

Advice on the delinked payment transfer market

There is a one-off opportunity to sell or otherwise transfer the right to a delinked payment. Isabel Davies looks at how this works

Farmers in England who want to transfer or sell any of their delinked payment reference data have only a short window in which to do so.

The window for transfers opened on 15 February and closes on 10 May 2024. Anyone buying reference data must be someone who has made a 2023 claim.

Alasdair Squires, an associate with broker Townsend Chartered Surveyors, says buying interest is so far being driven by smaller claimants wanting to top up the value of what they receive over the next four years.

He is currently getting calls from farmers who are interested in buying enough reference data to get them up to the £30,000 band, which is where the higher reductions to payments start to apply. "While we are not talking massive returns [from buying the reference data], it is probably better than if you put it into a high-interest savings account, so is something that a lot of people are interested in."

While basic transfers between unconnected buyers and sellers on the Rural Payments Agency (RPA) system are fairly straightforward, Alasdair suggests that those wanting to sell should contact a broker as soon as possible, or

find a buyer independently. "It's not the transaction that takes time, it's the time it takes to match up the buyers and sellers," he says.

More sellers than buyers

"At present, there are more sellers than buyers and the margins are quite fine." Alasdair says people are currently paying 20p on the pound, based on the total reference data, rather than the reference "amount", which is calculated as the average across the reference period and on which delinked BPS payments will be made.

For example, if Farmer A has total reference data of £30,000 to sell, this equates to a reference amount of £10,000 a year across the three reference years of 2020, 2021 and 2022. At the purchase rate of 20p in the pound, Farmer B would need to pay £6,000 (20% of £30,000) for the right to receive Farmer A's delinked payment until the end of the transition period in 2027. "In 2024, we know the reduction is 50% on claims

up to £30,000, so the buyer in this example should get £5,000 back in the first year.

"Although we don't have a firm figure for the reductions for the next few years, so there is no guarantee, Defra would be incredibly unlikely to do away with it all. So, we roughly think people will be making back £1.20 for every £1 of averaged reference data they buy. This is regarded as trading income and subject to tax."

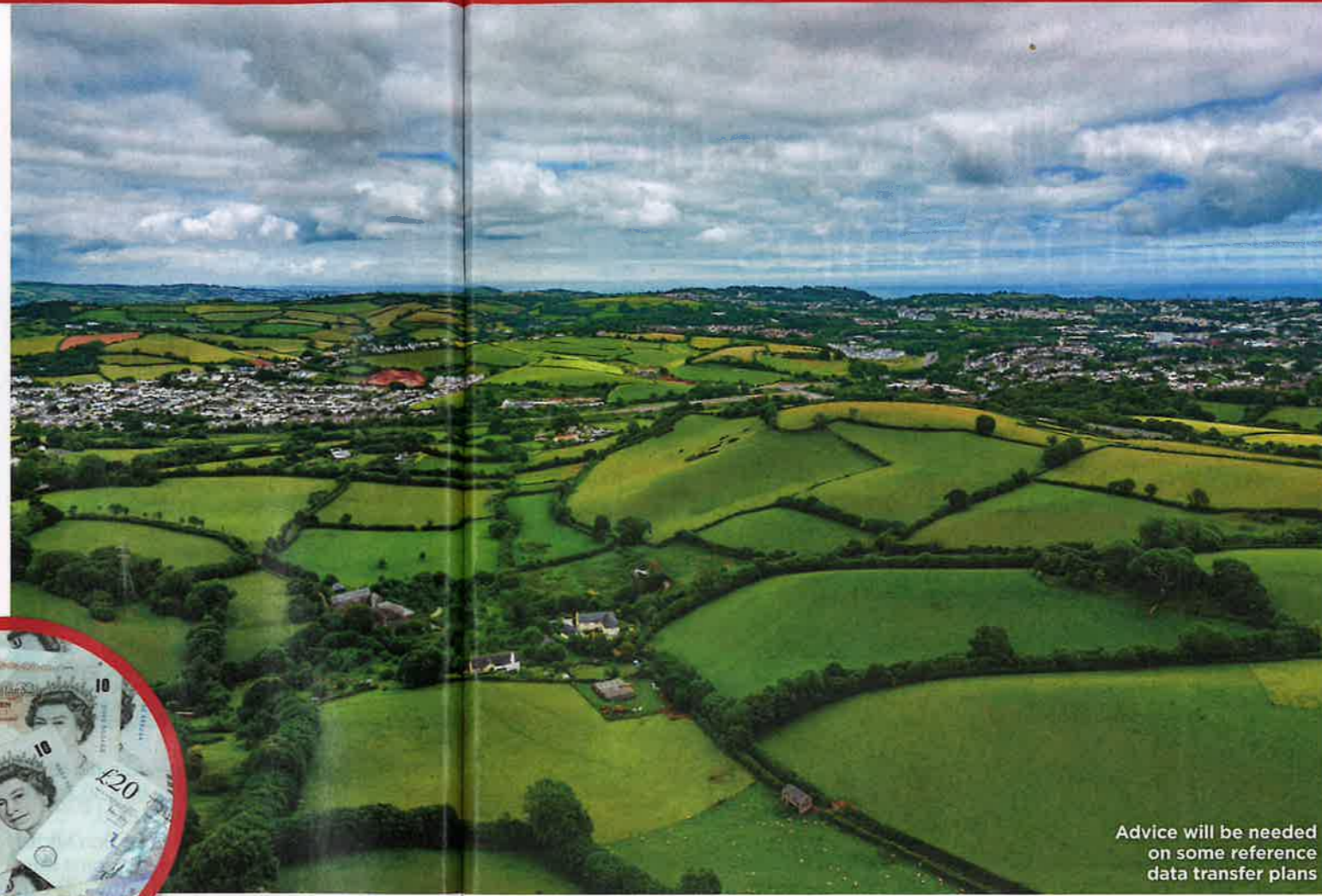
There has been no clarification on how the income from the sale of reference data will be treated for tax. However, advisers expect that it would follow the tax treatment of Basic Payment Scheme (BPS) entitlement sales income, which was subject to capital gains tax.

Potential vendors who did not make a BPS claim in 2023

There may be holders of BPS reference data who are not entitled to receive the delinked payments because they did not make a BPS claim in 2023, but who are not aware they can sell their reference data, says Alasdair.

Opportunity for cash up front

Julie Butler of accountant Butler & Co says farmers should be aware that this transfer period is the only opportunity they will have to transfer delinked payment reference data,



Advice will be needed on some reference data transfer plans

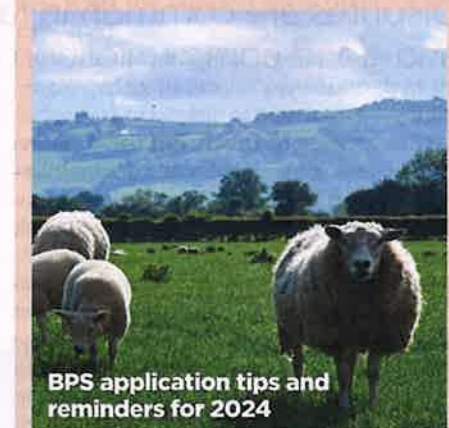
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Delinked payments: Advice on transfers, land sales and FBTs



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REDUCING CAPITAL GAINS AFTER LOSS OF BPS

BPS entitlements lost all their value after the May 2023 BPS claim date. For those who bought, inherited or were gifted BPS entitlements, this creates a capital loss which can be offset against other capital gains.

The loss should be claimed on the 2023-24 tax return, even if no capital gains are anticipated. There is no time limit for using the loss, but it is best to establish the loss and make the claim so that it is not "wasted" or forgotten. Read more detail on this at fwi.co.uk/bps-value-cgt-loss

other than in circumstances of inherited land. "Most people will do nothing and just collect their delinked payment, but there is a small minority who will want or need to sell it and they only have a short window of opportunity to do so."

There might be some farmers who decide they want to sell their right to the delinked payment because they need the cashflow up front, rather than receiving the delinked payments through until 2027, or who have a specific investment in mind and don't want

to ask the bank for a loan, she adds. "This might be a source of discounted cash for some people. I am not necessarily advising it as there will be some who say it doesn't make financial sense, but there will be others who say grab it."

"It is important people understand the different options available to them and the approaches people take need to be tailor-made." There are also particular circumstances where it makes sense to do this. For example, where a farm, trading as a limited company, has been sold after the death of the farmer because they have concerns over economic viability in the current farming climate.

If the business made a BPS claim in 2023, it would be eligible to receive the delinked payment but would need to keep the limited company going to bank the money. "The family members would be faced with the choice of keeping the limited company going so they could receive the delinked payment each year or selling the reference data to realise approximately 50% of the value of the payments due."

Julie says an alternative idea might be to transfer the data to an eligible intermediary, with an agreement that they would then pass back the full income. "Exactly how you would do that legally and in terms of tax would be difficult, but in theory it would preserve the full amount of payment." ■