

Steps in Developing a Farm Succession Plan

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Introduction

Succession planning can be defined as a continuous process involving the creation, preservation and ultimately the transfer of wealth to achieve personal, financial and business objectives. Each family farm business is unique. It involves an interaction of people in the strongest of bonds — a family relationship — making decisions over time affecting the farm business.

There are often many steps to the Succession Planning process. This paper provides a basic review of the process. One way to categorize the steps is as follows:

1. Information Gathering on Succession Planning

- Attend an introductory workshop or seminar.
- Read general information (newspaper articles, OMAFRA's Publication 70- Farm Estate Planning, Tax & Estate Planning References, Taxation on the Sale of Farm Business Assets, Managing the Multi-Generational Family Farm, etc.)
- View the "Between Generations" video and participate in activities based on the video.
- Talk about the general issues of succession with family, friends, other farmers, and lenders; ask questions and clarify points.

2. Look at the Viability & Profitability of Your Farm Business

- Complete some financial analysis with statements and ratios/benchmarks (it would be worthwhile to complete a financial analysis, possibly using something like OFMAP).
- The business has to make money.
- If the business is not profitable today, what can be done to make it so in the near future?
- Look seriously at the family living costs. Will there be any drastic changes in family living requirements over the next while (e.g. someone getting married, having children, building a house, etc.)?

3. Define Objectives

- The parents and children must honestly define their separate objectives.
- This step is often very difficult because it deals with some emotional issues.

- The parents and children must think about the issues of fairness, transfer of labour & management, control, estate planning and how to pay taxes.
- Parents need to think about how much money they will need for retirement.
- On the other hand, the children must consider how much they feel they can afford to pay.
- The profitability and viability of the farm business is also an important consideration during this step.

4. Assess Compatibility of Objectives

- The family members need to jointly assess the compatibility of the objectives.
- For example, the children may want to take over the farm tomorrow but the parents want to continue to be involved with the operation indefinitely into the future.
- These issues have to be addressed.

5. Communicate and Discuss issues arising from Step 4. Open the Lines of Communication and Ensure everyone (farming and non-farm children) has the opportunity to make their voice heard.

- It may be appropriate at this point to engage a facilitator or "quarterback" whom understands the succession planning process and can provide some guidance.
- The "quarterback" can also facilitate discussions among family members about their goals, expectations and objectives.
- Also need to discuss issue of fair and equitable treatment of family members.
- This "human dynamic" component is one of the most important steps. Care must be taken to ensure this is handled well.

6. Develop some Options within the Parameters of Profitability and Objectives.

- Need to look at and think about the family farm business's options regarding:
 - ◆ Ownership, purchasing, utilization, renting, gifts, bequests, etc. of assets (e.g. options for control & use of equipment & machinery, land & buildings; control along with productive assets like crops, livestock, quota, etc.).
 - ◆ Business Arrangements:
 - Sole Proprietorship
 - Partnership
 - Corporation
 - Joint Venture
 - Hybrid (mixture of partnership and/or proprietorship and/or corporation for ownership of assets).
 - ◆ If the option is to work together for a few years, then need to look at management roles & responsibilities (how will it be divided); division of labour; along with how will successor skill development take place.

- ◆ If working together, also need to consider options for various forms of farm business agreements:
 - Gross Income Sharing Agreement
 - Net Income Sharing Agreement
 - Rental Agreements or other types of Agreements.
- ◆ Financing Options (both internal and external).
- ◆ Retirement Issues (Where will money for retirement living & expenses come from? What activities will the retiring generation take part in to remain vibrant? Will the retiring generation remain involved in the labour/management/ownership of the family farm business?).
- ◆ Insurance needs (life & disability).
- ◆ A Legal Will.
- ◆ Dispute Resolution mechanisms.
- A good facilitator or "quarterback" can guide you through looking at the various options along with providing some helpful hints and pointers.
- It might be appropriate, at this point, to work with the "quarterback" to develop and assemble a team of professional advisors to help with the development of options.
- The team should include an accountant and a lawyer at the minimum. A complete team could include:
 - An Accountant (with farm tax knowledge)
 - A Lawyer
 - A Lender or Credit Advisor
 - A Business Advisor (sometimes the facilitator but not necessarily)
 - A Financial Planner
 - An Insurance Specialist.
- It is a good idea to have a "team meeting" at the farm kitchen table to talk about goals, objective and expectations along with some options.
- Remember, this is your farm family's succession plan. You need to be control and lead the process.

7. *Review and select the most suitable option--Develop the plan.*

- Based upon family/individual preferences, goals, expectations and objectives, the family needs to make some preliminary decisions on the direction of how succession will take place and start to focus efforts.
- The facilitator/quarterback can help with this process.
- Once the family has a good idea of how they wish to proceed, what they want to achieve and an idea of timeframe, then sit down and pull together the plan.

8. *Have some experts review the plan.*

- The team of expert advisors the family assembled in Step 6 should be contacted to review the plans and provide feedback, advice and comments:
 - An accountant can give valuable advice and suggestions on tax implications of certain strategies and make suggestions on how best to handle specific transactions.
 - A lawyer can review and give advice on the legal ramification of various agreements. They can give direction and guidance on how to ensure the process follows legal rules and regulations
 - A lender will (in most instances) be involved providing finances and financing options regarding how ownership transfer (purchase & transfer of assets) should take place.
 - A financial planner can help with planning both personal and business savings & investment strategies as well as addressing retirement savings issues.
 - An insurance specialist can look at how life, disability and other types of insurance can be utilized as part of the overall plan.
 - The business advisor and/or quarterback (can be one in the same) can have a look at the strategies and advice from the other professionals. He/she can help clarify items if there is any confusion or major changes suggested or needed in the plan.
- Once all of the parts have been reviewed and revised, the family needs to come back together and have a final review & discussion.
 - Ensure all family members (farming and non-farming children) have a chance for final review and comments.
 - This must be an open process.
- Make any further modifications and revisions if needed.

9. *Implement the Plan*

- The best-laid plan can fall apart if they are not implemented.
- Put the plan into action and do what is stated in the plan.
- As the plan is implemented, monitor progress.

10. *Update and Revise if Required*

- As part of the monitoring, there may be issues, concerns and challenges arise. The plan may need to be modified. Flexibility is the key.
- If something needs fine-tuning and updating then go through the appropriate process to do so.
- Remember to give credit where credit is do--enjoy your achievements.