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Farmers need answers before deciding on lump-sum scheme

Isabel Davies 13 April 2022

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The Lump Sum Exit Scheme is open for applications, but advisers warn that key questions need to be answered by the Rural Payments Agency (RPA) before the closure of the 2022 entitlement trading window on 16 May.

Application forms for the scheme, designed to allow farmers to leave the industry in a managed way with a one-off payment from the government, are now available along with updated guidance notes.

However, Hugh Townsend of Townsend Chartered Surveyors has warned there are still questions about how the scheme will operate – particularly on the potential impact of anyone buying or selling entitlements this year.

These must be answered urgently so that anyone needing to sort the balance of their entitlements by the 16 May deadline has time to do so, he said.

See also: Defra's lump sum exit scheme opens for retiring farmers

The total payment an individual will be eligible to receive under the scheme will be capped at £99,875.

Defra also confirmed in February that if farmers do not hand back as many entitlements as were used in their last claim during the reference period (2019-21), the value of the payment will be reduced accordingly.

Calculation method

In the event of a claim, which is subject to both the payment cap and reductions because fewer entitlements are surrendered, the order in which they are applied will also be important, said Mr Townsend.

For example, a farmer with 202ha of non-severely disadvantaged area (SDA) land will be eligible for a lump-sum payment, before the cap is applied, of about £111,000, which is £11,125 more than the cap will allow.

However, if they were only to hand back 180 of the 202 entitlements they used on their 2021 claim, perhaps because they had given up a tenancy, with the entitlements returned to the landlord, this is 89% of the amount used (claimed), so the lump-sum claim will be reduced by 11%.

If this reduction was to be applied before the cap, then it will take the claim to £98,790, which is just below the maximum allowed.

However, Mr Townsend understands that the cap will be applied first, which means the £111,000 will be reduced to £97,875, then by a further 11% to £88,889.

“This highlights how prospective retirees should ensure they can surrender as many entitlements as were used in their last claim during the reference period, even if they are above the £99,875 threshold,” said Mr Townsend.

"They may need to buy in more entitlements to enable this, although we are waiting for confirmation on how cases like this will be treated and whether it will affect the way they do the payment calculation."

Other outstanding queries include whether farmers who want to apply for the lump-sum scheme can sell their entitlements for the 2022 claim, buying in new entitlements in 2023 to replace them, or lease them out for one year and then surrender them in 2023 when they come back in hand. Clarification from the RPA is awaited on this point.

Mr Townsend warned that leasing out entitlements this year will lead to a reduction in the lump sum received.

The closing date for applications to the scheme is 30 September 2022.

Partnership issues

The scheme is less rigid than originally envisaged for farming partnerships and companies.

Partnership applicants need to apply to the Lump Sum Exit Scheme in the name of the partnership, as with the Basic Payment Scheme (BPS), says the Tenant Farmers Association.

If only some members of a partnership or limited company want to leave farming, the partnership or limited company can still apply for the lump sum if partners with 50% or more shares in the partnership profits leave the partnership, or shareholders with 50% or more of the equity share capital in a company sell (or gift) their shares.

The partners or shareholders who are leaving the business then have to transfer agricultural land held in their name, or partly in their name.

They can transfer the land to the remaining members of the business, who can continue farming and apply to new schemes but will not be eligible for any further BPS payment.

Capital gains tax on lump-sum payments

Defra had previously confirmed the retirement lump sum will be taxed as a capital receipt under the capital gains tax (CGT) regime.

Andrew Robinson, head of agriculture with accountant Armstrong Watson, said in calculating the taxable gain on the lump-sum payment and surrender of the entitlements, the cost of the entitlements will have to be established.

“Obviously, many entitlements have no cost as they were part of the original allocation from RPA, but many farmers have bought entitlements over the years at a cost.

“The cost of buying these entitlements will be offset against the lump-sum payment as the base cost, and the net gain taxed at appropriate capital gains tax rate. So, the loss on the entitlements, which is effectively the original purchase price, can be offset.”

CGT is likely to be charged at 10% or 20%, with the rate depending on a taxpayer’s income. However, if an applicant qualifies for business asset disposal relief from CGT on the lump-sum payment, this would bring the rate down to 10%.