

Planning is the key to family farm succession

Despite rapid technological advances, farming remains a family affair in many cases – an arrangement that is generally seen as socially and environmentally beneficial. However, family ownership is under increasing threat by corporate takeovers, the global agrichemical industry and the workings of the real estate market.

The United Nations has identified this as a global issue, designating 2014 as the “International Year of the Family Farm”.

Keeping it in the family is an ever-increasing challenge for farmers, so the Pakawau branch of Rural Women invited financial planner Glyn Lewis-Jones (from Castle Trust in Motueka) to speak here about inheritance and succession planning for the Bay’s farming community.

Glynn began by noting how the industry has changed over the past few decades. “Farming has always been a way of life, but over the last 10 or 20 years, it’s become more commercial.”

Another key change is in the long-accepted inheritance norms. “It was always the first son who inherited the farm; the daughter would marry into farming and the younger offspring would go into a profession. This is no longer the case.”

According to Glyn three main factors have conspired to upset the status quo: “The value of the land, the ability to realise that value and the reluctance of older farmers to retire.”

Glynn explained that the dramatic increase in farm values has been driven by productivity gains, higher commodity prices and the perception that farmland represents a stable and secure investment. This is all good news for long-incumbent land-owners, but the current multi-million dollar value of the family’s main asset means that it’s now very difficult to divide inheritance fairly. “If you leave a \$10m dollar farm to a son, it’s not really fair to the others.”

There are alternatives and Glynn said they can provide the capital to finance retirement and create a more equitable division of property between offspring.

Rather than simply bequeathing the farm, selling it to a son or daughter maintains family ownership, allows the next generation take up the reins sooner and enables the older farmer to enjoy some well-earned retirement. Raising the finance to purchase at full market value is likely to result in a crippling burden of debt for the incomer, so Glynn suggests selling under the market rate, with the outgoing patriarch only asking for sufficient capital to fund retirement. “Just take out what you need.”

Glyn said that working out the sums is a fairly straightforward calculation. “You balance your life expectancy with the life expectancy of the money.”

That seemingly simple mechanism effectively addresses the issue of succession, but doesn’t necessarily solve all the issues. “There’s still the problem of the non-farming children.” Glyn suggested that additional cash could be raised via the internal-family sale for distribution amongst the remaining siblings.

Personal ownership is not the only option for the family farm; a company or a trust can be formed with family members as shareholders and trustees respectively. According to Glyn, trusts can be appropriate in certain circumstances, but while they are very simple to set up they can be “a nightmare”

to get out of. Placing a farm in trust ownership can also create problems with day-to-day decision making, since in theory all trustees should have a say. “It’s a dangerous tool, like a quad bike; you

have to realise its limitations.”

Glyn said that while keeping the farm in the family presented challenges, it was a good idea to start considering options for succession and inheritance. “There are no easy answers, but some solutions work better than others. In any case it’s good to have a plan.”

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Jo Richards



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Castle Trust financial planner Glyn Lewis-Jones.

Photo: Jo Richards.