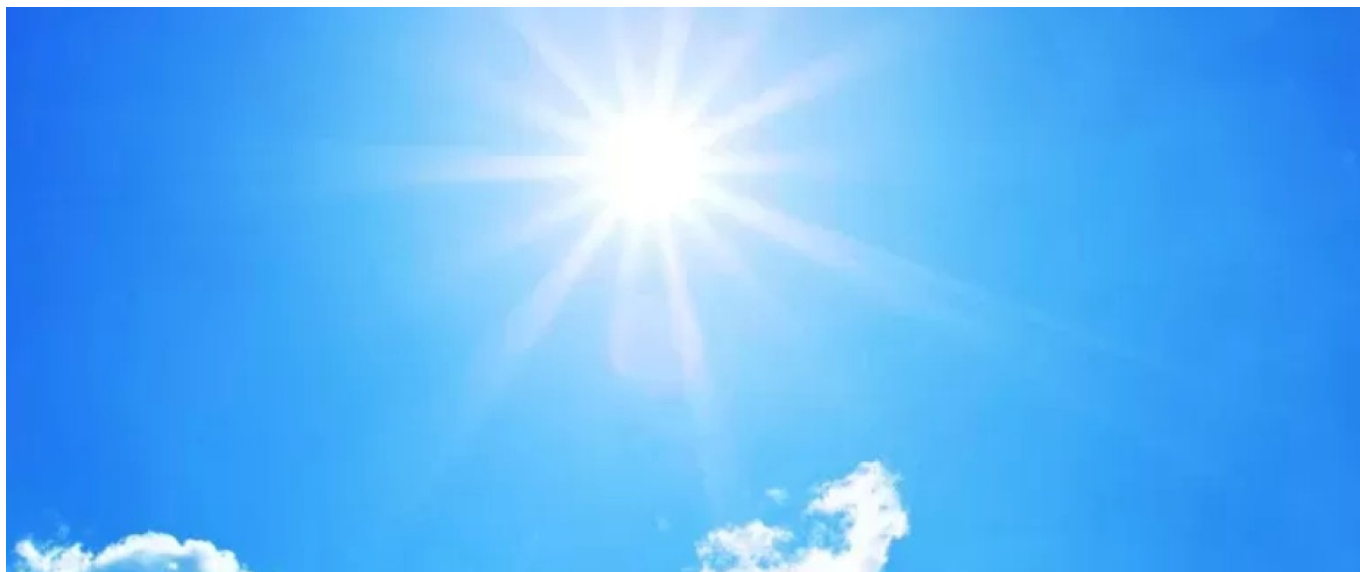


SUCCESSION AND THE FAMILY FARM - A PLAN FOR PERMANENCE



Agribusiness Bulletin

No one goes through the work, risk and sacrifice of running a family business without hoping that it will last. Building value that endures for many farms is as much about continuing the family traditions and as it is about heritage. And yet, when the time comes to pass on the family farming business there can be conflict, confusion and uncertainty.

Is succession planning important?

Without a succession plan in effect – for both planned and unplanned events – how will family farms transition successfully? In this edition of the Agribusiness Bulletin, we take a look at succession planning.

The National Farmers' Federation estimates that there are approximately 134,000 farm businesses in Australia, 99 percent of which are family owned and operated. Our farmers are old, and getting older, with the average age of Australian farmers at 52 years which is 12 years above the national average for other occupations. According to analysis by Deloitte Access Economics on data from the Australian Bureau of Statistics, farmers are five times more likely than the average person to still be working over the age of 65.

There are a number of reasons farmers may work longer including:

- Difficulty relinquishing control
- Ongoing financial reliance on the farm to support retirement
- Difficulty in selecting who amongst the next generation has the capacity, capability and desire to take over
- A smaller pool of younger farmers with the equity or access to capital to buy the neighbours' farm or expand operations
- Competition from other industries in attracting young people to the industry
- The legacy of the owner-operator model for Australian farms – if you own a farm, you are also the farmer

- A run of poor years financially – in some geographies and sectors – has further limited the pool of potential candidates to take over the farm and the ability to fund retirement aspirations of older farmers.

Add to these the family traditions around who should inherit the farm and succession planning often ends up in the 'too hard basket'. Succession planning is difficult at the best of times and it is much more than the transfer of assets - a poorly planned and executed succession plan may not only have financial and taxation implications but can also have a major impact on family relationships.

It is preferable to start the process sooner rather than later – an earlier start may give you more options and time to implement the plan, rather than being forced into a particular outcome at the last minute. It also means that family members will know what to expect when you retire or are unexpectedly able to continue farming.

So what is succession planning?

Succession planning is the development of a plan that will allow a smooth transition of the business and any assets with minimal disruption to the business or, importantly, family relationships.

It is a challenging process - it is hard to talk about subjects like death, serious injury and divorce. Often family members will have different expectations in respect of future ownership of assets and aspirations in respect of involvement in the business. However it is better to understand and address these at the time of formulating the plan rather than have a family member challenge a Will following the death of the matriarch or patriarch.

Additionally, you shouldn't assume that the chosen successor has the ability or drive to take control of the farming business.

Part of the succession planning process should be opening up lines of communication with family members. It can be tough having succession conversations, therefore a family may bring in an independent facilitator to ensure that the conversations stay on track and are not derailed by personal issues.

Key questions

In developing a succession plan, the following key questions could be asked:

- What are the needs and aspirations of each family member? Do they see a future for themselves working on the family farm? If so, what do they see as their roles?
- Does the successor have the necessary skills and experience? If not, what steps need to be taken to develop these skills?
- If there is no natural successor, what steps should be taken to enhance the value and maximise sales proceeds
- If there is more than one successor, should the plan treat them equally or fairly? For example, passing an interest in the family farm to a child not working on the farm may not be fair to a child who was spent many years working on the farm. Should the successor buy out the other family members, and if so, is it possible?
- Do I have enough money to retire on? What will be the source of income after retirement? Will

it include income from the farm, or should I be self-sufficient?

- How will the transfer of assets be funded? Can the business support a higher level of debt, if needed?
- Do the key terms of a buy/sell agreement need to be agreed and documented now, to avoid confusion down the track and in the event that the transfer needs to occur sooner than anticipated?
- Outside the family, what are the key relationships (such as employees, suppliers, financiers and customers) needed to ensure the commercial aspects of the business?
- What is the correct structure to hold assets? Should assets be transferred to new/different structures beforehand?
- If the succession plan requires assets to be sold – now or in the future – then how can the value of those assets be maximised prior to sale? Have the assets been valued and analysed in the same way potential buyers would

Getting the structure right

The tax consequences of transferring assets can be substantial with the potential for stamp duty, income tax and capital gains tax to significantly erode capital available to the continuing farm business and / or the retiring farmer. It is therefore important to involve professionals early in order to develop a tax efficient structure, for example by accessing the small business capital gains tax concessions:

- 15-year exemption provides that an entire capital gain is exempt from tax. Furthermore it allows an opportunity to contribute additional amounts tax free into a superannuation fund
- The 50% active asset reduction, to reduce a taxable gain by 50%. This is in addition to the 50% general capital gains tax discount, reducing the capital gain by a total of 75%
- The retirement exemption which provides that up to \$500,000 is tax free or can be contribute tax free to a superannuation fund.

Getting a plan in place can take time, effort and a need to balance competing interests. However, a successful plan can achieve multiple goals:

- Continuation and growth of the business
- Smooth transition for employees, management, owners and family members
- Minimisation of taxes payable
- Facilitation of retirement for the current leadership generation
- Ability to retain control of the process and decision making.

It should come as no surprise that preserving a business' value for the future can be just as challenging as building that value in the first place. Unfortunately, there are a number of reasons why some business leaders recognise the magnitude of the challenge – and why others, consciously or not, look past it altogether.

To read more articles on Agribusiness and get the latest industry news, [register](#) for our Agribusiness Bulletin.

<https://www2.deloitte.com/au/en/pages/consumer-business/articles/succession-family-farm.html>

