient infrastructure and investment in renewables
3. The need to substantially increase the competitiveness and resilience of the farming sector in order that it can adapt to more volatile and liberal agricultural markets.

Fiscal incentives can play an important, indeed essential role in stimulating investment, which in turn will help the farming sector reduce its reliance on public support, which in itself is an objective of the Treasury. The advantage of certain forms of relief is not only do they encourage investment but they also encourage businesses to be profitable and therefore economically robust.

### **Corporation tax and investment reliefs**

The farming sector has significant concerns about your stated policy of partially funding a reduction in the main rate of corporation tax by abolishing specific tax reliefs and allowances.

Capital allowances are extremely important to the agricultural industry. Farming is a capital intensive business and continuing investment in new buildings, plant & equipment is essential if we are to remain competitive and meet regulatory burdens. In the short term, for example, farms will need to invest considerably in increased slurry storage to meet NVZ regulation and in poultry buildings to meet the welfare of laying hens animal welfare regulations.

We recognise that your desire to reduce the main rate of Corporation Tax is with a view to retaining larger businesses in the UK and attracting other larger businesses to the UK. Hopefully this policy will to a large extent be self funding. However it would seem particularly unfair to reduce allowances for SMEs to fund it when many do not benefit from a reduction in the main rate of Corporation Tax. According to the Federation of Small Businesses, around 73% of SMEs are unincorporated. The proportion of farming businesses that are unincorporated is significantly higher given the emphasis on family owned and operated businesses.

In 2007 the previous government reduced the main rate of corporation tax from 30% to 28% funded by revisions to the system of capital allowances. The reduction in the main rate of Corporation Tax did not benefit SMEs but the revisions to the capital allowances included the abolition of Agricultural Buildings Allowances which was extremely detrimental to agricultural SMEs. This resulted in a significant additional cost to capital investment for farmers because the majority of buildings and structures which qualified for ABAs are depreciating assets, designed for one trade specific purpose with little or no other use compared to most other commercial buildings (which generally appreciate in value over time). ABAs therefore relieved a

real depreciation cost to our businesses, which in the majority of cases is now treated as a 'tax nothing'. This of course will have a significant impact on agricultural businesses ability to invest.

When the Annual Investment Allowance was introduced in Budget 2007 it replaced First Year Allowances on 40% of all expenditure on plant & machinery. The Annual Investment Allowance was however made available to all businesses, irrespective of their size, whilst First Year Allowances had only been available to SMEs. This benefited larger businesses who were also the only beneficiaries of the reduction in the main rate of Corporation Tax.

Should you decide that it is necessary to restrict capital allowances in order to fund a further reduction in the main rate of Corporation Tax we would urge that any restriction only applies to those companies that benefit from the reduced rate. Any reductions should not be borne by SMEs and unincorporated businesses which also need a fair and supportive tax system to thrive and develop. This could be achieved simply by restricting the Annual Investment Allowance to SMEs in order to protect smaller business, particularly those in agriculture and manufacturing, and would be a much fairer approach.

In addition if consideration is to be given to any further reduction of the rates of writing down allowances for plant & machinery it is imperative that the resultant effect must not extend the period over which the assets are written off beyond their economic lifespan.

#### **Environmental taxes**

The Coalition agreement argues for an increase in the proportion of tax revenue accounted for by environmental taxes. I would stress the importance of consultation and careful consideration before implementation of any such proposals to ensure long term consistency and fairness in policy making. This ensures that businesses are able to adapt to changes in policy and encourages them to do so at the earliest opportunity.

What is particularly damaging for a business is when tax rules are changed without consultation or warning particularly when significant investment has already been made. An example of this was the announcement in the Pre Budget Report last autumn when the rate of exemption from the Climate Change Levy would be amended from 80% to 65% which had major adverse implications for businesses that had already entered in to climate change agreements. Changing the rate of an exemption in this way, without proper consultation or warning can only damage business confidence and act as a deterrent for others from committing to further agreements.

#### **Capital Gains**

The Coalition agreement suggests that the Government will seek ways of taxing non business capital gains at rates similar or close to those applied to income, with generous exemptions for entrepreneurial business activities.

On the assumption that the primary aim of this policy is to protect tax revenues by discouraging those who would seek to convert income to capital gains then it would seem necessary for there to be some recognition of the length of ownership of assets under any new proposed capital gains tax regime in order to prevent this.

In addition some form of recognition of the length of ownership is essential to prevent long term investors from suffering taxation on any inflationary element of a gain made on the disposal of a non business asset. For example there will be many long term investors who will have acquired

their assets before the abolition of indexation allowance in 1998 and as a result will now have 12 years worth of inflationary gain within the potential chargeable gain that would arise on a disposal. Of course there have been a number of different capital gains tax regimes in recent years including the rebasing of assets, indexation allowance and taper relief. However the constant in each of these regimes is that they have all sought to avoid the taxation of inflationary gains.

Finally, if a distinction is to be made between business and non business assets in any new capital gains tax regime it is extremely important to continue to recognise business premises let to a trader as a business asset. There are many smaller businesses that would not be in a position to own their own business premises and therefore rely on the availability of let commercial premises. This was of course previously recognised under the capital gains tax taper relief regime when commercial property let by individuals to businesses for use in their trade qualified for business asset taper relief.

*Yours sincerely*



**Peter Kendall**  
President