Sean Cortis TEP and Anthony Ryan TEP, August 2017

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Key points

What is the issue?
Farming families are complex; they contain people of varying degrees of sophistication, education, attachment to the land and financial understanding.

What does it mean for me?
Practitioners should be wary of rushing to a solution and instead take the time to find one that works for everyone. The advisor needs to be proactive and keep pushing the family to address succession issues.

What can I take away?
Advice needs to be intimate and bespoke – a 'canned' approach to advice will fail and set the family further back on the journey to succession.

In 2016, Chapman Eastway, in conjunction with Charles Sturt University, conducted research in response to growing concerns over succession and the future of family farming in Australia. More than half of Australia’s farm owners are aged over 55, with the majority expecting to retire in the next 15 years. The potential tide of future sales posed by this outflow presents a risk not only to owners themselves, whose valuations could be hurt in the supply of businesses for sale, but also to the broader economy.

We know from discussions with our own clients that people on the land do not want to talk about succession. They know it is difficult and want to avoid conflict, as ‘it’s easier that way’. One of the key findings from the research is that advisors need to be proactive and push farming families to address the issue of succession. It is critical that an advisor does not add to a family’s inertia.
Complex family circumstances

It is clear that many existing methods for transferring assets in Australia fail to adequately manage complex family circumstances. Although published research in this area is limited, prima facie evidence indicates succession is not extensively discussed by farm families, often resulting in a lack of preparedness for sudden change. This can have significant implications for farm ownership, productivity, and income in the short and long term.

As part of this research project, we commissioned a farm succession survey that was completed by 300 farming families. A quarter of respondents reported that the succession process was traumatic, with a fifth stating there were still unresolved family issues. Respondents stated that this was mostly due to a lack of communication, which led to misunderstandings and mistaken expectations.

The majority of respondents who had employed professional consultants during the succession process reported that doing so helped to facilitate open communication between generations and siblings, providing an opportunity to air issues before they became contentious. Others noted that succession planners allowed the family to prepare for the transition of ownership and retirement, both emotionally and financially.

However, 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.

Why families fail to communicate

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, farming parents often expect and plan for a child to return to the farm without ever explicitly asking whether the child intends to do so. Failure to plan can lead to emotional and financial stress and, often, an unexpected reliance on the sale of farming assets to finance retirement. This can compromise farm productivity and farm income for the succeeding generation.

Failure to discuss succession planning may mean avoiding making 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 for remedial action will be available.

Survey respondents gave the following reasons for a 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 in the family;
- mistrust of daughters-in-law and siblings-in-law, particularly in the case of divorce;
- reluctance to face the 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.

Consultants need to ensure they have the skills to provide mediation support that encourages effective communication between all parties.

Bridging the generation gap

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

Younger farmers are also more willing to seek professional advice. We found that those in the 18–45 age group were more willing to employ professional succession consulting services than those in any other age group, while many older respondents believed succession planning should be done without external consultation and without involving other family members.

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

The difference between ‘equal’ and ‘fair’

Our study found that 60 per cent of respondents did not agree with the primogeniture model of farm succession, with 36 per cent instead preferring the equal distribution of assets among all children. More than half of respondents stated that they do not expect the distribution of assets to be equal, but ‘fair’. Eight per cent of respondents stated that all assets should go to the most qualified, experienced child, and some farmers stated that they would prefer to sell all the assets rather than have to decide.

Helping families understand the relative economic impacts of differing models of asset distribution is a critical responsibility for advisors. For example, 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 of 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.

Developing financial literacy

The study also 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.

Respondents to the survey stated that the primary factor affecting decisions in succession and inheritance is the future economic viability of the farming asset. Although a true understanding of the business' numbers is critical, many admit that it is an area they do not adequately grasp. Accountants, bankers and other professional advisors to farm families have an opportunity to facilitate better financial comprehension for the collective benefit.

What it means for advisors

The tendency of accountants and lawyers to design succession strategies in line with the owner-operator model of farm ownership also needs to be reconsidered. Despite sole proprietorships and spouse partnerships currently being the norm, younger farmers are turning to alternative and flexible business structures that facilitate collective control and ownership. 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.

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 intergenerational difference.
1. bit.ly/2fe3Erh

2. The right of succession belonging to the firstborn child, especially the feudal rule by which the whole real estate of an intestate passed to the eldest son