APTF
Agricultural Productivity Task Force

Taxation measures for productivity growth

Why are tax measures so important to agricultural productivity?

Tax measures can open up innovation that will drive productivity growth that would otherwise not happen. The right fiscal regime will:

- Support innovative investment in agricultural buildings, equipment, and infrastructure to modernise a sector that is at the start of a major transition in policy, changes in farming systems and realignment with market needs.
- Promote land mobility, opening up opportunities for new entrants and development of existing progressive businesses seeking to expand.

What is currently not working?

- The tax system lacks a bias to farming improvement and positive restructuring.
- Capital allowances have been uncertain, unstable and inadequate.
- With most farm businesses not being companies they are denied the support offered to companies.
- The complexity of tax for integrated farm businesses.

Variability of capital allowances

For businesses seeking a secure framework in which to plan investment programmes, that ceiling has had a chequered and destabilising history:

April 2008: introduced in its present form at £50,000
April 2010: increased £100,000
April 2012: reduced to £25,000
Autumn 2012: increased to £250,000 for two years from January 2013 (moving to a calendar year basis) – so it would have reverted by default to £25,000 in January 2015
April 2014: increased to £500,000 until December 2015
January 2016: reduced to £200,000
January 2019: increased to £1 million from January 2019 until December 2020, when it was to revert to £200,000
November 2020: it was announced that the ceiling would remain at £1 million until the end of 2021, when it would revert of £200,000
October 2021: it was announced that ceiling would again remain at £1 million until March 2023 when, without further action, it would again revert to £200,000 but giving the longest period of
6 certainty since late 2012, albeit with much more uncertain supply chains for investment projects.

In analysis by CAAV in 2022, Irish land lettings of 5 years or more have increased from 2.6% of land area to 7.7% since the introduction of the tax relief.

Recommendations - Investment and innovation

- Improved capital allowances to stimulate and be fair to the investment in buildings, plant and machinery necessary to take best advantage of technology.
    - Increasing the Structures and Buildings Allowance to an annual 10%
    - Stabilising the Annual Investment Allowance at £1 million, including buildings
- Opening the Enterprise Investment Scheme and its associated schemes to investment in agricultural businesses (but not farmland) recognising the removal of Basic Payment.
- Extending the Research and Development Tax Credit from Corporation Tax to Income Tax to assist innovation in agriculture as a sector of unincorporated businesses.
- Keeping the framework of capital taxes stable to give confidence to those planning the reorganisation of substantial but illiquid capital assets, with land itself an input to their businesses.

Recommendations – Land mobility and Flexible Business Change

- Government should urgently review the Irish Republic's use of Income Tax relief for the arm's length letting of farmland for terms of 5 years and more for its potential to increase the mobility and productive use of land, as in the Irish Republic.
- Ensure that the timescales for Business Assets Disposal Relief enable the Lump Sum Exit Scheme payment for taking the remaining Basic Payment to qualify for Business Asset Disposal Relief to maximise the effectiveness of the option.

Recommendations – Tax simplification

- Enabling diversified rural businesses with common overheads and management to be recognised as a single unit for taxation (a Rural Business Unit, RBU) rather than separately assessed on each enterprise, so being fairly treated and having greater flexibility in the use of investment to achieve improved productivity outcomes for the rural economy.

What does good look like?

The goal is for the tax system to be a positive aid to improved farming productivity with business growth, investment, innovation and flexible business structures.

Glossary

Capital allowances	The way in which tax law allows the cost of capital investment to be set against tax on the income it enables
Structures and Business Allowance (SBA)	A complex specific capital allowance recently introduced for structures and buildings, currently set at 3% pa
Annual Investment Allowance (AIA)	An overall amount allowed against investment in plant and machinery (but not buildings) in the year in which it is incurred. Its level has swung between £25,000 and £1m, only just stopped from dropping from £1m to £200,000. Costs not covered by this are left for normal capital allowances rules
Enterprise Investment Scheme (EIS)	A tax relief scheme to promote investment in innovation with its greater risks. Farming is currently excluded.
Research and Development Tax Credit (RDTC)	An allowance under Corporation Tax of up to 230% of the cost of work on research and development by a business
Lump Sum Scheme	This option of a single payment in place of remaining Basic Payments is now being offered under the Agriculture Act 2020 to English farmers in 2022. Farmers who take it are to give up their land and subsidised farming, creating opportunities for others.
Business Asset Disposal Relief	Previously called Entrepreneurs' Relief, this halves the liability to Capital Gains Tax for up to £1m of gains on the disposal of a business or of its assets after cessation
Land Mobility	A shorthand phrase for opening up farming structures and markets in land occupation and use, enabling existing businesses to expand and contract more easily and new businesses to gain access to land.