Expect final details of exit payments 'any day now'

Government plans to offer lump sum retirement payments have caused some concern within farming circles, but land agent and surveyor expert Hugh Townsend says the scheme may be worth another look

FOLLOWING an emotive build-up, when proposed details for consultation of the BPS retirement lump sum were finally released last summer the response was rather subdued.

Instead of the large pay-out many were expecting, the actual figure was to be a 'mere' 2.35% of the average BPS claim from 2018 to 2020. Moreover, there was a possible mechanism for reducing this if any entitlements had been transferred or sold.

Following these revelations, discussion of the subject ceased almost entirely among professional advisers and the farming press. The conclusion was that th scheme might only be of any relevance for those who happen to be planning to retire anyway at the exact time the scheme comes into effect, and there was not enough in it to influence decision-making.

Is this really correct, though?

For example, let us consider a 'small family farm'. It is currently presided over by an older family member who is thinking about stepping back and handing the reins to the younger generation, but doesn't know whether to do so right now, or to stick it out for another few years. The farm includes approximately 300 acres of BPS eligible land, so 120 entitlements-worth of BPS claim. First, what payments would they get if they stayed on:

1. Based on current calculations, they would receive £187/entitlement in 2022 and £152/entitlement in 2023 (the remainder of the BPS in its current form). That makes £339 per entitlement in total, which comes to £40,680; plus;

2. Four years of delinked payments, which in our estimations (which are really educated guesswork after 2024, as the Government has released no detail even subject to consultation about these years) make this worth £292 per entitlement. In total this comes to £35,040 over the four years.

This means without the retirement lump sum, on our estimations, these final six years of so-called 'direct payments' are worth £75,720 to the farm. Now suppose instead that the older family member, or whoever is in charge decides to take the lump sum at 2.35% of their average claim from 2018-2020. On this area of land, that would be worth £65,593. In other words, most of the farm's BPS payment for the six years in a single sum, providing much greater flexibility for reinvestment.

Because of how the reference periods are likely to work the successors would lose their claims for delinkage. However, they can still buy entitlements to claim in 2022 and 2023. This means the business also still gets the £40,680 remaining BPS payment, but they need to deduct the price of 120 new non-SDA entitlements, which are currently estimated to trade at £150 per unit. Deducting this £18,000 cost still leaves £22,680 of remaining BPS payments.

In total, this means that from claiming the retirement lump sum, the hypothetical farm's total 'direct payment' is now £88,273, a £12,553 increase in funds. When we combine this with the fact that the £65,768 would be received as a single lump for immediate use, the business case for taking the retirement lump sum could be more interesting than first thought.

There are caveats, of course. The 'retiree' must genuinely cut ties to the business. This means leaving any partnership and passing on legal control of assets. They would, we think, still be able to help on the farm with day-to-day activities (although this is very much unconfirmed), but there would need to be a real surrender of control.

There would also be a legal cost to handing over the business but this cost is inevitable and is going to apply at some point regardless, and perhaps it is better dealt with using the monies available from the lump sum to fund this. The tax implications will also need to be considered.

We must also remember that for now all of this is subject to consultation, so everything we have just discussed may be rendered moot at Defra's next release. We are also talking about a quite specific size of farm. If the farm is too small, the complexity of the exercise compared to the monies involved is likely to make it less commercial. If the farm is too large, the £100,000 cap comes into place and the lost delinkage may outstrip earnings from the lump sum.

However, looking in detail at the figures, for farms of the right size, in a specific position where a retirement possibility is being considered but not currently on the table, it might be worth taking another look at the lump sum when the final details are announced any day now.

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> The Government believes that offering a lump sum will help farmers to retire or leave the industry to do so in a planned and managed way

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