



Scotland's independent think tank

## It is possible to farm without subsidies – Duncan Pickard

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Almost all discussions on farming have emphasised the importance of subsidy income support. A typical example was from the chief strategy officer of the Agriculture and Horticulture Development Board (AHDB) who said that subsidy income accounted for 80% of farm income in Scotland. This estimate must have been based on the officially produced, average Net Farm Income (NFI) or the average Farm Business Income (FBI)

which are not the same as the real average income of farmers. Those who use average NFI or FBI should find out how they are calculated. When I questioned the civil servant responsible for the publication of NFI for Scotland he said that it should be “viewed as an economic measure rather than a wage and, as such, could be used to observe trends over years and between countries”. When I calculate the NFI for our farm it is considerably lower than our taxable profit. We do not depend on subsidy income support. Many more farmers in Scotland are in the same position as we are. When producing a forward strategy for farming, policy makers should not use artificial ‘economic measures’ of farm incomes instead of real incomes. Some of those who have become dependent on subsidies did so because they chose to. Why work seven days a week when you can live comfortably on subsidy income and only work four or five days?

There is a large difference between farm businesses in their productivity and profitability. The top 25% are consistently profitable and more productive than the rest; if the others could match the top 25%, many more could manage without subsidies. Too many have no incentive to do better because they have the subsidy comfort cushion to rely on. Much more food could be produced in the UK but will not be while subsidies allow farmers to be paid when using their land below its optimum capacity. Some need their subsidy income to pay for additional land bought at excessively high prices. Subsidies have allowed farmers to become inefficient and others to try to achieve economies of scale which do not exist. Subsidies should be seen for what they mostly are: non-means tested income support for wealthy land owners. The average net worth of farm businesses in Scotland is about £1m. It is unfair to give them income support. The latest figures from the Rural Payments and Inspections Directorate show that, of the total subsidy money disbursed, 69% went to 20% of those who submitted claims.

Subsidies are responsible for some of the rise in land prices which have made it almost impossible for young people to make a start in farming. The report from the Royal Bank of Scotland “Harvesting the Future for Young Farmers” identified high land prices as the main barrier to entry, but it did not attempt to explain why land prices are so high. The Government’s perverse tax policy, which favours land ownership with tax breaks and penalises work and trade with high rates of tax, is a major factor.

When comparisons are made with New Zealand’s farmers, who do not receive subsidy income support, many reasons for their success are given but the most relevant is that they have lower costs of production and that is where farmers should be looking instead of seeking ever increasing produce prices to cover our high costs. We will have to adapt to reduced subsidies but so will farmers in the rest of Europe; the present level of spending on subsidies is not affordable. Brexit gives us the chance to get rid of a lot of costly unnecessary regulations and record keeping put in place when we had to comply with the Common Agricultural Policy, (CAP) but little progress has been made so far. I am not alone in believing that the CAP has never been appropriate for the UK. Jonnie Hall, the director of policy of the National Farmers Union of Scotland said, “We have lived for 46 years under the CAP and how many favours has it done for Scottish agriculture? CAP has stifled development and

innovation, blocked new entrants and inflated land prices. There is so much scope for improvement if we are given the right tools”.

We could also radically reform our outdated, complicated and disincentive tax system. Earned incomes should be relieved from taxes and the necessary revenue collected instead from the unearned increases in the rental value of land, both urban and rural. This is known as Land Value Tax (LVT) or Annual Ground Rent, (AGR).

Abolition of VAT, the EU’s most favoured tax, and Income Taxes would promote employment and trade so that consumers could afford to buy what we produce.

I am often asked why, as a landowning farmer, I am in favour of replacing existing taxes with an annual charge on the rental value of our land? The charge on land (AGR/ LVT) will be based on its productive capacity which means that those who farm in more remote and less fertile areas will pay less per acre. About ninety percent of the land area is rural but its rental value is only about ten percent of the total, conversely, ten percent of the land is urban but its rental value is ninety percent of the total. This means that the owners of urban land will pay most of the AGR. The market price of the land we farm will fall when speculative investors are unable to profit from simply owning land. Its current high price is of no advantage to us because we do not want to sell. I cannot say how much AGR/LVT we would pay but it would be closely linked to our ability to pay. Under the present tax system we have to pay wages related to our employees’ skills irrespective of the farm’s profitability. Compare that with rent: when we negotiate rent with a land owner, the amount we bid is based on the profitability of the animals and crops we plan to produce. Following the introduction of AGR/LVT the owners of large areas of rural land will also benefit from the removal of employment taxes they pay for their staff. Those farming more productive land will, instead of trying to maximise the area of land they farm, try to optimise the output per unit area to maximise their profits. Land which is remote from farm steadings is usually less profitable because of the increased costs in time and transport needed to care for animals or cultivate crops. Some will find that they are more profitable by reducing the area they farm and this will increase the availability of land for newcomers to start farming or provide suitable habitats for wildlife.

The removal of Income Taxes and VAT will allow more young people to be gainfully employed on farms, even in remote areas and this will reverse the trend towards rural depopulation. Community buyouts of land in the highlands and islands of Scotland have improved the standard of living but young people are still unable to remain there. Employment taxes and VAT are often the difference between a business being financially viable or failing and it is wrong that the same rates of tax are charged in these places as in more advantageous ones. The total amount of AGR potentially available for collection is sufficient to fund all the necessary functions of government and could provide for improvements in education, healthcare and welfare because it has no inhibitory effects on employment and trade: it stimulates them by optimising the use of land to increase the production of wealth.

**Dr Duncan Pickard is a member of the Scottish Land Revenue Group and is a landowning farmer.**



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