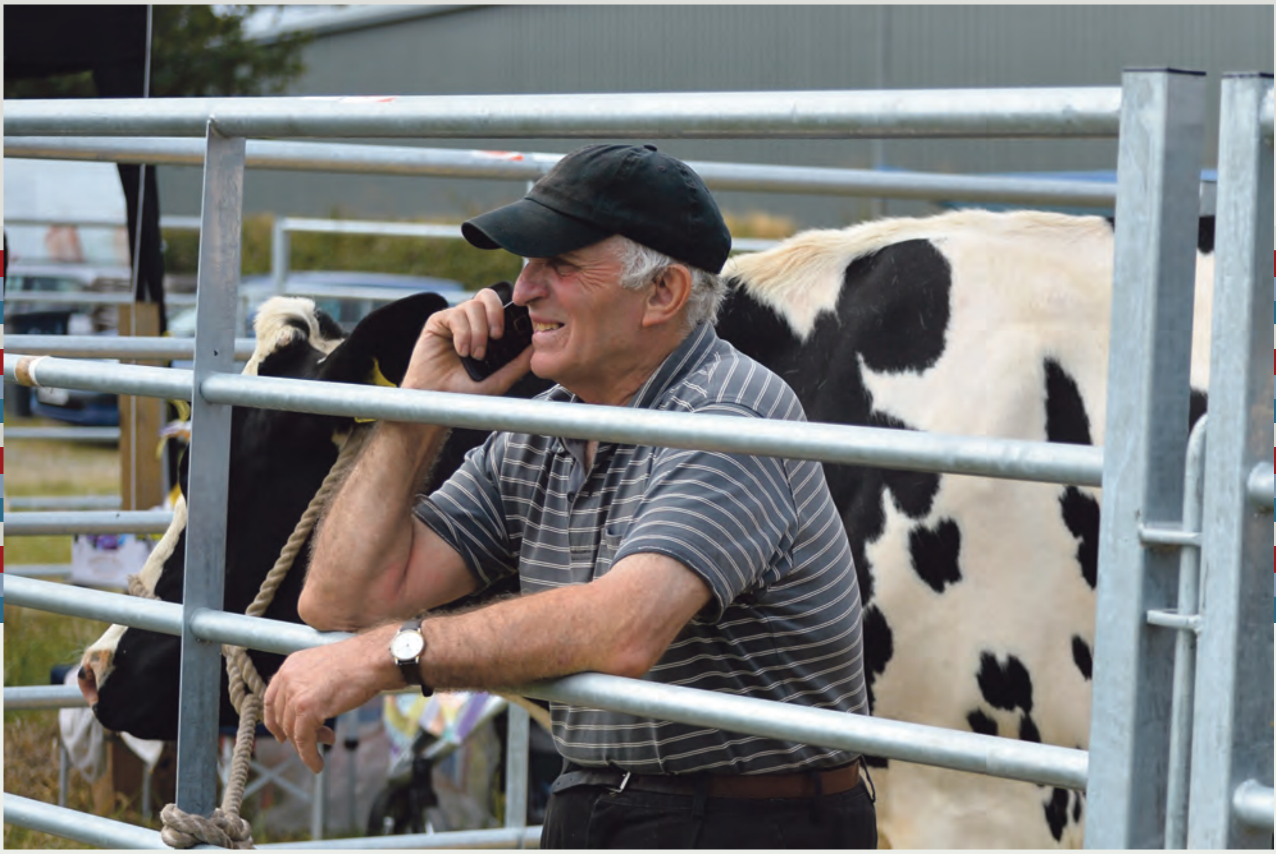
FG INSIGHT

INTELLIGENCE GUIDE: RETIREMENT



YOUR GUIDE TO

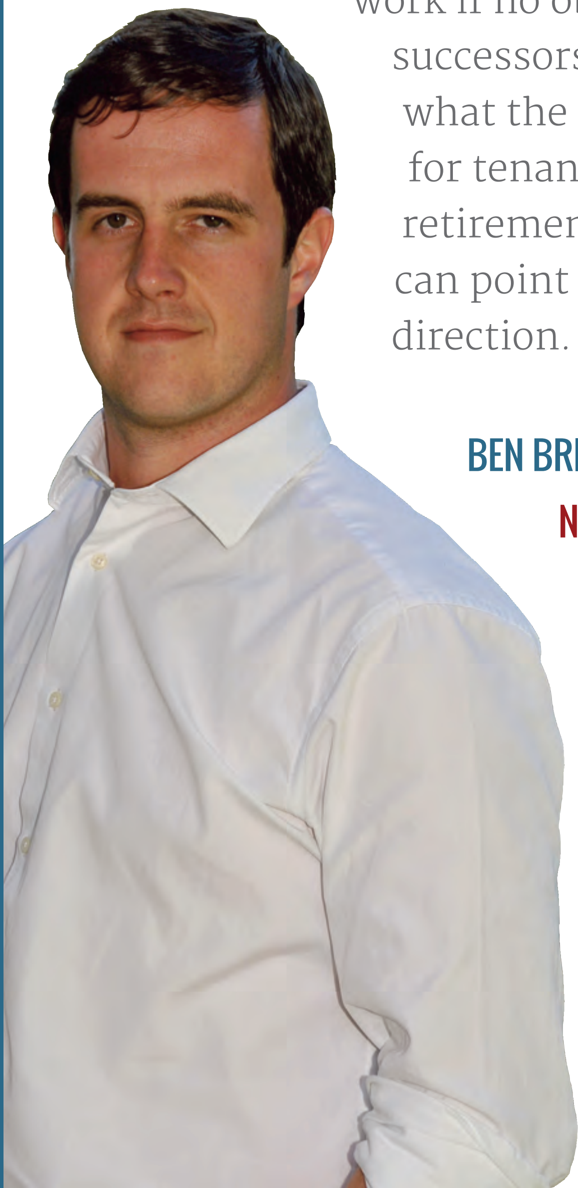
Retirement planning and how not working every day does not mean you have to leave the farm you have worked hard to build up

INTRODUCTION

The biggest barrier to retirement is often the fear factor associated with not working every day on the farm you have worked hard to establish.

But there does not need to be such concerns, as we explore in this expert guide to retirement.

Whether it is planning your housing needs, how to step back from physical work if no obvious successors are in place, or what the implications are for tenants approaching retirement, this guide can point you in the right direction.



BEN BRIGGS
NEWS AND BUSINESS EDITOR

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THE FEAR FACTOR

Retirement from farming has been back on the political agenda following a report published by the Future of Farming Review Group.

Chaired by David Fursdon, the group suggested one of the biggest barriers to entry for the next generation of farmers was the fact the older generation tended to farm too long in some cases.

As well as tackling issues such as lack of affordable rural housing for retiring farmers to move in to, it also tabled proposals such as the removal of Agricultural Property Relief on inheritance tax after farmers reach the age of 70.

It has, understandably, left some older farmers feeling under pressure to quit an industry they have given their lives to and they are often unaware of what options are open to them even if they do want to slow down.

And this lack of knowledge about available options is something seen by Oundle Wealth Management's Richard Jones.

He said: "For tax reasons, every owner of a privately-run business should have an exit strategy, yet few actually have one."

EXIT STRATEGIES CAN SAVE MONEY LATER

Mr Jones suggested the old adage of farmers focusing more on their stock or their crops often meant they did not give proper consideration to retirement or exiting the industry until a very late stage in their careers.

> FOR TAX REASONS, EVERY OWNER OF A PRIVATELY-RUN BUSINESS SHOULD HAVE AN EXIT STRATEGY, YET FEW ACTUALLY HAVE ONE
>
> Richard Jones

"This is why all owners and businesses need an exit strategy," he said. "This allows the owner or partner to leave the company in the most efficient way possible, consistent with personal and business objectives and with minimal disruption to the long-term stability of the business.

STRATEGY DEVELOPMENT

"It is almost always less expensive and less disruptive to develop a strategy over a period of time; a small outlay at the outset can remove risk from the balance sheet, while proper planning can avoid large capital outflows in the future. Tax planning now is likely to be easier and less disruptive than paying tax later."

And Mr Jones believed there were several options open to farmers who did not necessarily want to leave the farm altogether.

He added: “The days of a ‘set-in-stone’ retirement age are long gone and these days early retirement may not be possible or the owner may be enjoying the work so much they want to carry on indefinitely.

SLOWING THE PACE

“Perhaps the owner would like to continue working, but at a slower pace. He or she might possibly want to help someone set up their own business with the benefit of their experience and offer guidance rather than manual labour.”

But he urged farmers to take action sooner rather than later when it came to exploring these options.

OUNDLE WEALTH MANAGEMENT

LESS PHYSICAL WORK

Being of retirement age does not mean you have to step away from farming altogether, an expert has claimed. Howard Hughes, senior consultant at independent rural consultancy firm Harvey Hughes, said there were a number of options to consider.

> WE ARE OFFERING THREE OPTIONS, ALL OF WHICH OFFER THE FARMER REDUCED PHYSICAL INPUT
>
> Howard Hughes

Mr Hughes said: "A question we have been working on recently with a considerable number of clients is to develop a sound exit strategy. It is a question which is always fraught with difficulty as nobody is keen to reach the end of their working life. But it is a situation to which we all have to face at some point in the future.

"We are offering three options [in this article], all of which offer the farmer reduced physical input but maintaining working farmer status and an effective return on their capital."

THE THREE OPTIONS TO CONSIDER ARE:

1 Employ a senior business manager: Provide them with facilities, all off the farm owner's existing capital and reward them for their input.

The two sides would produce the management plan together which the manager would be responsible for implementing, with part of their reward geared to obtaining the required results.

Their costs would reduce profit/cashflow, but would continue to provide the farmer with a return on their capital in excess of the off-farm comparison.

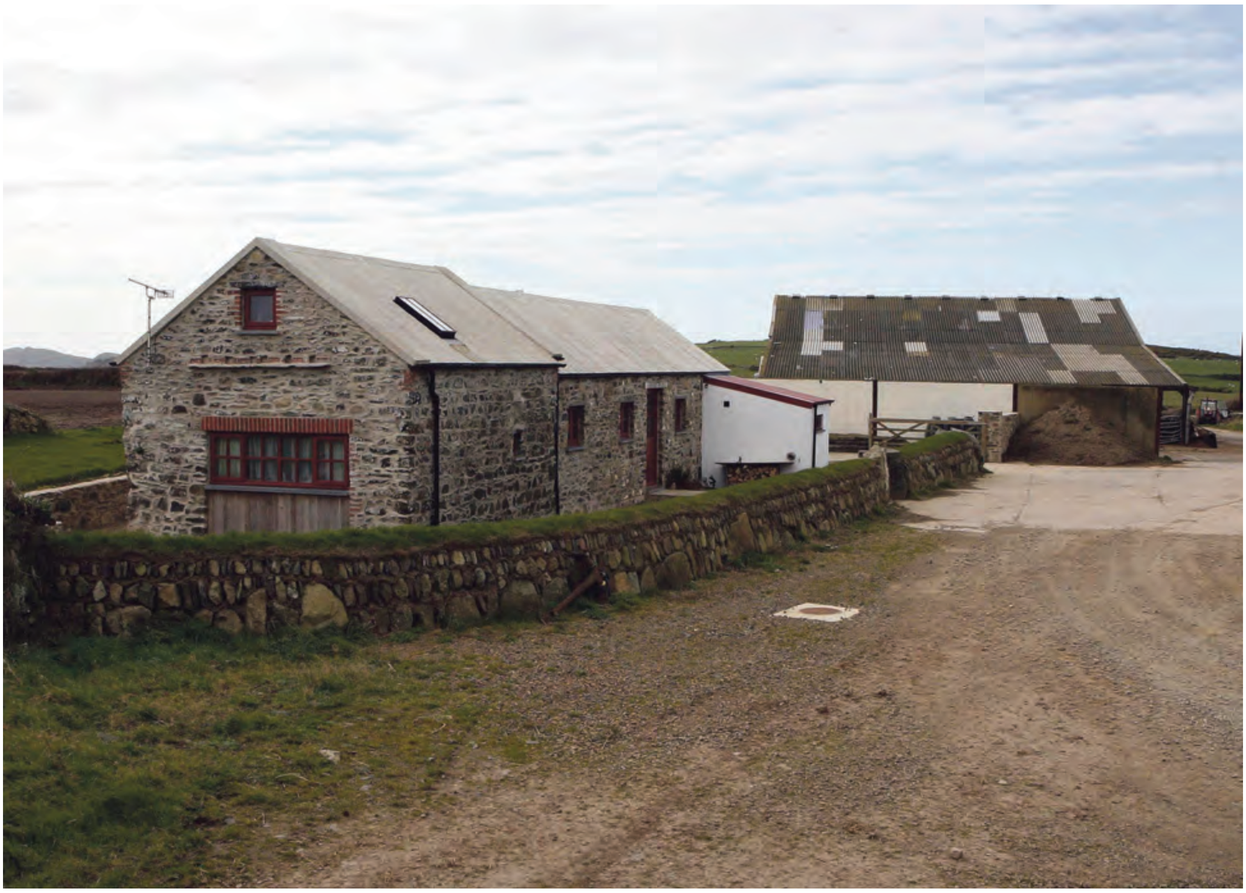
2 Use a contract farming agreement: The existing farmer's business capital would be realised (tax-free on breeding livestock) while they would retain the farm. The contract would provide labour, machinery and livestock, while the farmer looking to slow down would continue to provide land, buildings and milk quota. The operating business would remain in the farmer's name, receiving all support payments and they would retain working farm status.

The farmer is effectively employing contractors to undertake all the farming tasks. There would be quarterly meetings and the farmer would, if required, be entitled to remain in the farmhouse. Capital Gains Tax (CGT) would be avoided and Inheritance Tax (IHT) status retained.

3 Begin share farming with a young farmer: All of the capital would remain with the farm owner, but over time could be transferred.

The young farmer would take control of the daily farming and their reward would be based on successful business management. Over time, the farmer would have reduced their physical input, realised tax efficient capital and maintained at least a 10 per cent return on their own capital. The farm would maintain IHT status and avoid any CGT liability.

TENANT PLANNING



Farm tenancy chiefs said it was vital for those who rent their units to be aware of the potential pitfalls specific to the sector.

George Dunn, chief executive of the Tenant Farmers Association, said in these days of time-limited farm business tenancies, it was even more important for tenant farmers to consider their options beyond the term of their lease.

He stressed the first task was to understand the legal nature of the tenancy agreement you hold.

He said: "Tenants of county council smallholding estates will fall into two camps: those whose tenancies began before July 12, 1984, and have lifetime security of tenure. And there are those whose tenancies began after that date who, in the main, have tenancies which will take them at least until they are 65."

SPOUSES

While the temptation may be for those with lifetime security to farm well into old age, Mr Dunn said they 'should be mindful of the position of spouses should the tenant predecease them'.

This is because husbands or wives of deceased tenants have no security to continue living in the farmhouse beyond a period of between 12 and 24 months from the time of death.

For those council tenants with agreements containing retirement clauses, they are only applicable if the landlord can

> “TENANTS OF COUNTY COUNCIL SMALLHOLDING ESTATES WILL FALL INTO TWO CAMPS
>
> George Dunn

find suitable accommodation for the would-be retiring farmer. As this is often not achievable, the farmer retains the holding.

Mr Dunn therefore urged tenants looking to retire from their holdings to discuss options with their local authority for possible relocation.

And there were similar concerns for tenants in the private sector.

SUCCESSION

Mr Dunn urged those whose tenancy started before July 1984 and had the option of succession up to two further generations to make succession planning a top priority if older members of the family were considering retirement.

“It is crucial to have a clear view of what family members want to achieve,” said Mr Dunn. “If there are cottages available on the holding it might be possible for the older generation to move into these while the next generation takes over the running of the business.

"For those without successors or on lifetime agreements and considering retirement, it is always worth taking bespoke advice about the possibility of being able to agree a level of compensation for an early surrender of the tenancy agreement.

"Often landlords are keen to gain vacant possession of the holding early and to share some of the premium obtained in value with the departing tenant.

"Such compensation would be liable to Capital Gains Tax. However, if it is connected with the cessation of the farm business then Entrepreneurs Relief could reduce the tax bill to just 10 per cent of the package agreed."

HUSBANDS OR WIVES OF DECEASED TENANTS HAVE NO SECURITY TO LIVE IN THE FARMHOUSE AFTER

12-24months

THINKING AHEAD

Working until you drop does not have to be the only option for farmers of retirement age, banking experts have claimed.

Good planning and early discussions about retirement, either with family successors or business partners, is key to avoiding the need to work longer than you might want to.

Both David Hannon, head of agribusiness at Clydesdale and Yorkshire Bank, and Allan Wilkinson, head of agriculture at HSBC, believe getting plans in place early can make retirement smoother.

FREE

Mr Hannon said: “Good succession planning often starts at the kitchen table. It does not cost anything and it is definitely where to begin. Get the whole family, or business partners, around the table and let everyone have their say.

“I do not think farmers are better or worse at this than family-run non-farming businesses.

“However, while a lot of farming sons and daughters get drawn into the practicalities of running the family unit, many do not get involved in the financial side of the venture.

“It would be far better to involve the next generation in the business at an early stage, giving everyone the chance to learn how things operate before the critical day when the senior partner is no longer around.”

Mr Wilkinson said the recent Future of Farming Review' had brought the issue of the industry's next generation into sharp focus. But it does not need to be something which causes panic in the older generation of farmers.

UNUSUAL

He said: "It is unusual to see an industry where so many existing practitioners are keen and contented to operate literally until they drop. Indeed, there is even a tax regime which encourages such practice.

> WHILE A LOT OF FARMING SONS AND DAUGHTERS GET DRAWN INTO THE PRACTICALITIES OF RUNNING THE FARMING UNIT, MANY DO NOT GET INVOLVED IN THE FINANCIAL SIDE OF THE VENTURE
>
> David Hannon

"Discussions about retirement planning rightly focus on how well-placed the business is to cope with the change, as well as making sure everyone in the family is ready for the change and the proposals will be successful."

He added the call for new entrants was an ongoing one but he had been 'heartened' by some of the more ingenious proposals carried out on a number of units.

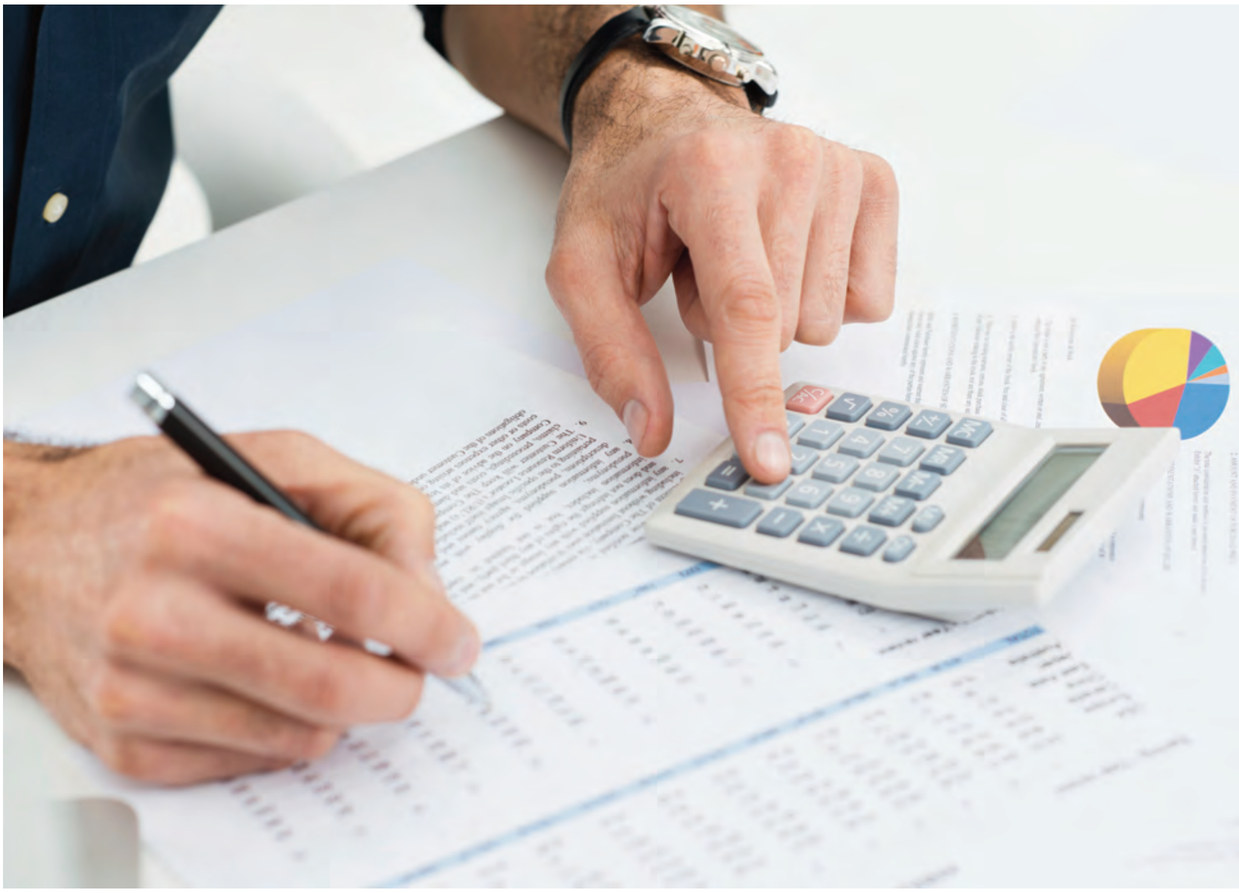
He said: "In one business, the chance to collaborate with a similarly-minded neighbour led to the next generation taking a more hands-on role across two units, with the owner of the second unit becoming a cross between office and paperwork director and chief buyer – as he himself moved towards retirement.

ARRANGEMENT

"This arrangement effectively set plans in motion for both current operators to retire while allowing the only member of the next generation to pool the opportunity and be well placed for the next 10 years at least.

"How many times do we see units struggle without such shared goals?"

TAX IMPLICATIONS



One of the barriers facing farmers when they are considering retirement is fear of the tax implications they face. Melissa Taylor, a solicitor in the rural team at Napthens, said this was the case for many as they weighed up their future later in their careers.

"If a farmer wishes to retire from the business altogether," said Ms Taylor, "they could for example sell the farm, either as a whole or in lots, or they could retain ownership of the farm and rent it out on a Farm Business Tenancy.

GIFT OR LOAN

"If there are successors to the farming enterprise it could be sold or rented to them at the open market value or with an element of gift or loan."

She added if there were no successors in place, a farmer could employ workers to do the more manual roles. If there were successors, these could be employed, but an alternative may be to bring them into a farming partnership.

STAKE

This would provide the potential successor with more of a stake in the business and allow the farmer to step back. Other considerations may be grazing agreements, contract farming agreements or even diversification, said Ms Taylor.

But she warned farmers to be aware of the tax implications.

She said: “There can be Capital Gains Tax (CGT) on any sale or gift of the farm. The availability of entrepreneurs’ relief at 10 per cent instead of the usual 18 per cent and/or 28 per cent tax rate would need to be considered.

HOLDOVER RELIEF

“You should also consider whether holdover relief may be available and whether there are any significant capital losses which could be used to offset the capital gain, such as milk quota.

“The risk of not outliving a gift by seven years would also need to be considered for Inheritance Tax implications.

“The availability of agricultural property relief and business property relief to reduce any inheritance liability should also be considered. In particular, diversification or a sale of the farm would then turn assets which may have relief, into cash which may have no inheritance tax relief.

RETENTION

“Letting out the farm could ensure the retention of agricultural property relief on the farm at death, although care needs to be taken in relation to certain assets such as the farmhouse. A letting can also result in the loss of business property relief.”

Even if a farmer does not want to implement any of the suggestions put forward by Ms Taylor, she said it was vital to plan for the future of the farm after death.

PROVISION

She added: "This may be by the provision of the farming assets to those successors with other assets to the non-farming children.

"If this is not possible, alternative propositions include options to purchase the farm on death, or options to grant farm business tenancies on death."

> "IF THERE ARE SUCCESSORS TO THE FARMING ENTERPRISE, IT COULD BE SOLD OR RENTED TO THEM
>
> **Melissa Taylor**

RURAL HOUSING

One of the biggest barriers facing many farmers who want to retire is where they will live if and when they leave the farm. ‘They will take me off this farm in a box’, is a common statement and one Ian Bell, director of rural housing provider the Addington Fund, often hears across a kitchen table.

The Addington Fund’s strategic rural housing scheme was launched in 2002 following the foot-and-mouth crisis when it became apparent many farming businesses were unsustainable in wake of the disease. With many farming families facing tough choices, it provided them with a lifeline. The remit has since been extended.

Mr Bell said: “I see housing as the biggest barrier to retirement, especially in the tenanted sector.”

LOCATION

A key consideration is location. He said: “The key strength is providing appropriate housing in the right place. A revolving portfolio of properties means a dwelling is purchased to meet the individual needs of a family and when no longer needed, it is sold and the funds used again to meet further needs.

“The right location means where children are involved, they can remain in the catchment area of their current schools, families keep the support of local relatives and friends and for those seeking employment it has proved easier to find work in an area where they are known.

"There is also a positive impact of the local community. Families are very often involved with the primary school, village hall and church, and can continue to contribute to the social fabric of the village."

All this help is, of course, done in complete confidentiality and protects the feelings of farmers and their families.

For those wanting help from Addington there is an application process and, if approved, a financial limit is considered and applicants are asked to look at the availability of a suitable house for sale in their area.

RENT LEVELS

Rent levels are calculated at £350 per calendar month per £100,000 spent – a level which ensures the charity remains sustainable.

Through other funding streams, the charity is able to take into account the needs of older people and whether it may be more desirable to purchase a bungalow rather than a house, which is usually a more expensive option.

A shared equity scheme is also available to help families with some capital, but insufficient to make an outright purchase.

Mr Bell said: "Leaving a farm which has been a family home is never easy. Yet time passes and it is often a short journey from 'you will take me out of here in a box' to 'it is the best idea I ever had'."