FARM SUCCESSION

WHY FARMERS LOVE CARROTS

Written by Elaine Froese

Tomorrow at the farmer's market I hope to find some garden fresh carrots, seeing how my garden this year is one big patch of compost. Farmers love carrots don't you know? They dangle one for years in front of the next generation, so to keep the young folks guessing when they will become part-owners, and have their dreams turn into reality.

"The proverbial carrot that Dad is holding out is really getting me down" says the young dairy farmer. "He can't see our 10 years here as commitment. We don't have the pride of ownership so my spouse refuses to do any work on the house yard." Yes, farmers love carrots and they hate to think about letting go of their managerial roles, and ownership. They wear the badge of honour *I am a farmer, I will never retire* with pride. Just today in the Western Producer the photo caption reads: "Never too old to work" over the 80 year old sheep farmer. I am just curious if he has any successors who are frustrated by dad's inability to transfer ownership.

My colleague Bob Tosh of MNP in Saskatoon is convinced that we advisors need to *educate farmers on how to retire and let go of the farm.* Bob's insight was also echoed by Don McCannell, another CAFA colleague who says "Dad's dream is not necessarily the same dream as the next generation." So you are stuck. Pulling mucky carrots out of a water-logged garden is hard work. It works much better when conditions are drier.

What conditions will get rid of "someday the farm will be yours" kind of thinking?

1. **Talk to yourself.** Reflect about what a great day on the farm really looks like to you. Remember what you felt like when you were taking over from your parents. Did you forget what it felt like to have title to land, and be able to negotiate the finances? Are you having an identity crisis? You are a human being, not a human doing. What you do for a living does not define your character or who you are as a person. I suspect many farmers have a hard time letting go of their title of "boss" because they don't know who they would be if they left the farm in the charge of the next generation.
2. **Listen to your body's aches and pains.** You think you are contributing lots of labour, but the younger labour at your farm sees things differently. Your perception is not their reality. They need to have some equity to leverage their dreams into reality, but you are stubborn about letting go, and don't want to change the farm business. If you have no successor, then start looking for a joint venture partner. Or take a sabbatical to "test out" a different lifestyle that is less taxing on your body. Ralphy Waldo Emerson said "your health is your wealth."
3. **Decide how much longer you want to be happily married.** Your spouse is waiting for some fun and adventure beyond the farm before you turn 80. She is tired of being "the pig in the middle" of handling the successor's impatience and your pride of power and control. She also understands that you are a workaholic, and in a loving way she is trying to tell you what she needs for more family time and fun. The next generation is also looking for family life, because they will not work in the same way. They have new ideas on how to work smart, but your carrot dangling is becoming annoying, and they may soon just up and leave in frustration.
4. **Different is just different, it is not necessarily wrong.** Different dreams from the succeeding generation are being stifled by the carrot dangling in front of them . If they have invested 12 years of key energy and labour, and left awesome careers to come back to your business, they are more than ready to be given some shares or form of ownership. You don't have to have this be all or nothing. It can be done or transitioned in stages, but get it done now!
5. **" Do it now !" is the success mantra of wealthy business minds.** Call your team of advisors: the accountant, the lawyer, the financial planner, the agrologist and the communications coach to get the process moving with hard facts. I was thrilled this summer when some farm folks updated their will that was 17 years old, bought plots, and planned their funeral. They just needed a gentle push to update their estate plans, and they are working with the Growing Forward program for consulting on their succession plan. Even the crop disaster won't stop them from moving ahead.
6. **Contact your local ag office to find out more about Growing Forward , Taking Stock or Agri-advisor funds for you to "get rid of your carrots."** These programs will help cover some of the cost of getting your plans talked out, and put on paper to execute. Younger farmers in some provinces also get a premium of help if they are under 40, so ASK !! I can email you the application forms for Saskatchewan and Manitoba . My email is elaine@elainefroese.com
7. **Crunch your numbers.** Many farm folks are scared that they can't live well off the farm. They know there are farm perks financially, but they also have neglected to build up non-farm sources of income. They are counting on the farm to provide resources to live for the next 20 years. I can refer you to fee for service financial planners to help you understand your family living cost needs and income streams. You can also get a rough idea by looking at the last 12 months of bank/credit union statements. Fear of the future money issues is a key reason why folks don't retire according to Andrew Allentuck, author of "When Can I Retire?".
8. **Stop treating all your kids the same way.** The eldest child has put in years of sweat equity to help you create, capture, and grow your wealth, yet they are supposed to wait indefinitely so that you can see what the other siblings sign up for. Succession planning is a process, and has ongoing changes to be made based on needs, expectations, tax planning, and the willingness to test out new scenarios. Don't hold the oldest successor hostage to his or her siblings. You have a business that needs to be viable, efficient and profitable. It also needs to respond to the passion and energy of those invested in it. Your successors have invested time and labour. Your farm is not a pie to be cut into 4 equal pieces for each child. Get over it! Once you've looked at your own financial needs and emotional well being, then you can start the discussion around " What does fairness look like to you?"

May every carrot you eat this fall remind you that there's work to be done. Start talking and email me your new scenario you are building to get rid of the "proverbial carrots rotting on your farm."

Elaine Froese coaches prairie folks by phone, SKYPE, and in person. She holds a conflict resolution certificate and mediates for the Farm Debt Mediation Service. Sign up for her newsletter at www.elainefroese.com. Book her to speak at your winter event. Buy her action guide "Do the Tough Things Right" for Christmas, a not so subtle hint to get plans executed for your farm's success. Call 1-866-848-8311.
Watch Elaine in action at
www.smartfarmbc.ca/succession-planning

FARM SUCCESSION

Thinking About The Future
HAPPENS AT ANY AGE

Written by Jenny Huffman, Cariboo Cattlemen's Association Coordinator

Good morning dad can you help me get my breakfast?" Dad says, "no problem son." Father and his four-year-old son sit down at the table to enjoy breakfast together. "Can I come to work with you today dad?" His father replies "You can come round up calves with me this afternoon." "Thanks dad! I love ranching! When I grow up, I want to be a rancher just like you!"

On October 28th I attended a farm succession planning seminar by Elaine Froese Farm family Coach. Elaine is a professional speaker, writer and coach who specialize in helping farm families work through issues surrounding succession, business and family communication. With her combination of passion and practicality, Elaine gives people the specific tools and action steps they need to move forward. She is a professional business coach, with certification from the Hudson Institute of Santa Barbara.

Lots of valuable information and packed with tools to make the process of farm or family business succession smoother for everyone involved. A lot of us don't like change, and Elaine shows a path through the whole process and helps to see succession in a positive light. Elaine believes that change is an opportunity, not a threat, and she's an expert at helping people identify, discuss and take action on some of the most important changes they'll ever face … the things that change lives, dreams and entire futures. Studies show that farm families who talk are 21% more profitable. There are a lot of hard questions we all must ask ourselves. I found the whole seminar made me look at and think about a lot of things in my own life. It was like having a counselling session.

I was very impressed, and I am sure everyone else was as well judging from the comments. Elaine's direct and often humorous approach made it very easy to follow. She said things like, "Be soft on the person and hard on the problem…just like toilet paper!"

So many questions arise when thinking of handing down the farm. Like how will everyone live? What about health care and life insurance? Elaine teaches a direct but respectful approach and that "different is not wrong. It's just different."

There will be many issues that are bound to arise in the succession of the farm or family business. Taking the "bull by the horns" and tackling really tough issues that we don't want to discuss are key. It is crucial that we listen to other's and take note of their feelings…ask open-ended questions. Always consider the others perspective on things. Elaine also teaches that death will happen, come to terms with life and plan for it!

"Wow," my son says as he comes in the door, "I sure worked hard today, just like my dad!" Our son is only four but the point is, it's never too early to open dialogue, and you can think about the future at any age.

FARM SUCCESSION

Five Reasons Why EVERYONE SHOULD HAVE A WILL

Written by Mary MacGregor

Five Reasons To Have A Will

If you have a will:

1. **You choose the person who manages and administers your estate.** This can be a critically important decision for the welfare of the family members who survive you. This person (or these people) should be absolutely trustworthy, familiar with your family, familiar with your business, and familiar with your wishes for the future. I also like to see executors appointed who have enough of their own assets so that they are not tempted to dip into any trust funds you set up.
2. **You decide how to distribute your estate and what's "fair".** Be aware that spouses and children who disagree with the terms of your will, can apply to court under the Wills Variation Act to change the terms of your will. If you don't make a will, the government does it for you, via the Estate Administration Act. This Act divides your estate among your spouse(s) and children in specific proportions—which may not work for your family, your assets, or your circumstances.
3. **You appoint guardians for underage children.** If you have underage children, it is especially important to have a will, where you appoint guardians for the children. Guardians responsible to make sure that your underage children are looked after, if both you and your spouse have died. They must be able to get along with the executors and ideally have similar child-rearing values as the executors, because the guardians decide how to look after the children, but the executor decides whether to fund the guardian's activities, or not.
4. **You can set up trusts for underage children.** If you have underage children, your will should set up trusts for the children, so that the executor can hold money or other assets in trust for the children. In the absence of a will, the children's share of the estate goes to the Public Guardian & Trustee to hold. Trying to get money from the Public Guardian & Trustee for the benefit of the children can be tedious. The Public Guardian & Trustee charges fees for everything it does, with the result that the trust fund may not grow even if not used for the benefit of the child while he or she is underage.
5. **You can set up trusts for special circumstances.** You can create trusts so that the share of the estate for a disabled family member, can be held and used for the benefit of that person, but is not controlled by that person, nor is the person entitled to demand anything from the trust fund. If a disabled person inherits part of an estate outright, the disabled person's pension entitlement ends until the inheritance is used up, when the person can reapply for disability pension. This is not what most parents want. You can also use a trust to protect the inheritance of a spendthrift, addict, or other problem child.

Estate Planning Comments

Is it enough to have a will? The answer depends on the nature and extent of your assets. Some people also need an estate plan, which is different from a will. An estate plan structures your assets during your lifetime, so that they end up in the correct hands, in a tax-effective way, on or before your death.

People who have operating businesses, who are relatively wealthy, or who have potential beneficiaries who (for a variety of reasons) should not receive an equal share of the estate, should go through an estate planning process to make sure their assets end up where they want them to.

The estate plan includes but is rarely limited to a will. An estate plan uses tools like corporations, trusts, and asset ownership changes. If a business is involved, the estate plan makes sure that business succession occurs the way the current owner wants.

The Ministry of Agriculture publication referred to below, has two illustrations of plan options, one for an unincorporated business and the other for an incorporated business, see Appendix 1 of the publication.

An estate plan needs the involvement of your accountant, lawyer, and investment and insurance advisors. Because tax planning is such a big component of an estate plan, I recommend starting the process by discussing your situation with your accountant.

Estate planning is often challenging. For example:

- what is the "right" outcome? Who should get the business assets, when and how? What is fair to other children? Many families agonize over these decisions. It often takes a year or two for families to make decisions on this issue.
- what is the best way to accomplish this outcome while minimizing taxes of all kinds as much as possible? Tax planners have to consider the "Four Horsemen of the Apocalypse" which are income tax (including capital gains and alternate minimum tax), GST/HST, PST (soon to return), and property transfer tax, the 1%/2% tax on fair market value of land and buildings paid on transfer. To that list, I also add probate fees, which are $125 plus 1.4% of the value of property passing by will over $50,000 in value. The estate planning professionals agonize over the tax planning issues.

Capital intensive, low net income businesses like farming, are a real estate planning challenge, especially when deciding how to be fair to non-farm children, when often the parents' assets are all tied up in the farm.

The tax planning involved in achieving the outcome, can be hard to understand and expensive to implement. People want the estate planning process to be simpler and easier than it is and sometimes just transfer assets without being aware of the tax consequences. One thing you should NEVER do, is transfer assets without (at minimum) tax advice. It is easy to trigger tax by transferring assets, whether you intend to do that or not.

Many people are surprised to learn that a gift of real estate (excluding qualified farm property or principal residence) is a disposition at fair market value, triggering capital gains tax on the increase in fair market value over tax cost. This is a special problem with recreational properties.

A transfer of a residence into joint tenancy with a child, often done to avoid probate fees, can result in the loss of the principal residence exemption for the child's share of any increase in fair market value of the residence between the date of the transfer into joint tenancy, and eventual sale. It can also result in disputes among family members about whether the surviving joint tenant child truly owns the residence or whether the transfer was merely for "estate planning purposes" and the parent's estate owns the residence. The cost of any lost exemptions or disputes among children far exceed the probate fee savings.

The BC Ministry of Agriculture issued the 6th edition of *Estate Planning for the BC Farmer* in February, 2001. It is online at **www.agf.gov.bc.ca/busmgmt/succession/estate_plan_2001.htm.** It is a plain-language guide to the issues facing professionals working on farm estate plans, and the tools available to them. I highly recommend it.

Mary MacGregor is a lawyer in private practice in Kamloops BC.