



FROM THE PRESIDENT: MEURIG RAYMOND

Rt Hon George Osborne MP
Chancellor of the Exchequer
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Dear Chancellor,

Summer Budget 2015

Firstly, I would like to congratulate you on your recent victory in the general election and to thank you for your announcement in your last Budget on farmers' averaging. You saw first-hand the impact of managing investment in the context of market volatility during meetings with farmers in your constituency. The extension of farmers profit averaging will provide a very helpful tool for farmers and we have already offered any assistance we can as your officials now consider the legislative framework for this extension.

Secondly, many farming businesses have welcomed your confirmation that the rates of income tax and national insurance will not rise over the course of this parliament and your manifesto pledge to introduce a permanent and substantial level for the Annual Investment Allowance. Businesses need this sort of certainty more than anything else and having both these measures in place will enable them to take business decisions with greater certainty.

However in the lead up to your Summer Budget I would ask you to consider two further key areas which will assist the agricultural industry to improve its productivity.

- **Addressing existing barriers to investment within the capital allowances system**
- **Synchronising Science and Innovation Strategy with Industrial strategy**

The capital allowances system

As you will have heard at constituency meetings, farming is an extremely capital intensive form of business with a continuous need for both short and long term investment. Unfortunately the current capital allowances system does not fully reflect the full cost of this investment and so acts as a barrier. Achieving a more balanced approach to investment incorporating both structure and equipment is essential if farm businesses are to increase their efficiency, productivity and competitiveness.

Currently buildings and fixed structures cannot qualify for capital allowances regardless of their expected lifespan and use in the business. Therefore buildings and fixed structures that are wasting assets, with a predictable lifespan of less than fifty years, receive no form of tax relief even where they are an essential business cost. This issue was identified as a prime example of a "tax nothing" in the Office of Tax Simplification's **"Review of the competitiveness of the UK Tax administration"** report commissioned by the government last year to assist in making the UK tax system more competitive.

The Office of Tax Simplification highlighted a case study of Thatchers Cider where they had been shown round a modern, highly automated production line, but the company had suggested it seemed unfair that the company could not get tax relief for the new building that houses it, which is expected to last for just 20 to 30 years. In its final report the OTS referred back to the issue of permanent differences where no relief is provided for a business cost, often referred to as "tax nothings". They pointed out that in the great majority of these cases, the costs in question will be viewed as valid business expenses by the business concerned, with no apparent logic or fairness in disallowing relief.

Therefore, we suggest that buildings or fixed assets used within a business which are "wasting assets", with a predictable lifespan of less than 50 years, are either included within the definition of integral features or added as a further class of assets. If added as a further class asset then they should qualify for plant & machinery allowances at a different rate to reflect the depreciation cost over their economic lifespan.

We believe that it is imperative that SMEs are encouraged to invest in modern, efficient production and removing this barrier will increase SME productivity and competitiveness. In effect only those buildings and fixed structures that genuinely depreciate in value with a limited predictable lifespan would qualify. For this reason we believe that given the limitations on the type of qualifying buildings and fixed structures, the cost of such a measure would be limited and would be spread over a long timescale. In addition this measure could significantly reduce compliance costs for both SMEs and HMRC in separately identifying individual component parts of such infrastructure.

Synchronising Science and Innovation Strategy with Industrial strategy

The Summer Budget and Comprehensive Spending Review provide the Government with the opportunity to back their Science and Innovation Strategy with vital investment for this instrumental part of their long-term economic plan.

The scientific research community has welcomed the Government's science capital commitments to strengthen the UK's research infrastructure and notes the Government's further commitment in the Science and Innovation Strategy to ensuring the Research Base has appropriate further investment for "staffing, running and maintaining our scientific infrastructure. However we would suggest that industrial strategies, which include the Agri-Tech Strategy, must be in-sync with the Science and Innovation Strategy in order to get the best return on investment from public spending on scientific research.

Science is strengthened by close collaboration with industry, and not just research-intensive companies but practitioners at the other end of the pipeline. Government budgets and funding mechanisms must facilitate this and I would ask you to consider this point as you review government budgets ahead of your Summer Budget.

*Yours sincerely,
Meurig Raymond*

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President