



FROM THE PRESIDENT: MEURIG RAYMOND

Rt Hon George Osborne MP  
Chancellor of the Exchequer  
HM Treasury  
1 Horse Guards Road  
London  
SW1A 2HQ

Your ref:  
Our ref: MR/ns/357  
Email: Nicky.sawdon@nfu.org.uk  
Direct line: 02476 858580  
Date: 16 February 2016

Dear Chancellor,

### Spring Budget 2016

As I am sure you will be aware from your constituents, agriculture is short on good news right now with the last twenty-four months seeing British farming face significant challenges. Significant falls in farm income, driven by world commodity markets, can be observed across almost all sectors: average dairy farm income is expected to fall by almost half in 2015/16, whilst arable sector income is forecast to be down by almost a quarter. The relatively late arrival of CAP 'BPS' payments to claimants' bank accounts has severely constrained cash flow within farming and its supply industries.

As British agriculture continues to operate within a difficult economic environment it is my view that a resilient sector must be underpinned by a supportive policy framework – I anticipate that the forthcoming 25yr Food and Farming Plan will provide this. Alongside the 25yr Plan I urge you also to ensure a coherent fiscal strategy, one which avoids adding further cumulative burdens to SMEs and acknowledges their need for greater investment. This is critical in order to advance the currently stagnant levels of productivity growth and most importantly to counter the declining levels of farmer confidence in the sector.

It is with this in mind that I ask that you take the opportunity in your forthcoming Business Tax Roadmap to address **the needs of unincorporated businesses**. The roadmap should recognise that partnerships are the predominant structure for most family farm businesses and consider differentiating between the business and individual partners. For farming partnerships with a significant need to reinvest profits on cyclical expenditure, on capital investment and when new market opportunities arise, the ability to retain funds from better periods is essential. For example a farm management deposit scheme, which allowed funds prior to taxation to be held against future costs and investment needs, may have put many farmers in a more resilient cash flow position than they currently find themselves in. It is also essential that the tax system recognises the need for balanced business investment in people, equipment and buildings, particularly for sectors such as agriculture facing the front line of volatility in weather and markets.

The speed with which employment costs are increasing for farm businesses as a result of **National Living Wage** and **'auto enrolment'** for smaller enterprises is a major concern. The NFU commissioned Andersons Consulting to quantify the impact of the National Living Wage on the horticulture sector; I enclose an executive summary of the findings and would encourage a

meeting between officials to discuss the impact further. Specifically, I ask you to consider mitigating actions to help small and micro businesses, such as farming, to cope better with their rapid introduction such as:

- Remove Employers National Insurance contributions for seasonal workers and/or those subject to NLW employed by SMEs; and,
- Remove the pension auto-enrolment requirement for seasonal harvest workers to prevent a significant contraction of British horticultural production and loss of employment.

HMRC has also recently called for evidence on the taxation of employer provided accommodation. We accept that tax rules should be periodically reviewed to ensure that they are still relevant and effective, but it is essential that this review does not result in further costs for our industry. Farm businesses already have limited access to affordable worker accommodation, especially accommodation that provides ready and timely access for employees to fulfil their on-farm employment duties effectively. The **cumulative burden of increasing employment costs** is, as we suggest above, already leading to employers looking closely at profitability and production levels.

In previous years I have raised concern that SME farm businesses do not have sufficient access to **capital allowances for infrastructure investments**, and that this is stifling capital investment. This gap is brought into sharp focus with the recent proposals for changes to water abstraction licences where it will be necessary for farmers to invest in capital infrastructure such as farm reservoirs. At present the lack of tax relief on this cost distorts the rate of return when the farmer compares this to alternatives, which makes the investment more difficult to justify. When this investment forms part of an irrigation system it appears irrational that it is not treated in the same way as other forms of equipment. We would urge you to consider amending the capital allowances act which currently specifically excludes reservoirs from qualifying for capital allowances.

The Business Tax Roadmap should also consider the wider needs of businesses that need to make **long term structural investment**. The need to replace farm buildings and infrastructure should be supported through the tax system to enable the industry to improve productivity and increase competitiveness with the aim of exporting more produce in certain sectors and increasing our share of the domestic market in others. Whilst we were very pleased to see the introduction of a permanent and substantial Annual Investment Allowance for plant & machinery it is essential that this is not seen as the total solution to encouraging SMEs to make balanced capital investment and to grow.

On the subject of infrastructure we turn to **public infrastructure investment** issues:

- Firstly with HMRC's ambitious plans to make tax digital there is a clear need for a joined up approach from government to ensure that all taxpayers have the ability to comply. This should include targeted action to provide superfast broadband for the final 5% of premises that will not see this by 2017 and a review of the Mobile Infrastructure Project with targeted intervention to accelerate "not-spot" coverage. In the meantime it is essential that the digitally excluded are not treated unfairly and are given alternative options to online filing.
- Secondly we turn to HS2 where the size and scale of the project and what this means in terms of the land take from farmers, does not appear to have been appreciated by government. We have on a number of occasions called for the tax implications for our members to be addressed in statute and through additional guidance but have had little or no engagement from either the promotor or government. It is essential that the

government recognises the extreme difficulty that agricultural businesses will have in replacing agricultural land and buildings. We would be grateful if you would ask your officials to engage with us on the taxation issues we have raised and if you would consider an amendment in the Finance Bill to the statutory capital gains tax time limits for replacing assets taken under compulsory purchase powers for this scheme. This is because the size and scale of the scheme will mean that most farmers will be unable to meet the statutory time limits for replacement, a concern that has been expressed by the HS2 select committee too.

- Thirdly, we would urge you to support funding for scientific research and development into productive technology, automisation and mechanisation and making this more accessible to smaller business.

One issue which we look forward to seeing in your Budget is the rectification of the changes to **Entrepreneurs' Relief** made in Finance Bill 2015, which in your Autumn Statement you suggested would be made to ensure that the effect was not to restrict genuine business succession in family partnerships, which is critical within the farming industry. Similarly we would stress that it is essential to maintain an inheritance tax regime which also supports business succession and continuity.

I recognise that farming is going through a difficult period with most sectors affected. However, this hiatus is unusual. Looking forward the NFU is determined to work with Government to build a robust, profitable and competitive farm sector, one that shows growing resilience and enterprise. Farmer businesses themselves can achieve much, but with the Government providing a supportive fiscal and policy context, the UK farm sector can be world-beating.

Yours sincerely,  
Meurig Raymond.

**Meurig Raymond MBE, FRAgS**  
President

Enc

Cc The Rt Hon Elizabeth Truss MP