

## Submission

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<b>To:</b>	HM Treasury		
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## NFU Scotland UK Autumn Budget submission

### Executive Summary

NFU Scotland represents over 9,000 Scottish farmers and crofters who produce high-quality food, steward the environment, and underpin rural communities across Scotland. The Autumn Budget 2025 provides a critical opportunity for the UK Government to unlock investment, support resilience, and drive sustainable growth across the agricultural sector. Scottish agriculture faces unprecedented challenges: volatile markets, fragile supply chains, rising costs, and increasing environmental and regulatory pressures.

At the same time, the sector continues to deliver the primary products for Scotland's £16 billion food and drinks sector, which employs over 135,000 people, whilst also delivering an array of public goods by tackling climate change, enhancing biodiversity, and sustaining rural economies. To enable the sector to continue fulfilling these vital roles, NFU Scotland calls on HM Treasury to adopt eight priority actions in the Autumn Budget scheduled for 26 November. These are:

- Deliver a better-targeted approach to Inheritance Tax (IHT) reform.
- Increase and extend the Annual Investment Allowance (AIA).
- Reverse recent changes to National Insurance Contributions (NICs) and allow an exemption for smaller businesses.
- Introduce enhanced capital allowances for low-carbon investment.

- Delay implementation of the Carbon Border Adjustment Mechanism (CBAM).
- Ensure Making Tax Digital works for the farming sector.
- Maintain reduced rates of fuel duty for red diesel used in agricultural production.
- Reconsider the reclassification of Double Cab Pick-Up (DCPUs) trucks.

### **Better-targeted approach to inheritance tax reform**

The current proposals for Agricultural Property Relief (APR) and Business Property Relief (BPR) risk significant and unintended harm to family farms, Scottish agricultural tenancies, and the wider rural economy. NFU Scotland urges HM Treasury to delay implementation of the proposed changes until after April 2026 and to work with the sector to develop alternative approaches that achieve revenue goals without jeopardising the viability of many family farms.

If implemented as currently proposed, these changes could:

- Reduce domestic food production, increasing inflationary pressures and undermining food security.
- Discourage investment, leading to long-term contraction in agricultural output and rural economic decline.
- Exacerbate rural depopulation and inequality between Scottish and English tenants.
- Continue to create significant mental and financial stress among farming families.

A recent report from the Centre for the Analysis of Taxation (CenTax) - the first independent, third-party analysis using HMRC data - demonstrates that the current IHT proposals disproportionately affect working family farms while providing greater benefits to non-farming estates. It highlights that alternative models could raise equivalent or greater tax revenue while maintaining fairness and continuity for genuine farming businesses.

NFU Scotland therefore calls on HM Treasury to:

- Delay the proposed reforms until a fairer alternative can be developed.
- Ensure consistency in treatment between Scottish tenancies and those in England and Wales.
- Reject any cap on lifetime gifts qualifying for APR/BPR, as this would stifle succession and business continuity.

- Retain the Capital Gains Tax (CGT) uplift on death to prevent forced asset sales and farm fragmentation.

### **Increase and extend the Annual Investment Allowance (AIA)**

Capital allowances are critical to incentivising investment in working capital and equipment, as well as longer-term investment in buildings and structures. Such allowances must enable opportunities for all agricultural businesses to invest.

To drive on-farm investment, productivity, and sustainability, NFU Scotland is asking that the AIA be increased to £5 million and extended to cover assets currently eligible only for the Structures and Buildings Allowance (SBA). At present, farm buildings and fixed structures qualify for tax relief at just 3 per cent per annum - a rate that fails to reflect the actual lifespan of these assets or to incentivise capital investment.

Enhanced allowances would:

- Encourage modernisation and efficiency gains.
- Support compliance with environmental and animal welfare standards.
- Strengthen resilience to market volatility and climate impacts.

Other countries already take this approach - for example, Ireland allows farm buildings to be written off over seven years, and the USA offers 100 per cent relief on production-related buildings over five years. The UK should adopt a similarly competitive framework. Moreover, for many in Scotland who aspire to get on the farming ladder, or develop, diversify and grow their business, some constraints on their ability to do so could often be removed through changes in reserved fiscal matters relating to land and capital. It is critical the UK Treasury also reviews a range of relevant taxation issues to enable establishment, investment, and growth opportunities for agricultural businesses across the UK.

Tax and fiscal incentives can and should be explicitly used to encourage the letting of land to new agricultural businesses and ensure that the fledgling businesses that can follow are afforded every opportunity to thrive.

## **Reverse changes to National Insurance Contributions (NICs)**

Recent increases to employers' NICs have imposed significant additional cost pressures for a number of agricultural businesses and throughout the food supply chain.

Unlike the costs faced by food retailers, these additional NIC costs cannot be passed on to consumers or offset through higher output prices by agricultural businesses. The additional NIC costs are further eroding already narrow margins and threatening the viability of many agricultural businesses.

NFU Scotland calls on HM Treasury to reverse these changes and to recognise the unique cost structures of primary producers who form the foundations of national food security and rural employment. At very least, HM Treasury should safeguard the disproportionate costs and impacts of increased NICs on smaller businesses employing relatively few but, in an agricultural context, contribute significantly to the socio-economic prosperity of rural areas.

NFU Scotland considers there is a cast iron case for introducing a derogation or exemption from the increased elements of NICs for all businesses employing a staff count below a given threshold. Such an approach would reflect the needs of rural economies and would encourage investment in rural communities, not just within the agricultural sector.

## **Introduce enhanced Capital Allowances for decarbonisation**

To accelerate progress toward the UK's (and Scotland's) net zero targets, the capital allowance system should be enhanced to incentivise low-carbon investments in agricultural plant, machinery, buildings, and infrastructure.

Enhanced allowances would support agricultural businesses investing in:

- Renewable energy systems (e.g. solar, wind, anaerobic digestion, and bioenergy).
- Energy efficiency improvements in farm buildings.
- Low-carbon machinery and precision technology.

This measure should apply to both incorporated and unincorporated businesses, ensuring all farming enterprises can participate in the transition to a low-carbon economy.

### **Delay implementation of Carbon Border Adjustment Mechanism (CBAM)**

The implementation of the UK CBAM will increase the cost of fertiliser, which is one of the primary costs of production for many of the UK's farmers and growers.

For the cereals, arable and grassland sectors of UK and Scottish agriculture this will put further pressure on farm businesses struggling to remain viable.

### **Ensure Making Tax Digital works for farm businesses**

NFU Scotland supports digitalisation but stresses that the Making Tax Digital for Income Tax framework, due to begin in April 2026, must reflect the realities of agricultural production cycles and diversified farm structures – as well as some rural connectivity challenges in many parts of Scotland.

Farming businesses often operate multiple income streams and experience seasonal and long-cycle cash flows. Requiring separate quarterly submissions for each trading or property business would impose a disproportionate administrative burden.

NFU Scotland recommends that diversified farm businesses be permitted to mirror the VAT reporting model, providing a single quarterly update rather than multiple separate submissions.

### **Maintain reduced fuel duty rates for red diesel**

Agriculture remains heavily dependent on red diesel for essential on-farm operations.

Maintaining the current reduced duty rate is vital to safeguard farm incomes, maintain competitiveness, and prevent further food price inflation. Removing this relief would disproportionately affect many rural businesses, not just agricultural businesses, already facing tight margins and high input costs.

### **Reconsider the reclassification of Double Cab Pick-Up trucks**

Double Cab Pick-Ups (DCPUs) are essential vehicles for agricultural operations and should continue to be treated as commercial vehicles for income tax, VAT, and road tax purposes. Their blanket reclassification as “cars” for income tax purposes introduces unnecessary complexity and penalises legitimate business use.

For many living and working in rural Scotland, DCPUs are not an optional lifestyle choice, they are essential. NFU Scotland urges HM Treasury to reverse this reclassification and return to the previous system, which better reflects the practical use of these vehicles in rural industries, and the rural economies and communities they underpin.

## **Conclusion**

Agriculture is a cornerstone of the UK's food system, environmental delivery, and rural economy. In Scotland, that takes on even greater significance.

The eight measures outlined in this submission would strengthen investment, resilience, and sustainability across the sector - delivering tangible economic, social, and environmental benefits. Ultimately, the changes proposed by NFU Scotland for the UK Government's Budget on 26 November would deliver growth – for Scotland and the UK alike. NFU Scotland is ready to work collaboratively with HM Treasury, other UK Government departments, and the Scottish Government to develop these proposals further.

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