

Farm succession and inheritance planning

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Summary

- Farm succession and inheritance are issues for every farm family.
- Planning for succession is one of the most important aspects in the life of the farm business.
- Planning for and carrying through on succession can be a complex process but needs to be begin at an early stage to ensure that the process is successful.
- Communication is one of the most important factors which contributes to a successful succession and inheritance process and there should be open discussion with all family members.

Introduction

The issue of transferring the family farm is one which every farm family encounters during the life of the farm. A lot of farmers do not like to talk about succession and inheritance. It can be a sensitive subject as farmers feel it marks the end of their farming career. It is important to understand that within farm transfer, there are two processes. These are succession and inheritance.

- Succession is defined as the gradual transfer of management of the farm from one generation to the next.
- Inheritance is defined as the legal transfer of the farm assets from one generation to the next.

Planning for succession is critical to ensure that the process occurs without issue and that all members involved in the family are happy with the outcome.

Succession planning

Succession is very important for the farm business. It gives an incentive to expand or change the farm and it also provides the resources, labour and skills to carry the plan through.

It is important to note that succession is not a single event but a process which occurs over a period of time. Succession planning can be difficult and complex. The farmer and spouse will try to maintain a viable farm business for the next generation, treat all of their children fairly and provide financial security for their own retirement.

Planning early for succession allows for a lot of the main issues to be addressed and resolved. It ensures that all family members are happy with the proposed outcome for the farm. A key starting point to this is establishing the needs, expectations and fears of all family members in regard to the farm business.



Figure 1. Succession and inheritance strategy flowchart for a successful outcome

Communication

Effective communication is the key ingredient to successful succession planning. It allows for family members to share concerns, decide on options available and what actions to take. It also allows for effective planning and helps prevent disputes, misunderstandings and unnecessary anger.

Typically, when it comes to discussions around succession and inheritance, farmers are “passive” communicators. This means that there is a lot of assumptions around who is getting the farm and the plans for the future but these are not always explicitly communicated to the people involved.

When communicating on succession and inheritance it is important to include all family members in the conversation considering the three key aspects of family, ownership and management in any discussion. When planning any discussion on succession the following should be considered:

- Who should be involved in the discussion?
- What needs to be discussed?
- When and where to meet?
- What life stage are the children at?

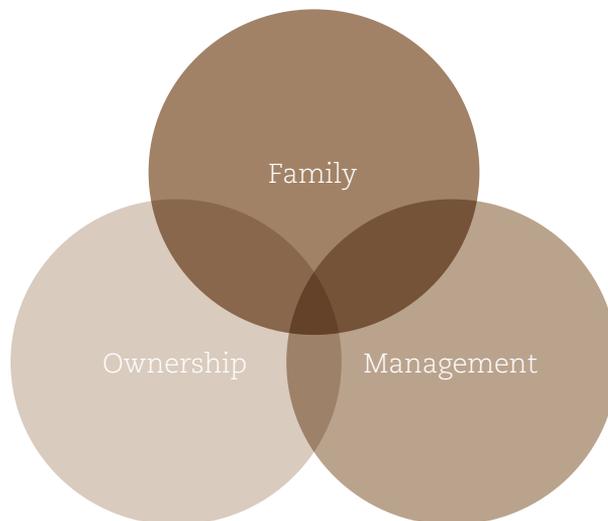


Figure 2. Three key discussion areas for a successful plan

Conclusions

Communication is the key to effective succession planning. It is important to have the discussion early and with all family members. This should prevent any disagreements and ensure that all family members have had the opportunity to discuss their needs, fears and requirements about the farm business.