Leslie Stewart photo

FARM TRANSITION INCREASINGLY COMPLEX

WHY INCREASED FARM ASSET VALUES ARE PLAYING A ROLE IN TRANSITION TALKS.

By COLLEEN HALPENNY

More farm wealth than ever before is passing from one generation to the next. Over the last decade, skyrocketing land values, heightened equipment values, and quota holdings have increased in capital value, leading to more complex transition discussions.

According to Statistics Canada, the value of equity in Canada's farm sector totalled $627.6 billion as of Dec. 31, 2021, up 10 per cent from a year earlier. This is the largest percentage increase in farm equity since 2013.

So what are the experts telling us about the business side of farm transition?

What advice are they offering?

Segment it out

"Early on during this process, families can easily get into the mindset of lumping the whole business together as one. Instead, we advise they slow down and separate the business out into different parts of the whole," says Joel Bokenfohr, a business advisor with Farm Credit Canada's Advisory Services team.

"Look at what the operating system is, what the equipment lineup is, what is inventory, how does the business generate income, what land is a dependent asset, and then personal wealth. They all deserve their own independent review, knowing they impact each other, but exploring what flexibility exists."

Bokenfohr says this approach allows for different decision-making strategies during the planning stages based on personal wealth, long-term needs, and taking enough time to weigh out your options.

He notes that the business is likely interdependent on the land equity, so make the effort to wear both the business and parent hat to consider fair and equal questions for those who are, or are not, looking to continue the business.

Senior policy analyst Taylor Brown, with the Canadian Federation of Independent Business, highlights the unique circumstances that the agriculture sector has, as described in the CFIB's succession planning report released in January 2023.

"Compared to other small businesses across the country, an agriculture business is extremely expensive, and they have such unique perspectives and priorities," she says.


Taylor Brown

Brown shares that a key finding of their related survey was the desire of owners to protect their current family members, and employees, while keeping their way of business alive and continuing environmental stewardship.

"It indicates that they want this legacy to continue, but acknowledge the potential barriers than exist, and are looking for strategies to overcome them," she says.

From the CFIB survey, Brown notes the top concern was financing of the successor, given high asset costs, high input costs, and market volatility. Current owners indicate that the overall costs of running the business can become difficult to manage during a transfer when assets are valued so highly during financing.

Like Bokenfohr, Brown advises farmers to take the time to understand each portion of the business and, "understand where you sit financially, both from a professional and personal standpoint. And what do you need to make both, if that's your goal, viable."

An outside voice

When owners, farming children, and non-farming children, are looking to explore these dynamics and find ways to communicate, sourcing an outside neutral voice is highly recommended.

"This is an intimidating topic; there are a lot of relationships involved. It's by no means something that's easy to start talking about. However, not doing it puts you in a worse position. Poor communication lingers and affects so many aspects of business and personal relationships," says Bokenfohr.

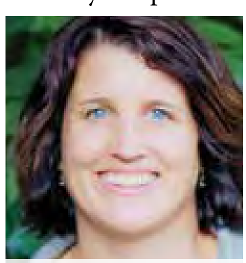
Professionals can take that step away from the emotional side, and offer a calming presence, but can also hone-in on an individual who perhaps isn't engaging as much and ensure they're brought into the conversation.

Karla Rahn, advisor and co-owner of Ag Risk Managers, has found that getting transition worries on the table can be the hardest part – before the value of assets – and suggests that bringing in consultants to assist is the best choice any farm business can make.

"It's important that we understand how everyone is coming to the table, and if they are not, then why, and build from there.

"The process all takes time and mental gymnastics, which means if someone is starting this process at the age of 65, it can feel daunting and impossible, especially when one considers the challenges of extreme farm equity looking to be transferred, high market volatility in input prices and interest rates, along with a shrinking labour pool," she says.

Rahn highlights the resources the industry has put into developing tools and acknowledges that sometimes producers just need a nudge to find someone to show them and walk through the tools with them.


Karla Rahn

She shares that Farm Management Canada created a risk management tool, which she feels is a great place to start with families, and it covers all areas of the farm business such as human resources, finance, production and more.

"There are many other tools out there also – not necessarily with a focus on agriculture, but still useful for family businesses (which accounts for almost all the farm businesses in Canada)," Rahn says.

Brown agrees that bringing consultants who do this day-in and day-out is the best choice owners can make.

"Emotions are hard to take out of the equation. So, relying on accountants, lawyers, bank relationship managers, or mediators can help you understand the business from the other side. This can remove a lot of unneeded stress and heartaches," she says.

Farming & non-farming considerations

"Fair is not equal, and equal is not fair. And this, especially given the heightened value of business assets, can be some of the hardest parts of the conversation," says Bokenfohr.


Joel Bokenfohr

The use of a future business plan to guide the planning with current margins, along with discussing the benefits or detriments of foregoing short-term gains for a bigger long-term picture, is something Bokenfohr believes is a key part of the conversation.

Reminding owners to continue to come back to the different segments of the business to help with these goals, Bokenfohr says there are endless possibilities to be considered.

"When we get into the farming versus non-farming children, there's a desire of parents to leave something to those who aren't involved. But we need to explore how that happens.

"Agriculture is very capital-intensive, so we need to look at how much equity the business needs to generate revenue, and whether the business can sustain the possibility of purchasing some land back from a non-farming relative as a way to look at how everyone can be involved," he says.

Bokenfohr suggests that parents share concerns about how relationships will continue after their passing, and reminds producers to have these discussions early to foster positive outcomes.

"Every family structure is different, and will have a different path taken. Having a good process for these conversations allows everyone to be on the same page, to be understood, to understand what is happening, and have opportunities to express their points of view and ask any questions.

"Ensure your choices are well-thought-out, and give yourself the ability to explain them while you are here to answer any lingering questions," he says.

Brown shares that 38 per cent of agriculture business owners started from scratch, and 36 per cent are second generation.

"That's a huge portion of owners who have built their life around the business, and who have a lot of emotional attachment to it. But, we're seeing that the end goal of many owners is that the business continues in a way that is aligned with their beliefs, whether that's a family member or an employee or a new buyer. The goal is for what they've worked for to continue," she says.

Given the high asset values, Brown also notes the work that farm organizations are doing on lifetime capital gains exemptions.

"Red tape and regulations have burdened business owners for years. And while the $1 million exemption is higher than it was previously, it's still creating issues for the incoming generation to be able to sustain.

"Owners have worked their whole lives to build a business, and we know retirement for farmers isn't an easy step – so we need to continue to have government understand the needs of farmers, and how they can find better ways to assist this transition and payback for a lifetime of service," she says.

Bokenfohr says rising asset costs can divide family members in terms of the time spent dedicated to the business, and the concept of another member's 'fair' share if they didn't.

"You need to dig into this sooner, and really think about what your individual needs are outside of the business. Explore what others' desires and wants are in terms of the business and outside of it.

"The early parts of these conversations need to trend upward. Start asking the hard questions. People are available to help, and time is on your side – if you choose to take it." **BF**

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