

Agriculture

Farm Succession Planning

Ten steps toward the future you want.



Royal Bank



Succession planning

Succession planning is often on the minds of farmers.

That's really not surprising. According to Statistics Canada's 2016 Census of Agriculture, the family farm makes up most of the farms in the country, with 74.6% of all farms operating as sole proprietorships and partnerships, while incorporated farms make up 25.1%. Even when farms operate as corporations, most are family-run corporations.

An aging farm population is another factor that means that you are not alone if you are considering the issue of farm succession. The same Census of Agriculture indicates that the average age of a Canadian farmer is 55 years old and this is the fastest growing segment in Canadian agriculture

These statistics tell a compelling story of farms on the brink of transition in ownership. Despite that, the same Census reports that only 1 in 12 operations have a formal succession plan that lays out how the next generation of farmers will take over the operation.

Having a farm business succession plan that clearly outlines your intentions and goals can make this transition easier for you and your family. Most importantly, a succession plan will move the process forward, allowing for minimal disruption and risk for your farm business.



1 / 12 operations have a formal succession plan.



What's your next move? Chances are, whether you are just starting out, are midway through your farm career or are looking to retire, you have big ideas for the future of the farm.

If you want to position your farm business so that the next generation can thrive...

If you want to take hold of the ropes, make the decisions about the future of the farm and continue what your family started...

The people of RBC can help you move forward.

This guide provides an overview of decisions in 10 key areas that you may be facing in the coming years as you plan your succession.

**It's your time now.
Let's go.**



What is farm succession planning?

You and your family have spent years working hard to build a successful farm business. You may be starting to think about retirement and considering how you might begin to transition out of the business and prepare for life after farming.

Think of farm succession planning as a way of recording your intentions for retirement and how your family will transition the farm's ownership, management decisions and physical assets.

Even though the sale of physical assets may be straightforward, ownership and management transitions can be much more complex. Add family relationships into the mix, and you can end up with a multi-faceted puzzle that will take some time and expertise to sort out.

With succession planning, **it's always best to start early**. That means creating a plan before you reach retirement, so you can take the time to work through the process and consider everyone's needs. In some cases, we've seen this process take several years. It's often a good idea to involve other outside professionals, too, such as your lawyer, accountant, farm business succession specialist and your agriculture banker.

No matter where you are on your succession planning journey, this guide will help.



Why have a farm succession plan?

Whether you are planning to step away from the business gradually, or exit your business to explore personal interests or pursue a new venture, it's important to have a plan.

Farm businesses in Canada operate using different types of business arrangements – from sole proprietorships to partnerships and limited corporations. One thing's for sure: your farm can be your family's most valuable asset when making plans for what's next.

A formal farm business succession plan can:

1	<i>Improve the family's general knowledge of succession planning.</i>
2	<i>Provide financial security for you, while sustaining the farm business for the next generation.</i>
3	<i>Manage your wealth – and help to minimize your tax liability.</i>
4	<i>Outline intentions for transferring property and assets to your spouse, children or other individuals.</i>
5	<i>Set up the right farm debt structure so the next generation can prosper.</i>
6	<i>Strive for fairness for all family members (fairness does not always mean equality).</i>
7	<i>Offer time to review your options to ensure the right decisions are made for the business, you and your family.</i>
8	<i>Identify outside players or consultants who may be able to provide specialized information about the business transition plans.</i>
9	<i>Give you a written framework for solving disputes.</i>
10	<i>Help all players monitor the process and the progress of the farm transition.</i>



10 Steps Towards the Future You Want

Have you taken our online Farm Succession Planning Quiz? If not, you may find that's a helpful place to start. You can find the quiz at rbc.com/itsmytime.

Consider these 10 steps, and you'll be well on your way to a smooth succession plan.

1. *Have you discussed your succession plans with your family?*

Involving your family in the planning and preparation of your succession can make the difference between a smooth transition to the next generation and a contentious one. To ensure an effective transition, start your succession planning discussions several years in advance of when you plan to retire. Then, decide who the players at the table should be, including spouses, in-laws, children (both those interested in staying involved, and those who will not be involved), off-farm family and/or invested employees.

An open dialogue is the best way forward for success. Considering everyone's feelings, honoring individual skills and ideas and making this a collaborative activity can help strengthen the family bond.

What's your next move?

- ☐ Discuss key issues and opportunities with those closest to you.
- ☐ Schedule and hold a family meeting to talk about your succession plans.
- ☐ Write up your set of retirement or transition goals.



2. *Are your critical papers in order and easily accessible?*

Being armed with good – and accurate – information can make decisions easier. Sharing that information with others will be key to a successful succession plan. **Collect information on your farm business, and ensure it's up-to-date.** This may require you to reach out to other business partners, such as your lawyer, accountant, banker and farm consultant.

Information that helps you analyze the current financial situation of your farm business will help determine the viability of the succession plans and how the business will sustain both the retiring generation and the next generation that's stepping up.

What's your next move?

Here is a suggested list of records needed to create a succession plan. This is not a complete list, as it will vary by farm and family, but it will give you a place to start.

- ☐ Wills and directives.
- ☐ Partnership agreements.
- ☐ Financial statements.
- ☐ Income tax returns.
- ☐ Business appraisals.
- ☐ Business plans.
- ☐ Insurance policies.
- ☐ Lease agreements.
- ☐ Employee contracts.
- ☐ Mortgage and loan information.
- ☐ Asset list (equipment, buildings, land and more).
- ☐ List of key suppliers and consultants.



3. Do you know the current value of the farm business, and have you determined that the farm can financially support all family members who want to farm?

Do you know whether your farm business has the financial resources to adequately support the incoming generation of owners, while also providing a comfortable and secure future for those who are transitioning out of the business?

Consider any anticipated family changes that could impact future revenue or savings, such as marriages, the birth of children/grandchildren, fluctuations in health, changes to living arrangements and more.

The goal is to ensure the business is profitable enough to support the succession plan and future generations. If it isn't, you'll need to make changes to ensure the business can support these plans – before the funds are needed.

Your accountant, agriculture banker, financial planner or business valuator can help you arrive at a fair market value for the farm business, and provide suggestions on how to maximize business value.

What's your next move?

- ☐ Contact your banker, accountant and financial planner to review the valuation of your farm business, and determine how the farm business can contribute financially to the farm succession plan.



4. *Have you considered how much future income you will need to retire, and whether you will live on or off-farm after the transition?*

There are many retirement cash flow calculators to help you determine your post-retirement income, but much will be determined by your individual plans for your retirement. You'll also need to consider the amount of debt the next generation can support.

Discuss your retirement plans with your family. Are you planning to travel? Do you want to continue living on the farm, or are you considering a move elsewhere? Should the farm business pay you a lump sum amount, or installments over time? Do you want to maintain an investment in the farm business (along with the risk that entails)?

Next, begin gathering the related costs for each scenario you want to explore. Adjusting to a reduced income (if necessary) may not be easy, but **understanding your new post-retirement cost of living will give you a realistic handle on what the business – and next generation – can afford.**

What's your next move?

- ☐ Make a list of your retirement plans – best-case to least desirable – and cost out each option.
- ☐ Assess what's realistic based on the farm business evaluation you've received previously, and adjust where necessary.



5. *Have you considered the tax impacts, financial and legal options for the farm transition?*

Tax implications, financial and legal options and obligations will **depend on the type of farm business you own, and the ways you will want to transition your farm business.**

In Canada, certain types of farm property can be “rolled over” from a parent to a child. If you are transferring your farm to your children, where available, a tax rollover can be a powerful succession planning tool because the child assumes the parents’ tax cost without taxes being paid.

Since there are different tax implications for different assets related to rollovers, capital gains and depreciation, this is an area where it is best to seek out the advice of a financial advisor with a comprehensive understanding of Canadian tax laws as they relate to agriculture.

More information on these (and other) tax implications can be found at rbc.com, or at your local branch.

What’s your next move?

- ☐ Determine your transition plans, with as much detail as possible, then seek the advice of a financial advisor, tax planner or lawyer.



6. *Have you addressed the transfer of labour (work load) as separate from the transfer of management (decision-making)?*

One of the most important parts of succession planning is how you manage your human resources. Succession planning involves the transfer of leadership, decision-making and management responsibilities as much as it does the transfer of assets.

You will need to assess – separately – the day-to-day workload duties from the leadership and management responsibilities of the farm business. Family members may be stepping into the business, but they will need the right skills, experience and personality to lead the farm business. Ability and birthright don't always go together.

While you're at it, **do an honest check-in on your own skills.** Perhaps you are the best one to train and mentor the next generation, or maybe an outside consultant or business expert could be more effective? It's important to assess the need for current and future skills, plus identify areas where skills training or upgrading may be needed.

A gradual transition may be the best solution to provide the time needed for the new managers to get the training they need, or for parents to transfer their knowledge before the transition is fully implemented.

Successfully managing the human side of your succession plan will mean that the farm business will be well positioned to thrive in the years ahead.

What's your next move?

- ☐ Create a list of day-to-day farming and business tasks that need to be covered off after the transition.
- ☐ Create job descriptions for current employees/managers, plus those you would like to see in those roles once you are out of the business.
- ☐ Discuss these expectations with the key players, and your family members.
- ☐ Identify skills that are required by position.
- ☐ Research training opportunities (if needed) for new managers or employees.



7. Do your plans take into consideration allocation of farm assets for the children who are interested in being involved in the future of the farm (plus those who are not interested)?

Have you also considered those who have joined the family through marriage?

Is it clear which children want to take over the farm? Do you have family members who do not want to be involved? Are spouses of your children actively involved, and how do you account for that? Can your children successfully work together in the business? Do the children all want to own the farm together, or is that just a dream of the parents?

Sorting out how siblings will work together, and determining fair treatment for all can be one of the most challenging aspects to farm succession planning. These discussions and decisions can be emotionally charged, but **ultimately, you must decide what makes the best business sense for the farm**. That may mean honoring what the next generation wants, not insisting on having it your way.

A fair arrangement between family members may not be an equal one. Crafting a fair arrangement is something that may require expertise beyond the family, such as a mediator or someone who has experience helping families manage the succession of a farm business.

What's your next move?

- ☐ Talk with all family members (those who want to be involved in the farm, and those who do not) to find the best path forward.
- ☐ Talk openly about roles, responsibilities and what each child's expectations might be.
- ☐ If needed, hire a mediator or consultant to give you ideas or help you work through this part of your plan.



8. *Have you identified specifically who will take over the farm: children, employees or outside buyers?*

If you have family members interested in taking over the farm, that's often an ideal situation. However, you may not have children willing or available to take on this kind of business. When that happens, you might consider selling to one of your farm partners, or even a third party.

Selling to a partner means the person taking over the business has inside knowledge of the operation, and that can increase the possibility of success. If the partner doesn't have sufficient personal equity for an outright purchase, you could structure an agreement to support the purchase over a longer period.

If there is no obvious partner to step up to the plate, first discuss this option with your family to ensure they agree with a sale to an outside party. It's also important to talk to your accountant about possible tax strategies to make sure your tax obligations are met. Discuss your needs with an RBC agriculture banker, as they may be able to recommend someone who would be interested in buying your farm. Real estate agents, lawyers and auctioneers in your community can also be valuable resources when finding a buyer for your farm business.

What's your next move?

- ☐ Bring your family members into a discussion about selling to an outside buyer.
- ☐ Draw up a list of potential buyers, or get in touch with others in the community who may be able to recommend a potential buyer.
- ☐ Consider selling land, quota, machinery and equipment together, or hold an auction to sell your individual assets.



9. Do you have a formal, written farm succession plan, with an anticipated timeline for when you would like to transition your farm business to the new owners?

In farm succession planning, you are managing the expectations of two generations who likely have very different goals. The parents want financial security and perhaps an ongoing role in the farm's future, while the younger generation may want adequate family income and an authoritative role in the management of the farm.

A formal farm succession plan can capture and prioritize these varying desires. You can tailor the plan to ensure that everyone's needs are met. It can also be a great way to outline firm expectations about the timing of the transition, so everyone's on the same page.

Any farm succession plan should be considered a living, evolving document. Review the plan regularly to ensure it stays up-to-date and continues to meet the evolving needs of the business and the family. Tax rules, markets and farm operations change quickly, but a good plan (that is, a plan that's on paper!) can be one way for future dreams to stay on track.

What's your next move?

- ☐ Talk openly with those involved in the transition about everyone's needs and expectations.
- ☐ Schedule regular reviews of the plan with the key players.



10. Do you have your transition management team in place, including your agriculture banker, accountant, lawyer, financial advisor or planner?

Family business successions can be very personal and emotional transactions. While you may be tempted to keep discussions ‘in the family’, and not involve outside parties, working with professionals who have helped other families through farm successions can be extremely valuable.

These experts can provide you with insights and advice you might not have considered. They can also help move the process along by keeping all family members accountable.

Whether you decide to coordinate the transition yourself, or appoint a trusted advisor to spearhead the planning and represent your interests, your team members can work with you – and with each other – to ensure the successful transition of your farm business.

Along with your family members, your farm business succession team could include these professionals, as well as others:

- Crop or livestock advisor or consultant
- Financial advisor or planner
- Insurance specialist
- Non-family business advisor or mentor
- Outside facilitator or mediator
- Agriculture banker
- Accountant
- Lawyer
- Management team
- Business valuator or broker

What's your next move?

- ☐ Review the team checklist and decide which (if any) of these professionals will bring value to the discussions and your farm succession plan.
- ☐ Choose the players you think you need, along with your family members.
- ☐ Set up appointments with the professionals you wish to involve.

RBC agriculture banking specialists have a deep understanding of farming and business, and can provide advice and resources on finance and banking issues that will help you create and execute a successful farm business succession plan.

Get in touch to see how we can help you with your family's farm succession plan.

Visit rbc.com/itsmytime



To find out more about farm succession planning or any other information not listed in this guide:

› Visit your nearest RBC branch

› Call 1-800-769-2520

› Or visit [rbc.com/itsmytime](https://www.rbc.com/itsmytime)



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