THE SUPER DEDUCTION CAPITAL ALLOWANCE

SUBMISSION FOR ITS EXTENSION TO ALL BUSINESSES

Central Association of Agricultural Valuers – 13th March 2021

1. Overview

1.1 The 130 per cent Super Deduction capital allowance announced by the March 2021 Budget is being limited to companies (incorporated businesses subject to Corporation Tax). That excludes a substantial part of the economy, notably the rural and agricultural economy as well as many small businesses, at a time when the economy especially needs business investment by all to achieve the necessary improvement in productivity. No valid ground is seen for this distinction.

1.2 Those acting with unincorporated businesses have long had a sense that Government has a tendency to feel that companies are the only valid form of business structure and so at the least overlook (some see it more harshly as discounting) businesses with other structures. This exclusion has been seen as direct and conscious discrimination against them for this allowance when the eased carry-back of losses is given wider application. It is noted in this that the Help to Grow Management and Help to Grow Digital schemes also announced in the Budget require a company registration number even to register interest.

1.3 Corporation Tax rates are indeed set to rise but so also is the expected yield from Income Tax and other personal taxes. The cuts in capital allowances applied to all businesses when used to fund reductions in Corporation Tax for companies only.

1.4 The Annual Investment Allowance (AIA) is useful but, often set for only a year at a time, has wildly oscillated on a hand-to-mouth basis between £25,000 and £1 million, giving inadequate foresight for the real planning needed for good investment.

1.5 Believing that the tax regime should be neutral between business structures and seeing the economy is crying out for investment to improve productivity and achieve recovery, we do not see why a large part of business, notably but not solely rural and small businesses, and a larger number of businesses are excluded in this way. Investment by LLPs, other partnerships and sole traders is just as wanted and just as valid. The Super Deduction capital allowance should be open to all.

2. The CAAV

2.1 The Central Association of Agricultural Valuers (CAAV) represents, briefs and qualifies over 2800 professionals who advise and act on the very varied matters affecting rural and agricultural businesses and property throughout the United Kingdom. Instructed by a wide range of clients, including farmers, owners, lenders, public authorities, conservation bodies,

utility providers, government agencies and others, this work requires an understanding of practical issues.

2.2 The CAAV does not exist to lobby on behalf of any particular interest but rather, knowing its members will be called on to act or advise both official and private interests under developing policies, aims to ensure that they are designed in as practical a way as possible, taking account of circumstances.

3. The Urgency of Tackling Productivity Improvement

3.1 As advisers to businesses, we are seized of the need to tackle the productivity problems of the UK economy in general and that of agriculture in particular. The figures now available are stark, with growth in agricultural productivity falling behind other major advanced nations since 1992. Productivity improvement in agriculture is assessed at 0.9 per cent since 1964 and 0.7 per cent since 2000. That needs serious remedy, now easier outside the EU and CAP, and especially for the successful handling of the changes in the economic and policy environment coming this decade.

3.2 We see the priority set by the Government for the Food and Drink Sector Council (FDSC), to:

> "Accelerate the growth of UK agricultural and horticultural productivity to overtake our major competitors by 2030".

That is a demanding and important challenge requiring substantial change and a full suite of tools, including investment, innovation, skills and structural change.

3.3 The CAAV has sought to play a full part in this with the development of post-Brexit polices – see, for example, Taxation, Agricultural Productivity, Land Occupation and Use after Brexit: A CAAV Discussion Paper (2017). Among other activities, we contributed to the work of the FDSC's Agricultural Productivity Working Group (reported 2020) and are part of the follow-up Agricultural Productivity Task Force bringing a particular focus on investment and structural change.

4. The Need for Investment

4.1 Business investment in the UK has long lagged behind rivals as a share of GDP and its lower level is widely seen as associated with the UK's poorer productivity record.

4.2 As the Chancellor said in his Budget Speech:

> "We need to do even more to encourage businesses to invest right now. Business investment creates jobs, lifts growth, spurs innovation and drives productivity ... we need an investment-led recovery".

We, likewise, see that as not only for the place of investment within GDP but for the future capacity and competitiveness of the economy.

4.3 Within that we see a clear need for the farming businesses of the future to invest, especially with the great strides now being made in agricultural technology over data,

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automation and many other areas; a development recognised by DEFRA in its proposals for support for investment in the Agricultural Transition Plan. Without that investment we will not meet the Government's productivity challenge noted above nor the Government's large environmental goals.

5. Businesses in the Rural and Agricultural Economy – Some Key Features

5.1 A key feature of the, often family, businesses that dominate the agricultural and rural economy is very few are incorporated as companies. By contrast to the wider economy, a large number are partnerships (now including LLPs) of family members and the remainder operate as sole traders. Differences between the treatment of companies and other forms of business are thus material in their effect on this sector.

5.2 As a sector, farming typically has a cost structure more akin to manufacturing than to the services sector, with its heavy reliance on plant and machinery as well as on buildings, and increasingly the technology that gives value in the modern world.

5.3 They are typically longstanding businesses which, partly for reasons of their family nature and scale, fund investment from retained earnings and bank borrowing, not external equity.

6. The Budget Measures

6.1 Tax has long been used as a tool to influence investment. With capital allowances first introduced by the Income Tax Act 1945, a key feature of that is now provided by the Capital Allowances Act 2001 applying to businesses assessed under both Income Tax and Corporation Tax.

6.2 The March 2021 Budget included two announcements in this area:

- the new 130 per cent Super Deduction for plant and machinery between April 2021 and March 2023. This has been announced as only available to those businesses that are taxed under Corporation Tax.
- affirming that the November 2020 announcement that the Annual Investment Allowance (AIA) would remaining at £1 million for calendar year 2021 rather than revert, in its roller coaster style, to £200,000. This is available to all forms of businesses.

6.3 With the Chancellor's statement above about the imperative need for business investment for economic recovery, excluding a significant proportion of business activity, with parts like farming that can drive the needed increase in investment, seems perverse and discriminatory. Investment by LLPs, other partnerships and sole traders is just as wanted and just as valid.

7. Why Have Companies Been Favoured over other Businesses?

7.1 The Reasons Given

7.1.1 The reply given to this concern has been:

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> "The super-deduction covers investments in most plant and machinery assets. As is common with enhanced capital allowances, the super-deduction and 50% first-year allowance are limited to companies. Companies are facing an increase in the Corporation Tax rate from April 2023, whereas income tax rates remain unchanged. All businesses, including income tax payers, can continue to claim the highest ever £1m AIA until the end of 2021."

7.1.2 The points in that can be taken in turn to show that this does not give a justification for this discrimination.

7.2 "As is common with enhanced capital allowances, the super-deduction and 50% first-year allowance are limited to companies."

7.2.1 We do not think this "common" for enhanced capital allowances and, even if so, do not see a justification for it. The enhanced capital allowances recently abolished for energy and water investments were not limited to companies and the remaining allowance for electric vehicle charging points is available under both Income Tax and Corporation Tax.

7.2.2 This extract from HMRC Capital Allowances Manual (CA10040) does not suggest any precedent for such discrimination between types of business in the allowances available in recent decades

> "First-year allowances (FYAs) were introduced again for expenditure incurred by small and medium sized enterprises from 2 July 1998 to April 2008; the rate varied over this period, but was either 40% or 50%. 100% FYAs were introduced for assets purchased by small and medium-sized businesses in the period 12 May 1998 to 11 May 2002 for use primarily in Northern Ireland. Subsequently, other 100% FYAs targeted to encourage particular types of socially desirable investment were introduced for expenditure on:
>
> - ICT by small businesses, between 1 April 2000 and 31 March 2004;
> - energy-saving plant and machinery, from 1 April 2001 to 1/6 April 2020;
> - cars with low carbon dioxide emissions, from 17 April 2002;
> - plant or machinery for gas refuelling stations, from 17 April 2002;
> - plant or machinery for use wholly in a ring fence trade, from 17 April 2002;
> - environmentally beneficial plant and machinery, from 1 April 2003 to 1/6 April 2020."

7.2.3 No distinction has been made in the recent Structures and Buildings Allowance just as there was no distinction under the earlier Agricultural and Industrial Buildings Allowances.

7.2.4 With the separate legislation for Income Tax and Corporation Tax, other aspects of the tax system do make distinctions but capital allowances do not appear to have done in the way suggested.

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7.3 *"Companies are facing an increase in the Corporation Tax rate from April 2023, whereas income tax rates remain unchanged."*

7.3.1 Companies are indeed now to expect an increase in Corporation Tax from April 2023. However, while Income Tax rates do remain unchanged, the freezing of the thresholds for Income Tax, Capital Gains Tax and other personal taxes is foreseen by the Red Book accompanying the March 2021 Budget to see an increase in tax yield of some £9 billion by 2025/26 – an increased incidence and effective rates of taxes on unincorporated businesses as well.

7.3.2 Further, it is not so long ago that capital allowances were cut for all businesses with that being expressly linked to reductions in Corporation Tax for incorporated businesses only. The reverse is now not being applied.

7.4 *All businesses, including income tax payers, can continue to claim the highest ever £1m AIA until the end of 2021."*

7.4.1 It is agreed that the £1 million level for the Annual Investment Allowance, available to all businesses for plant and machinery, has been extended – on less than two months notice for the calendar year 2021 only. Until early November, it was to have dropped to £200,000. With the time taken to plan investment with confidence a longer period of foresight is desirable, especially with the chequered and destabilising history of the AIA as it has oscillated often at short notice between £25,000 and £1 million:

- April 2008 - introduced in its present form at £50,000
- April 2010 - increased to £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
- due to revert to £200,000, it was then confirmed in November 2020 for another year at £1 million, reverting to £200,000 for 2022.

7.4.2 The one month's notice given by the Budget of the Super Deduction being available for two full years gives much more assurance and security for businesses planning expenditure.

7.5 Conclusion

The distinction in the Budget is to the disadvantage of unincorporated businesses which for reasons advanced in the paper offer no merit but much harm. Capital allowances should be neutral between business structures.

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