

WEALTH MANAGEMENT

Farming Families Succession Planning

Business Advisors
Chartered Accountants
Wealth Managers

For what matters

How do I make succession easy?

Many farmers ask how do I effectively pass control of my farming assets to the next generation? This is not the right question. The real question is how do I accumulate off farm assets so that I can easily hand the farm over to the next generation and live comfortably in retirement?

I'm sure that you know farming and grazing families who have successively brought on more generations to the farm to the point where the farm cannot support all the families comfortably. Therefore, succession planning is something that farmers must turn their minds to right from the start of their farming careers.

You have the advantage of thinking generationally about money. If you take over the property in your 30s you may have 30 years of farming ahead of you, before handing full control to the next generation. This very long time frame is of huge assistance in succession planning. Right from the start you need to be thinking about building up off farm assets. This could include:

1. **Make maximum contributions** - to your Super fund every year, right from the start. You need to have an attitude of paying yourself first. Unfortunately, we see many farmers get to the end of their work life with less superannuation than their own employees and that's a very sad situation to be in. Don't let this be you. Super is protected from bankruptcy and provides an important source of income at retirement.
2. **Residential property somewhere else** - potentially on the coast, where the property can grow in value over the long term and be rented out or used as a holiday home in the meantime. While you may choose not to retire to this property, you are at least in the residential property market with an appreciating asset over the long term.
3. **Farm Management deposits** - are also a great idea, as they allow you to build up a buffer to ride out the tough times which always occur - drought, flood, bushfires, falling prices, overseas markets, currency, changes to legislation.... If you're not lurching from financial crisis to financial crisis, you can steadily build assets over time to allow for succession.
4. **Building up additional off farm assets** - once you've done all the above, it is time to turn your mind to building up additional off farm assets. This could be a managed fund portfolio or a share portfolio - something that is liquid, but equally that has a long term view and to which you can regularly add funds.

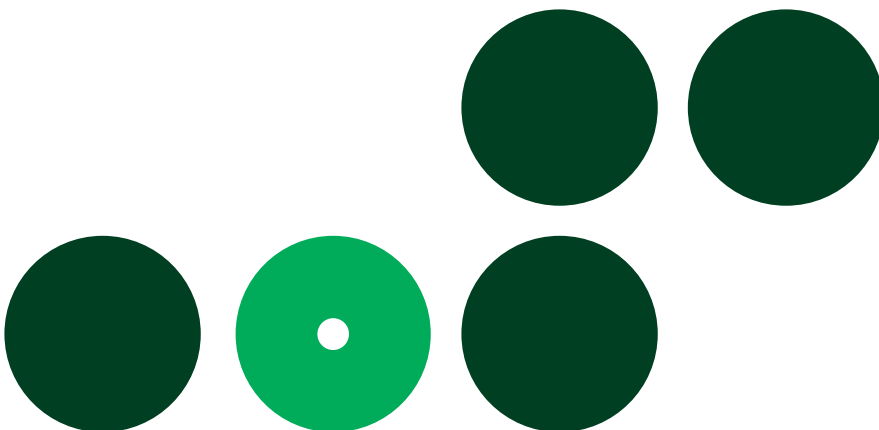
If all these things are done correctly, by the time you're in your 50s or 60s you'll have a debt free property that you can retire to, superannuation that can pay you a very good pension and you will have a non-super portfolio of shares or managed funds to top up your superannuation pension over time. You will have left the farm in good financial shape. This allows you to easily hand the farm to the next generation and walk away, knowing that you're financially secure. This then gives you many options on how you structure the succession.

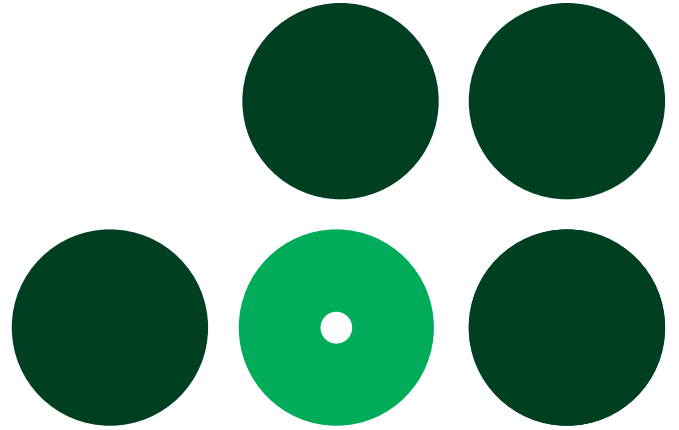
Structuring for success

It is very important to have a long-term view of your structure (carrying on the business of farming) and the structure in which you hold your farming property. This is something that can be easily addressed with your Accountant and Solicitor. You need to have a view of "what's the right structure for me today?" because tax laws do change over time. You also need to have a good understanding of how Stamp Duty rules work. Ensuring that you have the best structure based on how tax and stamp duty rules work under current legislation, is good preparation for succession. If you went into succession phase last week, how would that work? We can facilitate these discussions so that you understand all of the consequences of the succession plan.

Sale or takeover?

The next issue then is to ensure that your next generation can take over your large farming business and run it successfully. We have dealt with many farming families who have successfully come out the other side of their succession plan. My observation is that the most successful, are the families that sent their children away from the farm for a period, to obtain either a trade or a university degree. This gives them something to fall back on, but more importantly exposes them to other ways of doing things and of thinking about issues. If your child is going to someday be running a multimillion-dollar business they need to be prepared for success. As a bonus if the child comes back to the farm after that, they are doing so freely and willingly.





Binding financial agreements

You also need to consider your future son and daughter in laws. This means talking to your children about binding financial agreements from an early age and ensuring that they have the understanding that the family's position is to protect the farm property for future generations. Having Binding Financial Agreements ensures that everyone knows where they stand. Giving certainty to all parties and ensuring all parties will be financially looked after, makes for less conflict and stress.

Pay market wages

From the minute your children are working on the property, pay market wages and superannuation on their behalf. As their experience and knowledge increases, undertake regular market reviews and increase their salaries and job descriptions accordingly. Nothing will wreck your next generations' marriages more quickly than an in-law who perceives unfairness about their economic situation because their spouse (your child) is being unfairly underpaid.

Handing the business over

As you get closer to your succession age, you need to consider how you will hand the farm over. Is that where you work with your next gen on the property for several years to make sure that they can do the job? Again, your own position description and "salary" needs to be matched to your reducing workload and responsibility over time. Having a clear demarcation of when you will step back allows your child to successfully step up and take over. Think about all the issues that annoyed you when you took over from your parents, this will assist you in not making the same mistakes.

Planning for the unexpected

Life insurance

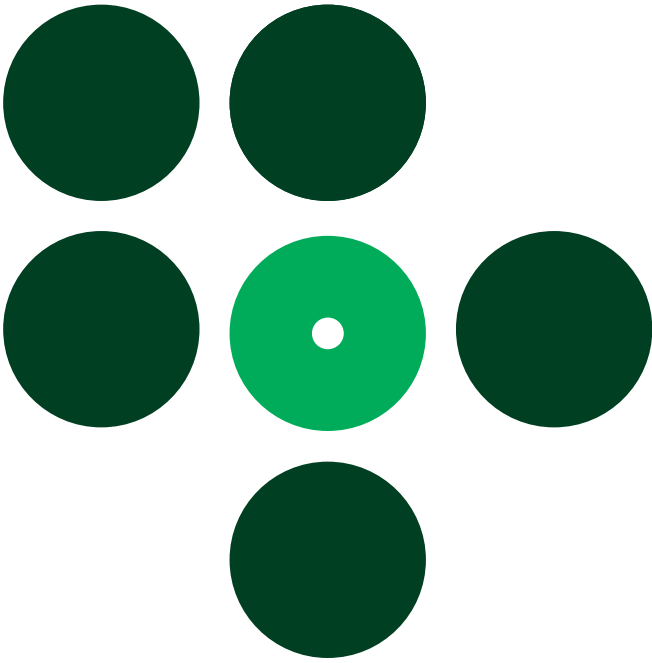
You also need to consider what happens to the succession plans in the event of your unplanned death or incapacity prior to the succession occurring. Life insurance can be used to ensure that if you pass away, the property is not put at risk from creditors and that your family won't have to be a forced seller of the property. Selling the property destroys your family's way of life and those changes can have lifelong impacts on your children and spouse. You want to leave your family in a position to choose whether to continue the farming business or not. You should have regular conversations with your spouse on what you both would want to have happen in this circumstance. Of course, you also need a well draft Will to allow a successful succession in the event of death.

Power of Attorney

Careful consideration also needs to be given to what would happen if you lost capacity. Who would take over the running of the property in that event that your children are not yet old enough to do so? In many cases farming operations are a true partnership between a couple, and it may well be that your spouse can continue to run the farm if you are incapacitated. But this needs some honest conversations between the two of you to ensure that this would be the case. You should ensure that you have a comprehensive Enduring Power of Attorney and possibly Corporate Powers of Attorney to ensure that there are no hitches in the ability of your spouse to take control of both the financial and health decisions that will need to be made.

We can assist you with drawing up a blueprint for succession regardless of where you're at - whether you're starting out your farming business, in the middle of it, or approaching retirement.

Finally, succession planning is all about flexibility. Over the next 30 years there will be changes to society, laws, your family, and your outlook on life. Your succession plan needs to be re-visited at least annually and should be an ongoing conversation with the trusted Advisers in your life.



NEXT STEPS

Please contact our Wealth Management team on the contact details below, if you would like more information on any financial planning or wealth management issues, whether they be simple or complex.

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