

# CAP REFORM

## LEAKED PROPOSALS

Single Payment Scheme subsidies are set to continue in their current form in 2012 and 2013. Thereafter, there will be significant reform. Early proposals have referred to a definition of active farmers, a greening element and capping, and a European Commission document leaked last week contains greater detail of the proposals for the reform of Pillar 1 Direct Payments. It



may be that negotiations in forthcoming months will largely change the shape of the reform, however it is important for agricultural businesses to be aware of the most recent draft proposals as farmers must consider whether they wish to make any changes to their businesses now in order to try to preserve subsidy payments in to the future.

It is suggested that the existing Single Payment entitlements will be replaced with a new Payment Entitlement comprising four elements:-

- a) A basic payment.
- b) Payment for agricultural practices benefiting the climate/environment (the Greening Element).
- c) Payments for farming in naturally constrained areas (LFAs).
- d) A small farmer's payment.

The leaked plans propose that farming businesses who claim more than €150,000 (£132,626) will see their payments capped as follows:-

- 20% reduction - €150,000 - €200,000
- 40% reduction - €200,000 - €250,000
- 70% reduction - €250,000 – €300,000
- 100% reduction for amounts in excess of €300,000

Under the proposals, before the amount to be cut is calculated, an amount equal to gross salaries and National Insurance contributions in the previous years is deducted. Therefore, a

farming business with a higher wage bill will have a greater amount of subsidy protected under the proposals.

There are clear anti-avoidance provisions in the document which suggest that, if farm businesses artificially split to try to preserve the impact of proposals, there will be no payment to those farmers. If the decision is taken to change a business, it may be critical to have any business changes in place and working appropriately, before the proposals are published in October 2011. It may however be that capping is negotiated out of the proposals, as has occurred in previous CAP reform negotiations and expensive changes to business structures are unnecessary.

There are however some issues to consider now which may provide protection to the subsidy:

- Consider if there is a real opportunity and benefit to create a new business.
- The proposals suggest that the basic payment will only be made available to active farmers, therefore existing contracting arrangements, share farming arrangements and grasskeeping arrangements should be carefully considered.
- New entitlements will be allocated on the basis of the number of eligible hectares applied for in the first year of the Scheme (2014) and the payment will be calculated by dividing the total budget allocated, which may be around two thirds of that previously available for Single Payment Scheme, by the area applied for. Businesses need to carefully consider what will be their claimed area in 2014.

The leaked document came into circulation last week, but apparently, the information in it is over two months old. The NFU have said they will continue to lobby hard to exclude capping from the reform proposals, as it effectively penalises modern, efficient agriculture.

There will be tax implications and other issues created by restructuring business and therefore very careful consideration should be given to the most appropriate course of action. The CAP reform proposals will formally be made in October and after that, it may be too late to make changes to businesses. Therefore, if you wish to discuss the potential impact on your business, please contact David Bletsoe, Nicola Clayton-Bailey or James Sealy on 01832 732241.