A Tax Plan for Farmers

AGRICULTURE'S major problem is financial, although the environmental consequences of farming methods, including animal welfare and pollution, are putting British farmers under added pressure.

● Although net farm incomes have increased considerably since the war, farmers' incomes have – in real terms – decreased in the last three years. A recent survey shows that in that time, with inflation at 13%, farm incomes have increased by only 8%. And real farm incomes are likely to continue to decline as curbs on production, similar to those on milk, are applied to other commodities in surplus.

● Bank borrowing by farmers has increased in recent years – over the past year, by 18% to approximately £4,744m. This represents only 6.9% of total farm assets, but 25.6% of the working capital.

This high level of borrowing is supported by the high price of land, and many farmers are worried that the banks may foreclose if the price of land falls as grants and subsidies are withdrawn.

● Farm rents have increased since Britain joined the European Economic Community (EEC), from £6.5 per acre in 1973 to £27.5 per acre in 1982 – and have continued to rise despite the fall in farm incomes.

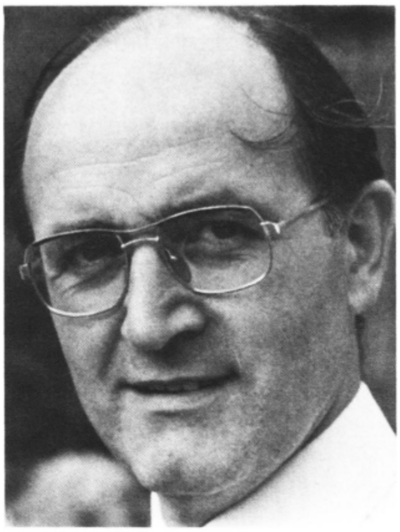
● The detrimental environmental effects of increased agricultural production, such as pollution from fertilizers and sprays, the removal of hedgerows and trees and the ploughing of moorland, have reduced public sympathy for farmers.

This means that their chances of obtaining further financial support are poor.

● Despite the huge amounts of money which currently subsidise farming (estimated at between £9,000 and £12,000 per farm, in 1979), farm incomes continue to fall – especially those of small farmers.

More than 40% of all farm holdings are less than 20 acres and the EEC's Common Agricultural Policy (CAP) was intended to favour the smaller farmer. But it is well known that the larger the farm, the greater are the benefits derived, because to obtain a capital grant for a development costing £50,000, with grant available at 20%, only a farm large enough to finance the remaining £40,000 is capable of accepting the grant.

In 1982, only 3% of the smallest farms received grants, compared with 73% of the largest farms. With subsidised product prices, the large farmers who produce most, obviously gain most in subsidy. Since 50% of the output comes from 13% of the farms, it is not unreasonable to assume that 13% of the farmers receive 50% of the subsidies.



DR. DUNCAN PICKARD (above), a lecturer in the Department of Animal Physiology and Nutrition at Leeds University, reviews the profound problems that confront British agriculture.

And he explores the way in which a change in the tax structure, with a shift towards land value taxation, would help the farming community.

Dr. Pickard runs his own 30-acre farm in Yorkshire.

These large amounts of subsidy have a detrimental effect on the rest of farmers because they result in higher land prices and rents.

IT IS DIFFICULT for farmers to comprehend that they are no better off financially. Production continues to increase. But – since most of the grant and subsidy money paid has become capitalised into land prices – there has been a large increase in fixed costs due to rent and interest on borrowed money.

The average price of land in 1972 was £224 per acre; in 1982, it had risen to £1,254 per acre.

Initial increases in land prices were fuelled by the increases in guaranteed prices for farm produce, but the rising market has been its own impetus for further rises, as financial institutions and farmers have pushed the price far above that which would provide a return on capital, even with the present high yields and prices.

A leading firm of chartered accountants recently reported that "it is virtually impossible to produce a farming budget which indicates a proper commercial return on all of the capital employed".

The high price of land is indirectly responsible for the reduction in net farm incomes, despite increased yields and product prices. This effect has been quite different for different types of farmers. Averages give no idea of the range and the figures for bank borrowing indicate that the average amount borrowed is close to £20,000 per farm, but many farmers borrow no money, and others are heavily in debt.

● Those in greatest difficulty are the tenant farmers who have seen rents increase much faster than their incomes. High rents tend to generate pressure to borrow more from the banks for buildings, machinery, fertilizers, etc. When output prices fall, these farmers cannot finance the borrowing and without the benefit of land ownership, are most vulnerable.

● The second group are the owner-occupiers who have recently purchased their land at inflated prices. They have the illusion of owning their land, but are, in effect, tenants of the bank or mortgage corporation. We refer to their mortgage repayments as 'rent-equivalent'.

● The third group are the owner occupiers of long standing, most of whom have inherited their farms. Whilst in the best position of the three, with lower fixed costs, the high price of land does cause considerable problems when transferring the farm to the next generation. A 200-acre farm, with livestock and equipment, is probably worth more than £500,000. Despite generous allowances against capital transfer tax, elaborate planning is needed to avoid leaving a sizeable bill for tax.

● The fourth group are the would-be farmers who cannot make a start

in farming with the high price of land, rent and interest. A virtual monopoly in land ownership exists when the only people who can buy land are those who already own some.

IN 1972 the average farm size was 112 acres. In 1983, it was 125 acres. The number of farms fell from 288,000 to 235,000 over the same period. This must have led to a further decline in rural employment.

The expressed intention of the CAP – to encourage people to remain in the country – is having the opposite effect.

When curbs on production of other commodities than milk are enforced, farm incomes will continue to decline. Most of the increase in farm incomes over the last 40 years has come from increases in output, not from increases in the real price of farm produce. If output cannot continue to increase, profit margins must decline.

The high fixed costs in agriculture mean that the first to be affected will be the tenants, and then the owner-occupiers with high borrowings.

When the financial institutions see no prospect of land prices increasing, they will tend to sell rather than buy, and land prices will fall. Unless landowners are prepared to accept lower rents, many tenants will be unable to remain in business.

One way for the landowner to increase the value of his property, in the light of falling prices, is to convert it to a freehold and sell with vacant possession. Some landowners would welcome the departure of their tenants so that the farm could be sold at the highest price, in the familiar fashion of splitting it into several small lots.

The recent purchaser of this farm does at least have the option of selling some or all of his land, to reduce the financial burden.

WHEN FARMERS realise that curbs on production, either by quotas or by price reductions, are inevitable, perhaps they will see that the real cause of their difficulties is the high price of land, brought about by the very grants and subsidies they seek and by the privileged treatment of landowners for taxation purposes.

As gross incomes decline, bankruptcies will increase and land prices will fall. There will be a tendency for landowners who were unfortunate not to have sold early enough, to retain their land in the hope of an increase in the future. The pattern familiar in the 1930s – of derelict farms – will return unless there is a major change in the tax laws.

The farmers best able to withstand the inevitable reduction in gross incomes are the owner occupiers of long standing. They can reduce their input costs and still make a reasonable living. The potential burden of capital transfer tax will also be lifted.

If, as output declines, taxation was changed to encourage the owner-occupation of land, many tenants who face the prospect of eviction and bankruptcy could have the hope of discharging their debts. The gradual introduction of land value taxation would lead to a reduction in land prices and interest rates, both of which would favour the working farmer. The landowner would be encouraged to sell. The large farmer would reduce the size of his holding to that which enabled him to maximise the output per unit area – the present system encourages him to maximise the area of his farm by buying more land.

This would reverse the trend towards bigger farms and increasing rural unemployment, and enable many to obtain land for farming who currently have no chance.

Land value taxation would:

1. Discourage speculation in land;
2. Reduce the price of land to equate with its value for production;
3. Limit farm sizes to those of the most productive units;
4. Enable new entrants to obtain land;
5. Reduce the level of taxation on earnings and capital;
6. Reduce interest rates;
7. Prevent rural depopulation;
8. Discourage urban sprawl on to farm land;
9. Encourage owner-occupation;
10. Promote more responsible use of land and reduce pollution.

Without land value taxation, the problems of high fixed costs will remain. The farmer cannot expect subsidies to continue to rise to enable him to make a living.

The Common Agricultural Policy must change. The aim of Article 39, which states that farm incomes should be increased to equate with those in other industries, is laudable. But the current means by which this is to be achieved can never succeed.

Almost as soon as product prices increase, fixed costs increase too, and little advantage is gained.

Subsidies must be phased out. It would be better to admit that the CAP is really a social policy and give direct cash income supplements to small farmers. Even this would not necessarily improve the condition of the tenant farmer who would almost surely see his rent increase. Land value taxation would ensure that this would not happen, and if properly operated it would remove the need for income supplements.

The necessary policy changes are:

● The phasing out of grants and subsidies; and

● The gradual introduction of land valuation taxation.