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# “How can we help young people take over the family farm?”

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Farmland Preservation Forum 2007:

Places to Grow...Food

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# Overview

- Current Situation
  - General tools and strategies
  - Challenges/Opportunities
  - Current programming—both within Canada/Ontario and outside
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# CURRENT SITUATION



# Currently...

- Current succession programming and strategies in Ontario focus on:
  - Awareness (i.e. OMAFRA seminars, AgriSuccess workshops)
  - Training and skills development for farm families (i.e. CASS, workshops, etc.) and advisors (i.e. OMAFRA Farm Tax & Business Seminars & other efforts to provide information to private sector advisors, TCRL classroom & web-classroom courses, etc.)
  - Information and resources (i.e. OMAFRA factsheets, workbooks, etc.)
  - Financing (i.e. FCC)
  - Planning services (i.e. CFBAS, SBPS, PAVE, etc.)
  - Some research and development (i.e. Agricultural Management Institute, etc.)
  - Tax rules (i.e. capital gains exemption, rollover provisions, Ontario Land Transfer Tax exemption for within family transfer, etc.)

# Succession Planning...

- Before going further, a few clarifications:
  - This presentation focuses on “between generations” but will also mention some programming related to “new generation farmers.”
  - Succession is a continuous process...NOT an event...that involves the interaction of long-term family/personal and business goals.
  - It needs to consider the issues related to the transition of:
    - labour, skills, control, management, leadership and
    - at some point, the ownership of the business to the next generation.

# Transfer Components

## **Ownership Transfer**

*Ownership  
Transfer* is the  
transfer of  
farming assets

## **Management Transfer**

*Management* is  
the transfer of  
responsibility  
and decision  
making.

## **Labour Transfer**

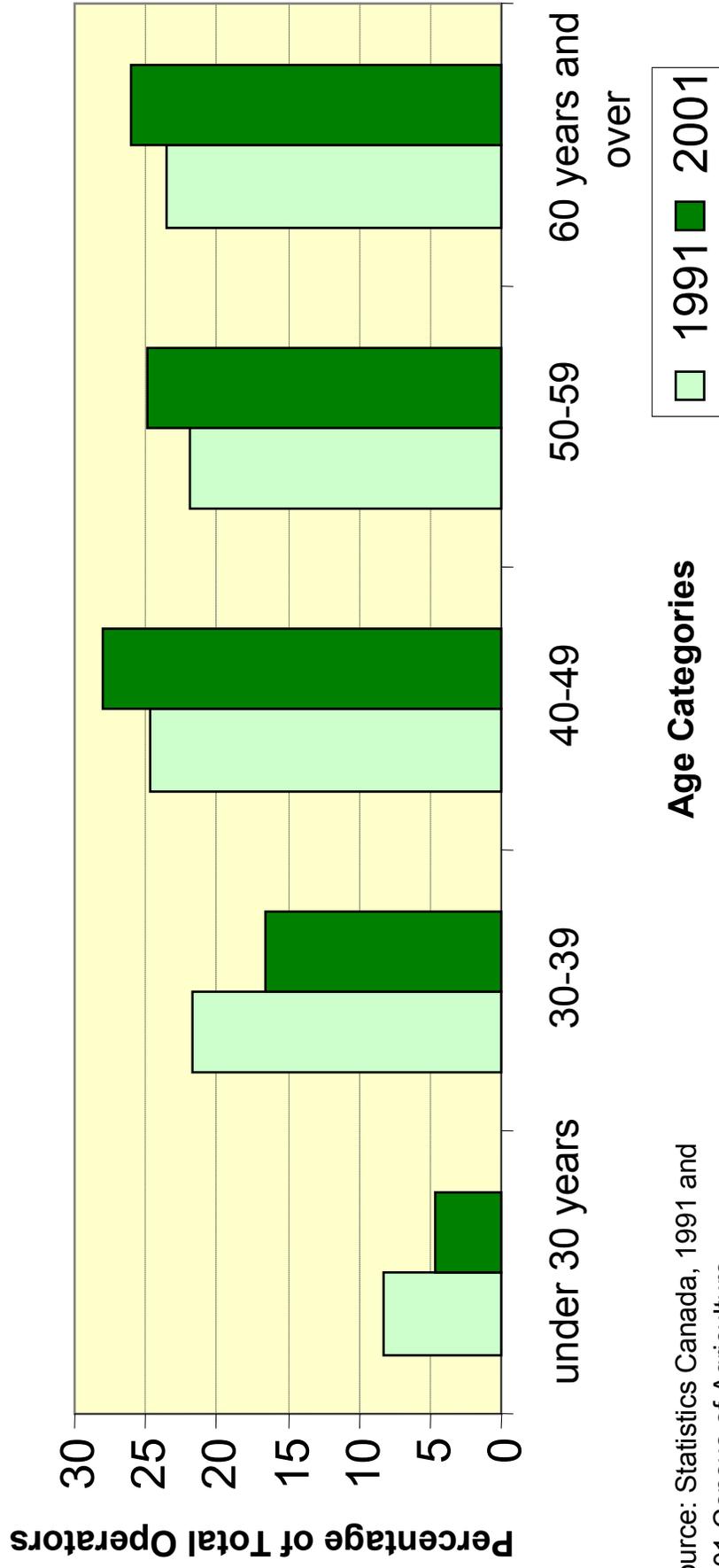
*Labour* involves  
the sharing or  
transfer of  
physical work.



# Uniqueness

- Each & every farm business is unique.
- Each & every farm family is unique.
- Thus, each & every succession plan will be unique.
- Therefore, there are NO cookie cutter solutions or magic pills.

## Age Breakdown by Percentage of Total Ontario Farm Operators, 1991-2001 Comparison



Source: Statistics Canada, 1991 and 2001 Census of Agriculture

# Current Situation

- Deloitte & Touche study—“Are Canadian Family Businesses an Endangered Species?” found:
  - 78% of family businesses will be dealing with a leadership change over the next 10 to 15 years.
  - \$3 trillion in assets to change hands.
- Some recent studies of the farm situation estimate that:
  - Between 50,000 and 125,000 Canadian farmers could retire over the next 15 years.
  - They control between \$50 and \$90 billion in farm assets.

# Current Situation

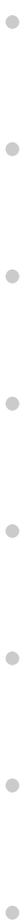
- A University of Guelph survey in 2001-02 found:
  - only 15% of respondents had an up-to-date legal will.
  - only 5% had some form of a written succession plan.
- More recent studies have found that between 10 and 15% have a written plan.

# Why are farm families not planning?

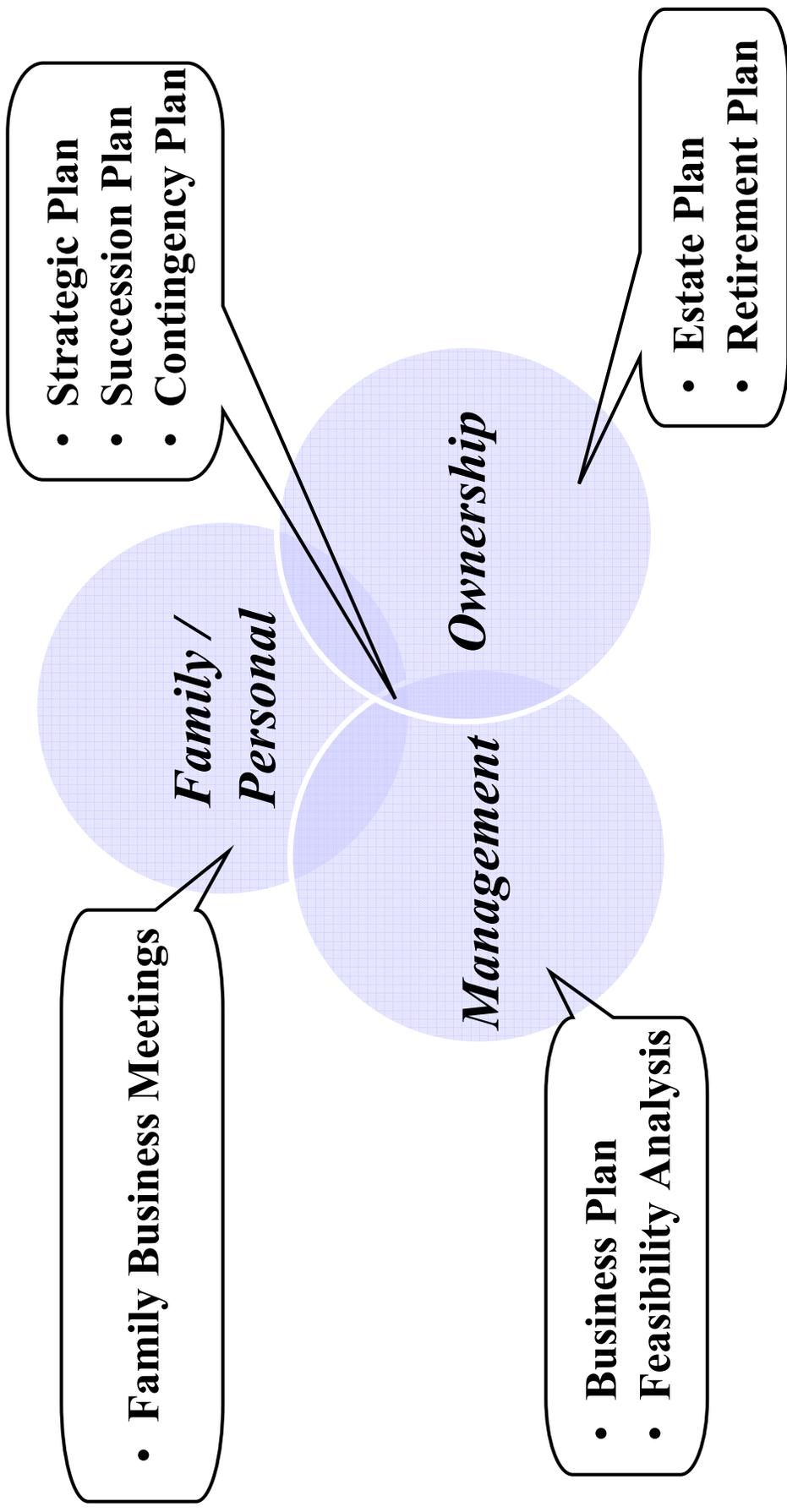
- Number of potential reasons:
  - A recent study found that farmers:
    - Don't like to plan
    - Don't see value in planning
    - Don't like the paperwork
    - Feel the plan in their head is adequate.
- Other potential reasons:
  - Don't realize the potential impact.
  - Busy with day-to-day pressures and immediate issues of business.
  - It is not a consideration at this point in their business/life cycle.
  - Don't know where to start—not sure where to get information and/or advice.
  - Overwhelmed because the process is perceived to be too complicated.
  - Fear of conflict (within business & family)—avoid issue.



# GENERAL TOOLS AND STRATEGIES



# Plans & Mechanisms To Help



# Methods of Transfer

- Gift
- Sale
- Bequest
- Combination of all three

## Specific Tax Rules on Farm Transfers

- \$750,000 capital gains exemption (recently changed).
- Transfer of assets to child(ren) using “rollover provisions.”
- Ontario Land Transfer Tax exemptions.

# Transfer of Assets using Rollovers

- The transfer of assets to a child on a tax deferred basis (rollover provisions).
- It allows the transfer price to be set at any value between the Adjusted Cost Base (ACB) and Fair Market Value (FMV) of the asset.
- Transferring the asset at ACB would trigger no capital gain. At FMV, all of the capital gain would be realized.
- The property can be gifted, however for tax purposes, the cost of the property would be the ACB.
- **Without the rollover, the land would transfer at it's FMV.**
- **NOTE: This is a deferral of immediate tax consequences—if/when asset is sold, it will trigger tax at full FMV.**



# CHALLENGES/OPPORTUNITIES



# Challenges/Opportunities

- Family dynamics.
- Need for retirement funds.
- Profitability relative to asset/capital value.
- Size of capital investment and need to think about new entry strategies (i.e. gradual transfer/purchase of shares, etc.).
- Need for management (farm-level) and leadership (industry-level) skills development in successors.

# Challenges/Opportunities

- New opportunities in food (health, functional, local, organic, natural, fine, etc.), feed, feedstock, fuel and fibre and the need to develop new ways of doing business (i.e. structures) and recognize interdependence.
- Differences between generations (boomers and echo-boomers) regarding lifestyle expectations (e.g. pay, time off, vacations, niceties—new cars, nice house, etc.) and approach to change.
- Increasing complexity of issue? More tax rules, environmental considerations, profitability, globalization, etc.
- How to attract young people → attitude - positive vs. negative.



# Challenges/Opportunities

- Off-farm career opportunities → easier lifestyle and money for leisure activities—create barriers by competing for the successor's skills.
- However, positive side:
  - some may take off-farm employment to build equity for future farm investment and;
  - if/when potential successors return to the farm business, they bring new skills and knowledge to the operation.



# How to Help

- Help farm families think about and develop different tenure and business models (due to high capital investment) to transition in the next generation.
  - However, new business models and structures need to be well documented and clear so that trust is built.
- Help farm families to understand that trust is key in succession (also in business).
- Think differently about how to work within industry to capture new opportunities—thus impacting upon the attractiveness of industry as a career choice.





# How to Help

- Appreciate the differences between generations in their approaches to “change” and other business attributes (communication) and understand how this will impact upon succession discussions.
- Increase the awareness by farm families of the need to start to plan early and that communication is key—BUT families still need to make the decisions.
- Farm families need to realize succession is a process NOT an event—takes time.



# How to Help

- Help farm families to understand and develop an integrated, multi-disciplinary, “team approach” with outside professional advisors.
- Farm families need to develop a plan to transfer management skills & knowledge (and leadership skills) to next generation:
  - but realize that new strategies may be needed if certain management characteristics are not present (i.e. production, marketing, human resources and finance).



# CURRENT PROGRAMMING



# Current Programming

- OMAFRA's program lead, courses, factsheets, publications, etc.
- The Centre for Rural Leadership classroom and web-classroom courses (producers and advisors).
- Current APF Renewal programming (see next slides).
- Canadian Farm Business Management Council's **Beginning Farmer Team** and upcoming **International Farm Succession Conference**.
- FCC-AgriSuccess workshops on planning (succession planning part of this).
- National Farm Transition Network (NFTN).
- Private Companies.

# APF Renewal Programming

- Canadian Farm Business Advisory Services (CFBAS):
  - A national initiative under the Renewal Chapter.
- CFBAS is made up of three programs:
  - Farm Business Assessment (FBA)
  - Specialized Business Planning Services (SBPS)
  - Planning and Assessment for Value-Added Enterprises (PAVE).
- CFBAS has special eligibility and provisions for “beginning farmers.”

 Canada

 Ontario

# APF Renewal Programming (continued)

- Canadian Agricultural Skills Service (CASS):
  - funded through the Renewal Chapter of Federal-Provincial-Territorial Agricultural Policy Framework (APF) and administered in Ontario by CON\*NECT.
- This program offers assistance for skills assessment and training.
- It is targeted to producers and their spouses with net family incomes of \$45,000 or less.
- The goal is to assist farmers and their spouses to increase their family income.
- CASS has special eligibility and provisions for “beginning farmers.”



Canada

 Ontario

# National Farm Transition Network

- US-based group with its goal to “support programs that foster the next generation of farmers and ranchers.”
- NFTN participants (organizations) have various programs and initiatives including:
  - Training, workshops and skills development opportunities (for both producers and advisors)
  - Information and resources
  - Farm linking programs
  - Mentorship programs
  - Internship programs
  - Incubator farm initiatives (Intervale)
  - Land tenure arrangement strategies and resources
  - Easement and development rights strategies
  - Tax credit programs (encourage leasing to beginning farmers)

