AUSTRALIAN FARMING FAMILIES
Succession & Inheritance

Succession, when done well – is not about power, it’s about empowerment

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A REPORT FOR THE AGRICULTURAL INDUSTRY
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Succession involves the transfer of leadership, managerial control and ownership of family and farming assets from one generation to another. An effective succession process will ensure business viability is maintained, family relationships protected, and control passed on smoothly and seamlessly.

This report is intended to examine the current and changing dynamics of succession planning in Australian farming families and the potential impact these changes will have on regional communities and the broader economy. Our survey enabled a close analysis of generational change regarding preferences and attitudes towards succession planning. Results from the study will be used to inform agri-business owners and their children about the succession process and provide recommendations to the agriculture sector to support the handover of farm ownership.

During the succession process, it is often difficult for farmers to reconcile the balance between treating children “fairly,” providing for their future and maintaining a viable business which can lead not only to a reluctance to step into retirement, but to discuss succession at all. This reluctance in combination with the net reduction in young farmers (those under 30) means Australian farmers are getting older. In fact, over half of Australia’s farm owners are over 55 years old with the majority expecting to retire in the next 15 years.1 The potential tide of future sales posed by this outflow presents a risk not just to owners themselves, whose valuations could be hurt in the supply of businesses for sale, but to the broader economy. Businesses where owner retirement looms, will, over the next decade employ 7.9 million people and contribute approximately $500 billion in GDP (PWC, 2016).

Given the scale of projected exits, multiple failed business transitions could have a knock-on effect in the wider economy including increased job displacements, dampening innovation and compromising agricultural productivity. An estimated $400 billion will be needed to support the structural shift in farm ownership over the next 40 years.2 A failure to plan for the growing number of retirees and develop effective strategies for the transition of ownership and management poses a serious risk to the survival of those enterprises looking to hand over assets to the next proprietor, be it family or otherwise.

This study finds a deviation between generations regarding attitudes to succession and inheritance. We found a patriarchal, rural ideology that promotes an absolutist conception of ownership and control still prevails among some rural families, particularly amongst older family members. In contrast, there seems to be a preference by younger farmers for alternative and more collective ownership structures including lease arrangements and company structures signalling that younger generations are searching for newer ways of involving multiple individuals in property inheritance without the subdivision of assets.3

Given the private and often contentious nature of succession, research and discussion on the issue in Australia is limited. Domestic and global food security concerns, an ageing workforce and the ubiquity of family conflict during and after the transfer of ownership and control signal that greater attention is needed to address the issue of inadequate succession planning. This report highlighted a clear demand for information and guidance regarding succession planning from farming families.

Acknowledgements

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We are indebted to the farm families who gave their time to complete the surveys and without whom the study would not have been possible. We are particularly grateful to those who took the time to provide additional comments and suggestions, which allowed...
greater insight into the views of farm families on the issue of farm succession, inheritance, and retirement.

All errors and omissions remain the responsibility of the authors.

Methods Questions in the Farm Succession Survey were developed during 50 face-to-face interviews with Australian farmers. The survey was then emailed to 3000 Australian farm families in the Summer of 2016. A response rate of 10 per cent provided a sample pool of 300 farm families.

Objectives This study seeks to examine inter-generational change in attitudes towards family business ownership and organisation and the effect these changes will have on families, regional communities and the economy; the implications of an ageing agricultural workforce; and the factors affecting decision-making by individuals in the succession process.

Literature Review Studies that have examined the issue of farm succession, inheritance, and retirement have consistently found that the decision to transfer the farm to the next generation is complex and difficult for all involved, given the relative indivisibility of farming assets. This leads to a lack of discussion and adequate planning. Barclay et al (2012) highlight the pressure created by inflated land values in the pursuit of “fair” treatment for all children and difficulty faced by families to maintain a viable business and ensure sufficient funds for an increasingly long and expensive retirement period. Barclay’s study finds succession planning is largely influenced by a rural ideology that imbues values of patriarchy and primogeniture, and that other factors including drought and low commodity prices, government taxes and eligibility requirements for pensions, also impact succession planning.

McAllister and Geno (2004) find that changing circumstances in Australian agriculture require new legal arrangements for landholding and for people who have alternative aspirations for retirement and succession planning. Their findings indicate that different legal structures of property ownership are utilised as legitimate means of protecting farmer values concerned with property, family, and inheritance. Their data shows that younger farmers are attracted to newer forms of property holding and disbursement.

1.1 Major Findings

Succession in Australian farming is under-developed: Published research on succession and estate planning in Australia is limited, particularly in the farming sector. As such, many of the existing methods for transferring assets fail to adequately manage complex family circumstances. Prima facie evidence indicates that succession is not extensively discussed by farm families often resulting in a lack of preparedness for sudden change, which can have significant implications for farm ownership, productivity, and income in the short and long term. A quarter of respondents report that the succession process was traumatic, with a fifth stating there are still unresolved family issues. Respondents stated this was mostly due to a lack of communication, which led to misunderstandings and mistaken expectations. This study found that many succession and estate plans fall apart because farmers possess a limited understanding of the legal and taxation implications of transferring land, income and assets.
Changing preferences for ownership and organisation: Inheritance norms are influenced by the ways individuals and the societies they live in believe and decree that society’s valuables’ will be passed on. Our study found a significant deviation in ownership preference between generations, with the traditional primogeniture model of succession (whereby the estate is passed on to the oldest child) becoming less popular as the older generation passes away. Older generations (those over 55) are more likely to prefer traditional, sole-proprietor models of ownership and control, while younger people are more likely to prefer collective structures. The growing prevalence of flexible ownership models could be due to greater awareness of the relative advantages of such arrangements, particularly as platforms for investment, capital growth and as a way of providing “fairer” treatment of children. As a result, the industry is likely to see various forms of partible/collective inheritance structures as younger generations take over.

Changing preferences for Communication: This study found that younger generations (those under 55) express a desire for open communication and collective decision-making, with three-quarters of respondents believing all family members should be involved in discussions regarding succession, whether they are ‘actively involved’ in the business or not. Only one-fifth of respondents believe only family members with an active role in the business should be included. We also observed a growing willingness within farming communities to engage in public or social discussion about succession planning, retirement and inheritance. Younger generations (those under 55) are more likely to view the farm and farmland as an asset to be managed and sold on the basis of business decision-making. In line with this, many respondents under 45 state a desire for more formalised business reporting, industry benchmarking, and comprehensive financial planning.

Prevalence of distinctive rural ideology: Succession planning in Australia is influenced by a deep-seated, patriarchal ideology among farming families. As a result, the exclusion of women from both management decisions and the inheritance of land is still prevalent in farming families. Many female family members report being discounted from consideration in the succession process or being actively discouraged from considering a career in agriculture. A 2007 study found that only 10% of successors were daughters (Barclay et al, 2007). However, attitudes towards gender are found to be changing with half of responding families reporting no difference in the treatment of males and females in the succession process.

Ageing Workforce and changing patterns of retirement: For the purpose of this study, retirement is defined as the complete departure of an individual from active management of the family business. It was evident in respondents’ comments that factors of viability and low farm incomes mediate the relationship between ideology and succession planning. Our study found most Australian farmers prefer semi-retirement, whereby they remain on-farm, contributing to decision-making and management, often until they die. This leads to a growth in dependence on the farming asset to fund retirement, which can compromise the profitability of the enterprise itself and the livelihood of the successive generation. Where farmers depend on the farm for income in retirement, there is also often a reluctance to transfer responsibility to successors, which can mean that control is not handed over until after death. The implications of an ageing workforce can include reluctance to adopt best practice or use innovative technology, which can also affect business productivity. Many respondents state they would like to be able to support themselves in retirement through the age pension but their legal involvement in the farm business rendered them ineligible. Others plan to support themselves through the sale of farm land and other farm assets.

Education and Off-farm Employment: This study found young successors are deviating from the traditional career path of farming professionals. Respondents are found to be returning to the family farm at a later age (averaging 27 years), with the majority taking a “professional detour” whereby they work off-farm or gain tertiary or trade qualifications before returning. This route is often taken either out of economic necessity, particularly on small farms, or because parents encourage their children to pursue further education and/or alternative employment. Discouragement is likely to be fuelled by the often hard nature of farming life, particularly drought, income volatility, and the stress of consistently high debt levels. This study found that nearly two-thirds of identified successors expect to work off-farm to supplement on-farm income. Respondents state the availability of off-farm employment is a major factor in the decision to return to the family farm.
2.1 Australian Agri-business

The relative decline of mining combined with greater foreign interest in Australian commodities indicates that agriculture is growing in importance. With global demand for food soaring, Australian farmers are well placed to capitalise on demand growth and associated commercial opportunities. A brighter agricultural outlook is likely to impact the number of young successors considering a future in the industry.

“I think we’ll get more kids coming back now. Agriculture is becoming a profitable investment again with rising commodity prices and strong foreign interest – so it’s actually good business.”
– Male, 64, Coonamble

2.2 Dynamics of Australian Farming Families

The number of farmers in Australia stands at 157,000, after declining 40 per cent in the 30 years preceding 2011 (ABS, 2012). This reduction has been driven by improvements in technology, the consolidation of land, and a reduction in young farmers entering the workforce. Half of farm families are couples living by themselves, many of whom are likely to have older children no longer living at home. Of those families with children living at home, almost a third (29 per cent) have three or more children. Rates of divorce have increased significantly in the last thirty years, with one-third of all male farmers living by themselves in 2011 either divorced or separated (ABS, 2012).7 Growth in the likelihood of divorce will augment the importance of comprehensive succession planning to address complex and non-traditional family structures.

2.3 Farm Ownership and Organisation

Australian farms have traditionally been held within simple legal structures, e.g. sole proprietorships or family partnerships,8 however, the prevalence of trust and company structures has increased significantly since 2005 (Lane, ProAgtive, 2016). Growth in the number of medium-sized and large farms has led to a substantial increase in the concentration of output and productive efficiency, with 10 per cent of family farm businesses now producing over 50 per cent of total agricultural output.9 The impact of major droughts, lower agricultural margins, and greater levels of government bureaucracy has created demand for capital as professional farmers seek to expand their farming area to achieve a critical mass and operational efficiencies (ABS, 2012).

2.4 Changes to Agricultural Employment

As agricultural wages rise and margins continue to fall, the demand for contract labour has increased as producers seek short-term or contract employment of specialised services rather than permanent full-time employment. Consistent with this, the number of paid employees per farm has more than doubled since 1985.10 Given falling farm income and the significant correlation between higher education levels and off-farm employment, the number of individuals seeking off-farm and/or part-time employment is increasing rapidly. In 2014, only 23 per cent of Australian farmers derived all of their income from the farm business with average off-farm earnings rising from $15,000 to $33,500 per year.11 While off-farm and part-time employment is traditionally skewed towards women, the number of males with part-time, off-farm jobs is growing significantly.12

Background: Australian Agriculture – The Big Picture
2.5 Higher levels of Education

Modern farm management is technologically intensive and requires complex budgeting and financial planning. As such, farmers are coming to see themselves less as traditional farmers and more as managers with the same skills and responsibilities as other business managers.

This trend has contributed to the proportion of Australian farmers with non-school qualifications more than tripling in the three decades to 2011 (ABS, 2012). Higher levels of education are likely to have important implications both for the succession process and for agricultural productivity. It is reasonable to assume that “increasingly in the future, more complex sustainable management practices will be more easily grasped and integrated into farming systems by those with higher levels of formal education”.

However, falling university enrolment in agricultural courses has led to the loss of the strategic agricultural colleges, faculties being swallowed into university mergers, along with cuts to funding priorities and research staff. The closure of agricultural institutions is particularly worrying given the role they play in connecting individuals from non-agricultural backgrounds to employment in the agricultural sector. To stimulate enrolment and attract funding, the industry needs to focus on re-branding itself to effectively communicate the huge range of opportunities available in the agricultural workforce.

New and alternative forms of training and education need to supplement the loss of tertiary institutions agricultural colleges. These could include weekend courses and the development of online, weekend or on-farm intensive training programs.
Factors Impacting the Nature of Modern Succession

3.1 Changing Preferences for Ownership and Organisation

This report found that traditional values are still pervasive within rural Australia, particularly the relationship of the family to the land, which has a profound impact on the family’s approach to succession and inheritance.

This pervasive and patriarchal ideology emanates from the Anglo-Saxon tradition, promotes a primogeniture model of succession and an absolutist concept of land ownership, which implies that everything has an owner and every owner has total control over the things he or she owns. This has significant implications for the decision-making process during succession and the way in which rural assets are transferred between generations.

Company and collective structures are now a significant part of agri-business ownership with 12.9 per cent of Australian farms in corporate ownership structures and a fifth held in family trusts (Regional Wellbeing Survey, 2015). Younger farmers are adopting different models of farm ownership and control with younger generations favouring more complex, but inherently more collective types of ownership over traditional sole-proprietor models. The growth of collective structures, including companies and trusts reflects contemporary cultural expectations for a “fair” distribution of assets among children. It is possible to view these “collective” forms as providing landholders with a way of anticipating that their children will be involved in “legal ownership structure” if not ownership of farmland, per se. A trust makes provision for both farm and non-farm beneficiaries to claim against the value of farm production while companies provide for shareholders to have a legal but not necessarily a physical or production involvement in the farm’s activities.

“Dad hasn’t involved us in decision-making. I think his attitude is that he worked hard for it, it’s his land, and his cattle, and he will decide what happens to it.” – Female, 45, QLD

Who should be included in Succession Planning?

Australian Farming Families: Succession and Inheritance, 2016

- All family members should be included
- Only family members who are ‘actively involved’ in the business should be included
- Only the current owners should be included

This study found a clear preference by respondents to be involved in succession decisions or at least informed about decisions affecting their future. Two-thirds of respondents feel that all family members should be involved in conversations around succession regardless of whether they plan to return to the business or not. Those that view farm transfer as something they have to cope with in isolation from other family members and without professional advice are concentrated in older age groups (older than 55 years).

Only half of respondents to this study have discussed succession with their family. Given this, it is expected that the development of workable retirement plans is also rare. Those families who have a sophisticated business plan are concentrated in Generation X and Y, signifying their desire to initiate conversations and be involved in the succession process. Seventy eight per cent of respondents view succession planning as an integral part of a broader business strategy. ProAgtile
Succession consultants find families who take a formal approach to planning tend to be younger, while the “builders and boomers” prefer to plan without consultation. In many family cases, the transfer of ownership is not discussed until a major life event, such as the death or injury of a parent and this causes major problems for the development of a workable and accommodating plan.

3.2 Professional Consultation

Given the growing complexity of farm management and formalisation of business structures, young Australian farmers are increasingly required, and willing to, seek professional advice.

“As advisors, we increasingly find younger family members willing to engage with professional experts within the agricultural industry. They like to hear other views and opinions to make a more informed decision. Including an outsider in the process ensures accountability in the family.”
– Anthony Ryan, Chapman Eastway, 2016

Over half (52 per cent) of respondents believe their families should employ professional consultants in the succession planning process whilst a third (33 per cent) do not. Those in the 15-45 year age group are more willing to employ professional succession consulting services than any other age group while many older respondents believe succession planning should be done without external consultation and without involving other family members. The likelihood of engaging specialist consultation increases significantly with higher education levels, so the trend is likely to increase. This became evident in the rapid growth of 70 per cent employment in specialist agricultural services in the two decades to 2011.

“I learnt that collaborative work-shopping is much more productive than trying to sort things out on your own. It helps your business, it helps you as a person, and it helps you as a family.”
– Female, 22, Gunnedah

Some respondents expressed concern about the expense of professional consultants, combined with mistrust and doubt over the ability of external parties to effectively handle deep-seated and private family issues.

“A lot of those consultants are a dime a dozen, and you wouldn’t know a good one from a bad one until they’ve ruined everything. We had a succession planner who came in and wanted to sort through years of issues in a day and ended up doing more harm than good. So it’s important to find advisors that you can trust.”
– Male, 63, NSW

Growth in family willingness to engage professional consultation has led to an increase in the number of advisory firms offering succession planning as a service. Given the high stakes associated with rural succession, it is vital only qualified and experienced planners are sought by farming families.

3.3 Lack of Communication

Anecdotally at least most of the issues relating to succession appear to stem from a failure to communicate which leads to tension, uncertainty, and conflict. For example, parents expecting and planning for a child to return to the farm without ever ascertaining whether the child intends to do so. Failure to plan can lead to emotional and financial stress and often, an unexpected reliance upon the sale of farming assets to finance retirement which can compromise farm productivity and farm income for the succeeding generation.
Failure to discuss succession planning may mean avoiding decisions until a major event such as marriage, illness or the death of a family member provokes action. The pressure these circumstances create may not be conducive to calm and considered deliberations, nor effective communication between family members and may result in sub-optimal decisions with the capacity to threaten the viability of the farm business. In addition, the longer discussions are delayed, the fewer options and opportunities are available for the family to take remedial action.

Respondents state the following reasons for lack of communication:
- Fear that doing so will open a ‘can of worms’ and disrupt family harmony;
- Fear they will not be able to develop a workable plan;
- Family culture or habit of non-communication;
- Mistrust of daughters-in-law and siblings-in-law, particularly in the case of divorce;
- Reluctance to face reality of ageing, retirement, and death;
- Fear from children of being perceived as greedy or demanding; and
- Doubt that the next generation is ready or capable of managing the farming asset.

“When the current generation of owners outline to the family what they need for their retirement, it allows all family members to participate in the transition plan in a transparent and open manner, generally leading to a better outcome for all.”
- Anthony Ryan, Chapman Eastway, 2016

3.4 Lack of New Entrants to the Agricultural Workforce

In 2007, the preferred retirement age for Australian farmers was 70 years, reflecting the tendency of Australian farmers to work beyond the traditional retirement age. In the next ten years, it is predicted that more workers will be leaving the industry than are entering it. A 2014 study by Barr highlighted the primary factors contributing to the ageing population of Australian farmers. These included the falling number of farms due to farm aggregation, leaving fewer opportunities for younger people to enter agriculture; a fall in the recruitment of the young farmers (under 25 years); lower rate of exit from farming amongst farmers aged over 65; and lower farming incomes relative to corporate industries.

The low rate of new entrants to the industry is partly explained by the cost of buy-in for individuals from non-farming backgrounds and misperceptions about the nature of farming life. In light of this and given the expected outflow of agricultural professionals in the next 15 years, the industry will need to focus on incentives, training and education for new entrants to the agricultural workforce. This could be done by:
- A rebranding of the agriculture industry away from the notions of antiquity to reflect the technologically innovative and economically significant nature of modern-day farming;
- The development of alternative options for potential entrants who are financially deterred by the cost of buy-in e.g. flexible ownership arrangements including share-farming arrangements, leasing alternatives (Op Co/Prop Co models), rural finance lending policies, and stamp duty concessions for first farmland purchases; and
- The creation of opportunities for connectivity, skills development, and networking for younger generations and those employed in non-farm industries.
"Generation X and Y (those born after 1963) often seek to replicate their corporate income while doing a farming role and this is simply not possible. This need for more cash return is often at the expense of owners who rightly should be able to draw a higher return from 30 or 40 years of effort."

– Tim Lane, ProAgtive Pty Ltd, 2016

3.5 Changing Attitudes towards Retirement

Australian Farmers face significant challenges when trying to access sufficient funds for retirement. Sixty five per cent of respondents in the 40-60 year bracket are concerned about financial stability during retirement. Problems associated with lack of financial planning are compounded by the higher cost of living in Australia and increasing life expectancy, with Australian males expected to live to the age of 80.1 years and females to 84.3 years. Many farmers find the options available to fund retirement are limited if they leave planning too late usually because of an under-estimation of the ease of which sufficient funds can be accessed, given tax implications of withdrawing farm income.

There are changing expectations regarding the timing of, and processes for withdrawal from paid employment into retirement in the agriculture industry. Australian farmers’ generally prefer-semi-retirement. Farmers who desire to stay on-farm until they die are concentrated in older age groups (over 65) while those respondents who intend to move-off-farm and leave management to successors (26 per cent) are concentrated in younger age groups. This is important as it signifies a growing willingness to hand over management at an earlier age than previous generations.

The high proportion of families in our study who have not discussed retirement signals that many farmers are not prepared to face the eventuality of ageing and may, therefore have made little or no provision for old age. The status of farming as an occupation where individualism, hard work, and utilitarianism are highly valued means that retirement is often not well regarded and this leads to an unwillingness to talk about the future. ‘After living off a “drawing” for most of their lives, many farmers are averse to the idea of living on a fixed income e.g. living off their pension or from a Self-Managed Super Fund. Because of this, even getting them to define how much money they will need for retirement can be difficult.’ (Lane, ProAgtive Pty Ltd, 2016) Some families note that as family members get older, the potential to develop a workable succession plan is reduced when mental competence is compromised by senility.

“The mentality towards succession planning was, “we’ll do it later, we’ll do it later” and now my grandfather is a little bit too old to get a real sensible outcome so now it’s affecting the enterprise.”

– Male, 28, Moree

Reluctance to retire may be a consequence of more farmers depending on the farm for income during retirement or as a way of deferring Capital Gains Tax (CGT). In such circumstances, the older generation may never relinquish legal control. Often the consequence of this action is a declining business and adaption to the changing global marketplace. This can lead to conflict between generations and potential exit from the farm, as potential successors have been pushed away.

“Those farms where the fathers’ fail to let go, they are being held back, and the new technologies that are out there are not being utilised because it’s not the way it was done. You see the farm kind of start to fall behind the game a bit.”

– Male, 22, Narrabri

Further research is needed to examine why Australian farmers prefer semi-retirement. There is also a clear need for the development of alternative strategies to aid the process of retirement for farmers. These strategies need to take into account the impact of depressed land values, significant farm debt, government taxes and farmer eligibility for pensions.

“A decision to hand on a farm by necessity requires the incumbent owners to plan for their exit in the financial, operational, and management sense. If there is no plan considered until “retirement” is upon them, the options for a good succession without selling the farm are often limited.”

– Tim Lane, ProAgtive, 2016

Falkiner images, 2016
3.6 Distinctive Rural Ideology

Women make up half of the agricultural workforce and represent a large part of the next generation of workers, managers, and decision makers, yet Australia has fallen behind other developed countries in its recognition and support for female farmers. In agriculture, there is still widespread exclusion of women and girls from farm management, financial decision-making, and inheritance of land. In many cases, females are being given no choice but to leave the family business. Several respondents noted the impact of divorce upon farm family partnership and the succession process. As a consequence, daughters-in-law were sometimes viewed with suspicion.

“*The biggest issue in our family is out-dated attitudes, and unrealistic expectations of what passing on down the male line really means.*”
– Female, 40, NSW

However, given the significant lowering of physical requirements of modern-day, tech-intensive farming, the industry is seeing a movement away from traditional conceptions of agriculture as a “man’s game.” Estimates show that women number 40 per cent of farm business partners and 32 per cent of the farms paid workforce. With an increasing number of women from backgrounds with vastly different expectations and perspectives on gender roles, the eventual effect must be to change cultural traditions within farm families.

Females play an important role in managing complex relationships and guiding the succession process, ensuring family harmony, and acting as a conduit for information transmission between siblings and generations.

“*Now, more than ever, it is important to have women involved in all levels of the agricultural sector. This can be achieved by encouraging diversity in rural leadership to make agriculture a more attractive career choice for women and through sponsorship of women who might serve as role models for diversity in decision-making. The industry, community groups, and rural families need to empower women by instilling confidence from an early age, involving females equally in management, decision-making, and financial discussions.*”
– Sean Cortis, Chapman Eastway, 2016

“Few women living on farms today identify with the once traditional role of ‘Farmer’s wife.’ They are increasingly likely to identify as a joint farm manager or as having an occupational life separate from the farm business.”
– Neil Barr, 2002

3.7 Maintaining Economic Viability

Respondents to this study state the primary factor affecting decisions in succession and inheritance is the future economic viability of the farming asset. The past two decades of drought, low commodity prices, and changes in land management have influenced a downward trend in real income for farmers.

“The economic viability of a farm can be compromised when two or more generations rely on income from a business which previously supported one family, without increasing the productivity of the asset or when business owners attempt to accommodate all children by dividing the farm between them. If a business ceases to be financially viable, the whole succession process can be unravelled regardless of the strength of the ownership arrangement.”
– Anthony Ryan, Chapman Eastway, 2016

A true understanding of the businesses numbers is critical, yet it is an area many admit they do not adequately grasp. The management information over a period of years including enterprise analysis, benchmarking, fixed business costs, etc. are all available in any business. Farming families tend to let themselves down by not being across these numbers; they then make sub-optimal decisions, and the consequences are potentially negative for all stakeholders. Accountants, bankers, and other professional advisors to farm families have an opportunity to facilitate better financial comprehension for the collective benefit (Lane, ProAgtive Pty Ltd, 2016).
3.8 The Difficulty of Differentiating between Equal and Fair

This study found that 60 per cent of respondents do not agree with the primogeniture model of farm ownership with 36 per cent of respondents instead preferring the equal distribution of assets among all children. “However, equal distribution of farm assets between farm and non-farm siblings can lead to an eventual sale of the farm given the capital required to operate it; it can also mean a debt level between 20-30 per cent of the land value. Therefore, the ability to have one-half buy out another half or one-third buy out two-thirds, etc. can be unsustainable, and in most cases, lead to financial unviability. If this was the parent’s family view, then the sale of the business in an orderly manner by parents is arguably a better option, but often not the case” (Lane, ProAgtive, 2016).

Being fair was stated as an important priority of farm families. Over half of respondents state they do not expect the distribution of assets to be equal, but fair. 8 per cent of respondents state that all assets should go to the most qualified, experienced child, and some farmers state they would prefer to sell all the assets rather than have to decide.

Preferred Asset Distribution of Australian Farmers

‘Australian Farming Families: Succession and Inheritance’, 2016

Farm equity affects the process of succession when the value of the asset/s appreciate after distribution amongst inheritors or if the value of on-farm assets is growing faster than that of off-farm assets. The reason is that individuals may reassess the relative value of their inheritance and feel they were unfairly treated in the division of assets.

“The reality is, value can only be assessed at a single point in time, and what is “fair” needs to be determined by each individual family. When family members are dealt something without their input or a basis of context, issues and mistrust often arise. Open communication and information underpins the best succession outcomes, allowing sufficient time for delivery of solutions.”

– Tim Lane, ProAgtive Pty Ltd, 2016

“If there is a clear understanding of the reasoning behind the division of assets and the family has had input into the decision and process, families are more likely to accept the outcome, and there is less opportunity for future contestation”

– Anthony Ryan, Chapman Eastway, 2016

Preferred Ownership Structure

‘Australian Farming Families: Succession and Inheritance’, 2016

- Family Set-Up (2 generations contributing)
- Family Company Structure
- Sole-Operator Structure
- Family Partnership
- Corporate Ownership Structure

Prefer a Family Company Model’ where the farm is managed as a commercial business. Preferred ownership is highly dependent on farm size and minimum efficiency.

“Assets should be distributed fairly, but not necessarily equally between children
- Assets should be distributed equally
- Assets should go to the child who contributes the most
- I would rather sell all assets than have to decide
- Assets should go to the oldest child

Regarding preferred business ownership, a quarter of respondents prefer a family partnership, (two family members own and control all assets), with a quarter preferring a family business structure (assets owned by one family, with two more generations contributing to decision making). Just under a quarter of respondents prefer a Family Company Model’ where the farm is managed as a commercial business. Preferred ownership is highly dependent on farm size and minimum efficiency.

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Regarding preferred business ownership, a quarter of respondents prefer a family partnership, (two family members own and control all assets), with a quarter preferring a family business structure (assets owned by one family, with two more generations contributing to decision making). Just under a quarter of respondents prefer a Family Company Model’ where the farm is managed as a commercial business. Preferred ownership is highly dependent on farm size and minimum efficiency.

Preferred Ownership Structure

‘Australian Farming Families: Succession and Inheritance’, 2016

- Family Set-Up (2 generations contributing)
- Family Company Structure
- Sole-Operator Structure
- Family Partnership
- Corporate Ownership Structure

- Assets should be distributed fairly, but not necessarily equally between children
- Assets should be distributed equally
- Assets should go to the child who contributes the most
- I would rather sell all assets than have to decide
- Assets should go to the oldest child

Regarding preferred business ownership, a quarter of respondents prefer a family partnership, (two family members own and control all assets), with a quarter preferring a family business structure (assets owned by one family, with two more generations contributing to decision making). Just under a quarter of respondents prefer a Family Company Model’ where the farm is managed as a commercial business. Preferred ownership is highly dependent on farm size and minimum efficiency.
Factors affecting Succession and Inheritance Decisions

The proportion of farms being transferred to a successor is declining. Understanding the factors underpinning this trend for both the current generation of owners and potential successors is critical to designing strategies to act as incentives for individuals to remain on, or return to the farm and ensuring the continuation of family farming.

4.1 Financial Viability

This study found the primary factor affecting the decision to sell or return to a family farm is financial viability. Drought has significant negative economic impacts on financial viability, with a 2008 report finding that nearly half of farmers believe drought will render their property unviable in the long term.\textsuperscript{26} Growth in farm debt has implications on the likelihood of current business owners to encourage their children to return to the business and the willingness of the next generation to return. In a period of drought, the financial ability to retire is brought into question; as drought reduces on-farm returns and farm value this sometimes means farmers are forced to work on long after they would have normally chosen to retire, particularly if they can’t sell the farm. Several respondents state they are unable to plan for retirement because of farm debt. The drought throughout much of Australia contributed to the sharp fall in enterprise and farmer numbers as families move to areas of greater economic opportunity during the 1990-2010 period.\textsuperscript{27}

Respondents state several factors further complicate succession planning. These include the impact of Capital Gains Tax, as well as asset and income tests on farmer eligibility for pension and local government restrictions on the subdivision of farm land which mean partial sale of farmland is not possible. Several state that changing environmental management regimes affect the number of choices they have available and their ability to forward-plan, including restrictions on land clearing and water use and increased charges for irrigation water.

4.2 Identification of a Successor

This study found that just over half of respondents to the present study (52 per cent) have identified a successor for their farm business. Those families who have identified a successor are more likely to have discussed retirement. An overwhelming majority of respondents to this study (80 per cent) want their children to have the “option but not the obligation to take over” when they retire. Accordingly, we found that 15 per cent of respondents were or are being actively discouraged from returning to the business. Succession Planners at ProAgtive Pty Ltd observe that “the method of succession from the previous generations” often influences how the current boomer generation perceive succession” (Lane, ProAgtive, 2016).

Other predictors of a family having chosen a successor include the length of time a family has been operating the farm and whether the current owners plan to retire or semi-retire. Individuals on larger farms are more likely to have identified a successor and have developed a formal succession plan. This could be due to many large outback properties being run as companies rather than family farms and hence treat succession planning as part of standard business planning. The farmers most confident about succession had often set aside either a property or off-farm assets for each child along with enough funds to support their retirement. Some intend to sell the family property because there is no successor or their children are not interested in farming, or because they need funds to support their retirement. Prior research has indicated that farmers who had been identified as successors were more likely to have some level of formal education; about a quarter will have a university degree and about 45 per cent will have a trade or technical qualification.\textsuperscript{28}
Nearly two-thirds of our respondents who identify as successors are engaged in work away from the farm they would eventually manage. One-third of respondents to the present study who had returned to the family farm are working alongside the older generation in a full partnership, while another third hold full responsibility for a particular enterprise within the farm business.29 Parents who delegated some degree of autonomy to a succeeding child stated this allowed them to build trust and responsibility and allowed them to take a backseat in on-farm operations.

4.3 Legal Ramifications of Succession

This study found that many farmers lack awareness of the legal implications of transferring rural assets.30 Australian Courts are tending to increasingly recognise that the Law of Estoppel may have a big part to play in the way in which rural land is passed down to the next generation. The Doctrine of Promissory Estoppel is a legal principle that states that a promise is enforceable by law when the promisor (person making the promise) makes a promise to the promisee (person being promised) who relies on it to his or her detriment. The most typical case is when a child works on the farm without adequate wages under the assumption they will receive ownership of the farm at some point in the future. If the will does not clarify these terms, the arrangement may not be legally enforceable.

“It is therefore advised that the current generation of owners avoid making verbal promises as unforeseen circumstances may mean they can’t fulfil them in the future”
– Tim Lane, ProAgtive Pty Ltd, 2016

The Family Provision Act 2006 states that if an individual has an “obligation to support” a person (who fulfils a particular set of eligibility requirements), then that individual has a legal duty to provide for that person. This is assessed on the basis of need: financial, physical, intellectual, mental, or otherwise (TressCox Lawyers, 2009). In the last ten years, Australian courts have ruled in favour of a large number of applicants on the basis that those claimants possess the legal right to financial sustenance or maintenance. The Succession Act NSW is particularly relevant when dealing with cases with multiple spouses in the picture.

“Unless a well-structured estate plan is discussed and drawn up ruling out opportunities for other siblings to make extra claims, conflict and costly family disputes often results.”31
– Paul Paxton Hall, Estate Lawyer 2016

4.4 Factors Affecting the Decision to Return Home

The decision by potential successors to return home is highly complex and is affected by both economic and non-economic factors, including agricultural and community lifestyle, parental dis/encouragement, and the ability to independently manage on-farm operations. Monetary factors include the presence of opportunity on-farm, relative income gains in non-agricultural industries, the agricultural economic outlook, and the availability of off-farm employment to supplement farm income. Non-monetary considerations include the enjoyment of the job itself and the independent and community lifestyle associated with family farming.

Factors affecting the decision to return to the Family Business

‘Australian Farming Families: Succession and Inheritance’, 2016

- Likely economic returns from farm-business
- Off-farm Employment opportunities
- Freedom to independently manage on-farm operations
- Proximity to town

Another significant determinant of a successor’s decision to return home is the ability and freedom to independently manage farm operations. Over 20 per cent of respondents who have been through the succession process. Timing conflicts can occur when two generations compete for primacy in on-farm decisions or when the expectations of family members do not align. Another significant issue is competition over where farm capital should be directed i.e. debt pay-down, further expansion, personal cash, parent’s retirements, education costs – all of which can arise simultaneously.

A major concern stated by farmers regarded confidence in the ability of the next generation to take over management of the business. Lack of confidence in the next generation’s competence means financial decisions are often the last responsibility transferred to the younger generation. This also allows parents to still wear the financial risks as they are not independent in financial needs.
Discussion

The major issues identified in this study are those associated with a lack of financial and family planning, inter-generational change in preferences for succession and business organisation and widespread reluctance to retire.

The aggregation of small-scale agricultural holdings creates competitive pressure for medium-sized agri-business to operate with economies of scale and is likely to fuel a continued fall in farm numbers. This signals a need for small businesses to increase innovation and improve financial planning and business operations to attract capital investment and compete with larger competitors.

While much of the literature points to an underdevelopment of succession planning, in part because people find difficulty dealing with succession in a changing world, the most significant implication is that succession planning requires more change to adapt to this new world. In particular, and despite anecdotal evidence of the financial planning industry moving to develop higher levels of skill and knowledge which can be effectively applied to farming, it would appear that traditional professional services such as legal and accounting need to be supplemented by communication and mediation as parts of packages offered to farmers. This will necessitate a more holistic, personalised and creative approach to developing solutions for each individual family — accounting for multiple expectations and inputs and considerable inter-generational difference.

Our study has investigated Australian family farmer intentions to pass farm assets on to chosen heirs so that the present family farming system continues intact. The study finds that farmland ownership and management structures are clearly becoming more complex, a trend also found within the Australian small business sector. Despite sole proprietorships and spouse partnerships being the norm, younger farmers are turning to alternative and flexible business structures that facilitate collective control and ownership. Therefore, the tendency of accountants and lawyers to design succession strategies in line with the owner-operator model of farm ownership needs to be reconsidered.

“We have to become, as producers, far more creative about how we do our succession planning, and it doesn’t necessarily mean that everybody has to get a piece of land. What we find is once we get the family communicating really well, they actually come up with the most creative and amazing solutions themselves.”

– Isobel Knight, ProAgtive Pty Ltd, 2016

Using a succession planning specialist to facilitate agreed outcomes is not an easy task and deals with many aspects of family, business, and relationships. Technical solutions are an outcome of a good succession plan, not the driver of the plan — which are the family goals and requirements. Many professionals claim to undertake succession planning, with very few specialising in this complex area. When done well, the opportunity for farming families can be significant: clarity of purpose, timelines, and measurable outcomes which reduce conflict and provide the best opportunity for the effective transition of the business to another generation.

Alternative varieties of farm asset ownership (the means of production) will need further development; for example, machinery might be separately owned or leased in a more complex legal arrangement and tied back to the overall farm ownership structure. While agricultural economics takes some cognizance of how these arrangements are changing the structure of the industry, more research is needed to understand the social implications these arrangements will have for farm life. Partible inheritance may be fairer than male primogeniture, but what it and other changes in patterns of ownership mean for the industry and the social fabric of rural society in the long-term will require careful observation and study over the next few decades.
Advice for Farming Families

1. Be pro-active and start conversations early
Lack of communication leads to uncertainty, frustration and conflicting expectations. Involving your kids early in the decision-making process instils confidence and trust and fosters good communication channels for the future.

- Involve all family members in discussions and planning: If expectations are put on the table early, each individual can contribute to and come to terms with the plan. This will lessen the likelihood of future contestation and is a great way to instill confidence and trust in the next generation. Including family members’ spouses in the family council will also help avoid feelings of resentment and exclusion.

- Have regular family meetings: Because circumstances change, succession planning should be viewed as an evolving process, it is best to revisit the plan annually in a formal forum where people feel free to discuss their issues. If everyone knows the plan, family members are free to live their lives with security and clarity about the future and no mistaken assumptions.

2. Run your business like a business
It is important to establish basic structures to isolate and manage the realms of family, business and the business environment.

- Consider housing your business into a formal legal entity like a corporation or limited liability company (LLC): This will help to create some space between and within the individuals and the business.

- Where possible - all contribution to the business should be adequately remunerated at market rates so that there are no lagged debts that can be called upon by children wishing to claim an ownership stake in the business. If the business cannot or has agreed not to pay the full agreed pay, then this deficit should be recorded and can be readjusted in the event of a sale or change of ownership.

- Formalize financial reporting and decision-making: Ensure strong financial reporting, strategic and budgetary planning and effective corporate/family governance with structure around how decisions are made and issues are addressed. This may involve contracting a business advisor to consolidate the business history, establish KPIs and a long-term business plan.
3. Write it down
The transition of ownership often falls apart because of an overreliance on verbal promises and informal contracts. Generation X and Y thrive off clear rules and guidelines.

- **Draw up a family charter:** A family constitution drawn up by the family that sets out universally applicable rules for all family members and spouses (existing and incumbent) will ensure everyone has clarity around the future and their place within the business. A family charter is an excellent point of reference when exceptional circumstances arise i.e. divorce, personal bankruptcy etc.

- **Draw up a legal partnership or operating agreement:** For those individuals in family partnerships, the business will benefit from operating within a formal agreement that sets out each family members’ respective position and role in the business.

4. Assemble a strong team of advisors
Good businesses seek the best advice in areas where they lack expertise. You’ll need an experienced accountant (taxation) and business advisor who can develop a commercial solution which is tailored to your family and business objectives. You’ll also need a good lawyer, who is familiar with the legal environment surrounding rural estate planning. When done well: succession planning results in a more positive commercial outcome for the business and clarity around contribution, relative position and purpose for all family members.

5. Adopt a mentality of stewardship
The survival of the agricultural industry relies on the enthusiasm, energy and ideas of the younger generation. The key to this is in developing an effective exit and arrival strategy so the departing generation can still contribute and not feel like they are being pushed out and the younger generation feel empowered and confident about their role in the future.

- When families start to **view the business as something to be protected** and maintained for future generations, instead of something to be split up and distributed, the chance of success grows considerably.

- **Consider inter-generational change:** If family members are aware of the pattern of difference between family members, and work together to create solutions and a platform for communication where everyone can be involved, the chance of success increases considerably i.e. those born before 1946 are more hierarchical and private than Gen X or Gen Y (born after 1965). As such, they prefer face-to-face communication and make better decisions when given time to consider their options.

“The older generation has to have awareness and discipline to regard their role as a mentor to help and empower the next generation rather than being dictatorial and shutting off. They’ve got to realize that mentoring early and building confidence and experience will be the ultimate success”

- Male, 65, Moree
Policy Recommendations

1. *Infrastructure:* Australia has an infrastructure shortfall worth billions of dollars. With collective superannuation assets now around $2 trillion and growing, the Australian Government should develop incentives and strong frameworks for super funds to invest in infrastructure development; remove ‘roadblocks’ by ensuring the policy and operational settings of superannuation; and consider the employment of sovereign wealth funds (SWF) to support infrastructure development.

2. *Intergenerational Transfers:* Money sitting in farm management deposits should be eligible for use in funding inter-generational transfers. Also, rather than bring it back in as taxable income in one year, allow a longer period of time as to when it is assessed (e.g. 10 years); There should be blanket CGT and stamp duty relief for genuine intergenerational transfers of assets, in context of a wider move towards an “innocent until proven guilty” approach.

3. *Superannuation:* Farming assets should be allowed to generate a “retirement income stream” (i.e. taxed like pensions) even if the assets are held outside of superannuation to encourage the retention of farming assets in the family where moving them into super is prohibitive. The related party acquisition rules should be extended to allow super funds to acquire mortgaged farming land. The rules on financial hardship and super preservation should be relaxed to allow farmers to more easily access and withdraw their super in tough times.

   SMSF membership should be increased for families to allow two direct generations of members to make contributions. If the fund owns the farming asset, more members allows for easier succession. Contribution caps should be removed or extended for farming assets moved into super. Minimum pension amounts for superannuation should be reassessed in light of market volatility and reduced returns in low inflation environment.
4. Small Business CGT Concessions: Many primary producers and small business owners have low superannuation balances due to cash flow restrictions and a desire to reinvest in the business. Small business CGT concessions should be expanded to allow greater contributions upon an exit event. Contributions should also be allowed to be made over an extended period to better facilitate earn out or progressive buy out arrangements. The “connected entity” tests for primary producers should be modified to separate farming assets from other assets within the family group.

Many small business taxpayers cannot afford to seek expert advice in this area, and consequently many taxpayers have applied the concessions incorrectly or may have not fully utilised the concessions that are available. There has been a significant amount of ATO audit activity in this area, with many cases heard before the Tribunal. This is a clear sign that the rules need to be simplified and relaxed for agricultural families.

5. General CGT Rollover: CGT rollover relief should be expanded to allow primary production land to be transferred between family trusts – particularly to address vesting and perpetuity issues associated with the limited lifespan of a trust. CGT rollover relief should also be expanded to allow farming business to restructure, to encourage external equity investment to strengthen balance sheets.

6. CGT Main Residence Exemption: The main residence exemption should be extended, as it is currently limited to 2 hectares of adjacent land used primarily for private or domestic purposes. The main residence exemption should also be extended to instances where land is held through a company or trust structure (and not by an individual).

7. Fringe Benefits Tax: The definition of “remote area” housing should be expanded, as well as FBT concessions for farming employees living onsite to allow farming business to attract and retain talent.

8. Research and Development: The Australian Government needs to work with RDCs to preferentially allocate resources to some regional universities and ask state governments to join with regional universities in developing proposals for research grants under a competitive process. This could lead to the development of 7 or 8 strong centres of agricultural research with strong industry links. This should be supported by a dedicated ‘blue sky’ long-term agriculture research fund carved out of the funding pool currently allocated to the Australian Research Council – of which agriculture is allocated virtually nothing. Industry should develop a set of national targets and a learning platform for the Agri-food sector; and incentives for private/public partnerships and networks in research, innovation, and postgraduate training. Investment in research needs to be driven by industry impact. It is recommended that the Government persist with and promote farm succession education programs to encourage the movement away from traditional inheritance norms and practices.
Endnotes


7 Australian Bureau of Statistics, (2012), Australian Social Trends, Dec 2012, Article 4102.0, Accessed 13/03/16


23 Op. Cit, Barclay, Foskey & Reeves, p. 8


25 op. cit, Barr in Hicks et al, 2002


27 Ibid. Edwards, Gray & Hunter, 2001


29 Ibid, Barclay et al, 2007, p. x


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