TAXING THE FARMER

A VIGOROUS dispute has arisen in the correspondence columns of the *Financial Times* over the effects of capital transfer taxes (CTT) on agriculture. Should farmers, who pay no rates on their land in the way that other landowners do, be treated as a special case? Mr. G. R. Williams, Taxation Secretary of the Country Landowners' Association, puts the case for farmers. Mr. Alister Sutherland, lecturer at Trinity College, Cambridge, presented the opposing view.

DOES THE PROSPEROUS AGRICULTURAL SECTOR DESERVE SPECIAL TAX CONCESSIONS?

G. R. WILLIAMS writes: Owners of farmland will have been surprised by the reference to a "notional" liability for capital transfer tax in Christopher Parkes' article of September 28. The possible liability of £54,000 in respect of a farm of 100 hectares would have to be met with cash. Failing this, the enforcement proceedings taken by the Inland Revenue would hardly be notional.

The suggestions made for dealing with the serious CTT problems faced by farmers show clearly that changes are needed. Perhaps, in theory, CTT can be saved by transferring a share in the land to a wife; but why should the survival of the business depend on the matrimonial status of the owner? The article suggests that a farmer of reasonable management ability should be able to pass, intact, to his heirs a farm of up to 400 hectares; are bachelors and widowers assumed to be bereft of such ability?

The possibility of financing tax liabilities through life assurance is canvassed, but the article points out that, in respect of a farm for which the liability would have been £18,000 in 1975, £54,000 would be needed now. What sort of policy effected in 1975 for a sum assured of £18,000 would produce £54,000 on a claim made now? Could a farm of only 100 hectares generate the income required to fund the premiums for such a policy, on a regular basis?

Agriculture is an illiquid, capital-intensive industry, which is particularly vulnerable to taxes based on the value of low yielding assets, such as agricultural land. The need to find cash to meet tax bills inevitably makes it harder for the owner to finance investment, and it must surely be wrong that management effort should be diverted into creating partnerships, or other business structures, for fiscal, rather than agricultural reasons. It is therefore vitally important for owner-occupiers as well as landlords to continue to press the Government for necessary changes in CTT – a tax rightly described in the Chancellor's Budget speech as being "oppressive, harmful to business and a real deterrent to initiative and enterprise."

● BRITISH Property Federation President Nigel Mobbs has welcomed the plan to sell-off publicly owned land as "a very worthwhile exercise." But while condemning public land hoarding, he justified private land hoarding by blaming the planning authorities. "Cash is a compelling motive for the private owners to sell, while such an incentive often appears to hold less sway in the public sector," he says. But he failed to explain why private owners with planning permission to develop their land often sat on their property for many years before releasing it to builders.

A. SUTHERLAND writes: The letter from the taxation secretary of the Country Landowners' Association yields an unusually fine crop of misinformation.

Agricultural land is said, once again, to be a "low yielding asset." It is not. The income increase on the farm of average size in the FMS sample has been about 6 per cent, a year, in real terms, over the past decade. In addition there has been a capital gain of about 9.7 per cent a year, in real terms. The yield, from income plus capital gain, has been about 16 per cent a year, in real terms. (If Mr. Williams is thinking of the first-year return, he should perhaps refer to my letter of August 29.)

The potential capital transfer tax liability on a farm of 100 hectares is put at £54,000 by the Milk Marketing Board, as reported by Chris Parkes on September 28. According to Mr. Williams that amount "would have to be met with cash;" "£54,000 would be needed now." It would not. Tax on businesses can be paid in eight annual instalments without incurring interest. The first year payment would be £6,750 – which is about twice the imputed rent – and inflation and real income growth would steadily erode the subsequent burden, while leaving further capital gain tax free in the heir's hands. (Since the trough of 1975, the capital gain on 100 hectares – not mentioned by Mr. Williams – has been about £240,000.)

One way of meeting the CCT liability is to take out insurance. "Could a farm of only [sic] 100 hectares generate the income required to fund the premiums for such a policy?" This farm is twice the average size. The sum required, allowing for the eight year spread, is about two-thirds of £54,000. A man of 45 could obtain a Whole of Life policy without profits for about £650 a year (less tax relief. With profits would be cheaper, but riskier.) That is £6.50 per hectare, i.e. about 5 per cent of the profit. So the answer is "Yes, easily."

"Why should the survival of the business depend on the matrimonial status of the owner?" On the evidence, "survival" is not in question, even on this large farm. Further, farmers are as able and willing to adopt tax planning as are other businessmen. Finally, the "family farm" is usually alleged to be the entity worth some concessions. Is the CLA against CTT relief for spouses?

In any event the MMB's calculation of a CTT liability of £54,000 on 100 hectares – which would be worth some £350,000 at £3,500 per hectare – appears to ignore all tax planning. Agricultural relief automatically reduces the taxable value to £175,000 – and £60,000, i.e. 17 per cent is the CTT on that amount. But if the farmer did split ownership with his wife the liability would drop to £36,500, i.e. 10 per cent. Further, if the farmer was in, or set up, an appropriate partnership to own the land, with a tenancy to himself and his wife, the liability would drop to £11,000, i.e. 3 per cent. A standard payer of CTT would have a liability of £168,000, i.e. 48 per cent on assets of £350,000 – payable in cash, not instalments.

The duty of lobbyists is to lobby. The rest of us have good grounds for urging that the "necessary changes in CTT" include some reduction in the large tax concessions currently enjoyed by one of the most prosperous sections of the community.