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# A Canadian Perspective on Intergenerational Farm Transfers and Succession Planning

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Canada 

# Long-term forces acting on intergenerational transfers

- Fewer farms (a decrease of 18% over the last 15 years)
- Larger farms (22% increase in average size over the same period)
- Fewer and aging operators/owners (average age of operators increased from 47.5 in 1991 to 52.0 in 2006)
- Value of farm assets rising faster than farm receipts (farm assets doubled over the 15 years)

# These forces present overarching challenges to industry and government

- Almost 74,000 farms are currently operated by farmers who are expected to retire over the next fifteen years and in the process to transfer up to almost half of the farm assets of Canadian agriculture.
- Three-quarters of these farms are one-generation farms, i.e., they do not currently have an operator of a younger generation to take over the operations.
- Financial requirements and risks to entering farming have increased, while the ability to pay from farm income for the opportunity has declined.

# Principally, the financial challenge creates obstacles to debt-financing the acquisition of a farm business...

## 2004 net income and debt servicing cost of assets to be transferred by operators age 55 or over (billions of dollars)

	Multi-generation farms	One-generation farms
Net farm income	1.4	0.9
Interest expense	<u>0.4</u>	<u>0.3</u>
Total	1.8	1.2
Debt servicing costs*	3.0	2.9
Income as ratio of debt servicing cost	60%	41%

*\*Debt servicing cost equals amortization of 100% of assets to be transferred at market value over twenty years at 6%.*

...making it easier for those who don't have to cover the entire value of the acquisition through debt-financing

## Average rate of return of Canadian grain and oilseed farms, 1992 to 2001

	Percent
Farm income	4.9
Capital gains	1.2
<b>Total</b>	<b>6.1</b>

# A variety of buyers, sellers and methods of transferring farm assets reduces the debt challenge.

- Multi-generation farms
  - The transfer of ownership to the next generation occurs over a period of years.
  - The older generation makes some arrangements or concessions to the younger generation, such as below market interest rate or sale price.
- One-generation farms
  - Operators of existing commercial farms will purchase farm assets of one-generation farms with existing farm net worth.
  - New entrants will purchase assets to operate part time farms from non-farm income.
  - A limited number of larger farms will be purchased by new entrants with significant capital wishing to operate on a commercial scale, such as immigrants with agricultural experience seeking less expensive operations, as well as Hutterite colonies and Indian bands.

# Why should Canadians be concerned?

- Integral part of diversified rural economy.
- A highly productive sector vis-à-vis other sectors of the economy.
- Significant contributor to Canadian economy.
- Central to the Canadian value chain.
- Less dependent on support relative to many other countries.
- Major exporter.
- Natural advantage.

# Opportunities for Sectoral Renewal

- Young farmers providing new ideas and innovation
- Young farmers bringing increased levels of education to the industry;
- Opportunities for farm consolidation and economies of scale;
- Opportunities for low cost producers to purchase higher cost operations;
- Improved stewardship practices.

# Canada's way of assisting in farm entry-exit and expansion

- The federal government has several tools to advance its role, among them:
  - Agricultural Policy Framework (Renewal programs)
  - Other measures
    - Farm financial programs (AAFC)
    - Farm Credit Canada
    - Federal tax policy
- Provincial and Territorial Tools

# AAFC Renewal programs assist entry-exit and expansion

Under the Agricultural Policy Framework (April 2003-March 31, 2008)

- Renewal programs:
  - Canadian Agricultural Skills Service (delivered through third parties and Service Canada)
  - Canadian Farm Business Advisory Services (delivered by AAFC)
    - Farm Business Assessment
    - Specialized Business Planning Services
      - Succession Planning

# Succession Planning in Agriculture Compared to Other Small and Medium Size Enterprises

- **Agriculture (farming sector):**

- 35% likely to retire in next 15 years
- 18% have a formal written succession plan
- 30% have a will but no succession plan
- 20% have an informal succession plan and a will
- 60% believe that keeping the business in the family is very important

- **Other SMEs:**

- 85% plan to retire in next 15 years
- 7% have a formal written succession plan
- 65% have a will but no succession plan
- 28% have an informal succession plan
- 58% **not important** for family to take over the business

# How does succession planning under SBPS work?

- Farmers provide proposal to AAFC
- Farmers hire their own expertise
- AAFC contributes up to 50% of consultant fees
- Under SBPS, succession plans need to address:
  - Business overview
  - Retirement plan
  - Management, Control, and Labour Transfer plan
  - Ownership Transfer plan
  - Implementation timetable
  - Communications plan

## And how has it “worked” ?

- Encouraged succession planning as a process more than simply the production of a paper (involvement of family members, successors, the importance of soft issues, communications).
- Succession plans account for majority of specialized business planning services (53% of all plans).
- Greatest up-take in succession planning relative to other planning under Specialized Business Planning Services (to-date): Quebec, Ontario, P.E.I., B.C..
- 80% of the clients have indicated the program made them aware of the elements needed in a plan and 77% indicated that they were satisfied with the services provided under the SBPS program.

# Succession planning under SBPS: a “valuable tool”

- *For those clients who undertook succession planning, it has become an invaluable exercise and learning tool for the whole family, as the following testimonial illustrates:*
  - *"We realized we needed to develop a succession plan to hand the farm on to my son and his wife (...) We'll end up with what you might call a succession manual. It will include everybody's personal and business goals, and everything about how the farm operates. All the information is down on paper—contracts, finances, banking information, RRSPs and so on. At the moment, the highest priority for my wife and me is to know that the business we've built up will be taken care of by the next generation, and this plan will help see to that. I also believe that an early start on a succession plan helps the younger generation, while they're working the long hours that a farm demands, to see that there's really some benefit coming to them." (Doug Spencer, dairy farmer, Campbellford, ON)*

# Other Related Policy Tools: National Partners and CAHRC

- Through the National Partners program, AAFC supports :
  - Canadian Farm Business Management Council
    - Farm management capacity building and awareness
  - Canadian 4-H Council
  - Canadian Young Farmers' Forum
  - Canada's Outstanding Young Farmers' Program
  - Canadian Agricultural Safety Association
- Canadian Agricultural Human Resources Council

# Other Related Policy Tools: AAFC financial programs

- Loan Guarantees
  - *Farm Improvement and Marketing Cooperatives Loans Act*
  - *Agricultural Marketing Programs Act*
    - Advance Payments Program
- Business Risk Management
  - AgriInvest
  - AgriStability
  - AgriRecovery
  - AgriInsurance

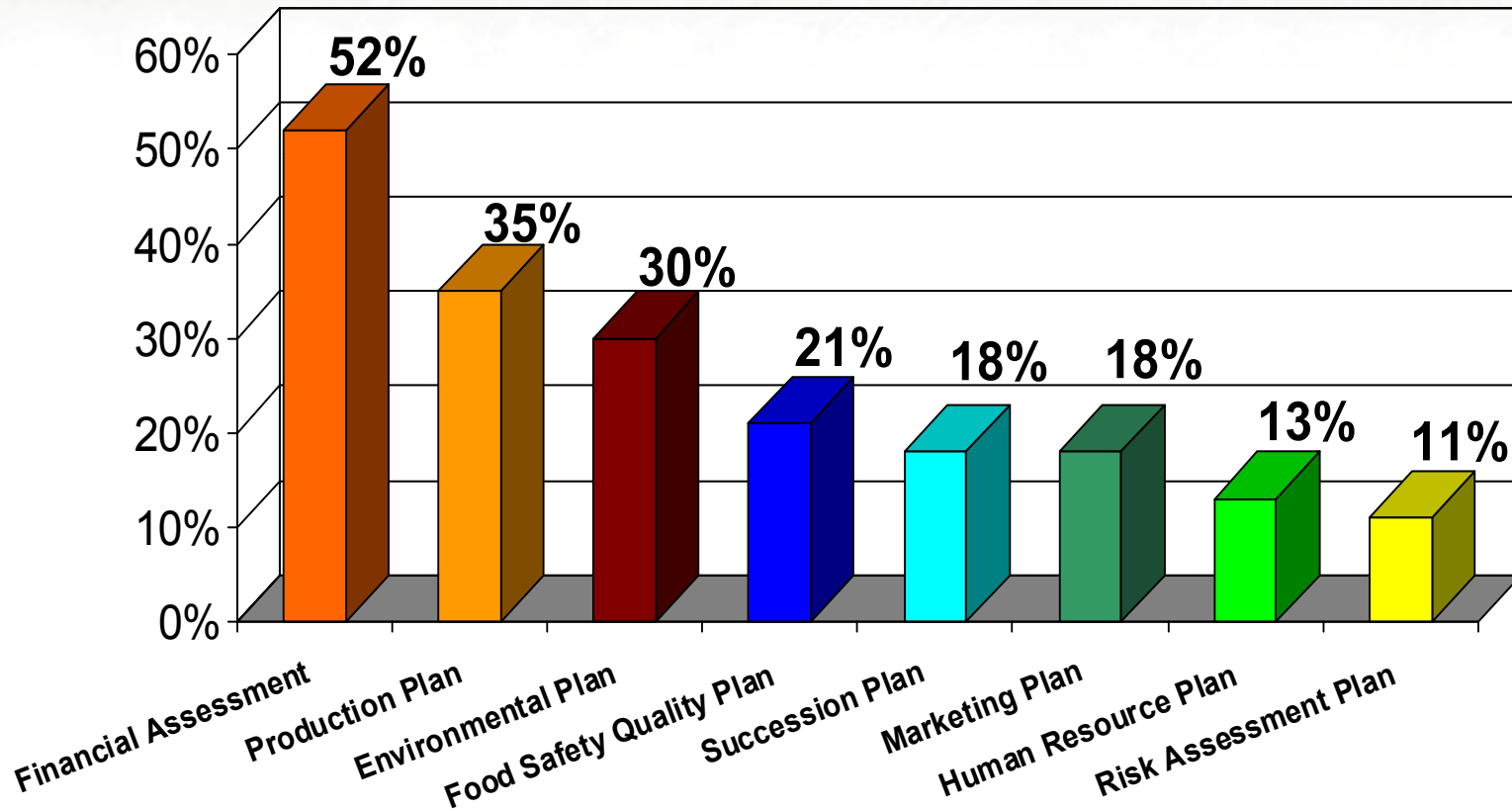
# Other related Policy Tools: Farm Credit Canada finances beginning farmers

- FCC currently has in place a number of loan programs to help beginning farmers:
  - Payday loan program for farmers with non-farm income to help make loan payments;
  - First step loan program to assist young farmers with their first purchase;
  - Accelerator loan program to provide loans with as low as zero down payment and interest-only payments for a portion of the loan.

# Other related Policy Tools: Federal Tax Policy facilitates intergeneration farm transfers

- Lifetime Capital Gains Exemption (LCGE) for qualified farm property and shares of small business corporations up to \$750,000 per individual (2007)
- Capital gains can be brought into income over a period of up to ten years for family members of farmers
- Certain farm property can be transferred tax-free to a child or certain other members of the family until the property is sold to a non-family member

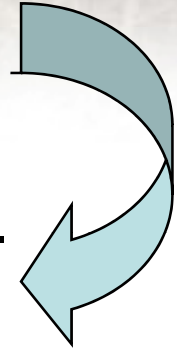
But more remains to be done in succession and other related best management practices.



# Where are we going?

- **The Growing Forward Vision:**

- A profitable, innovative, competitive market-oriented agriculture, agri-food and agri-based products industry.



- **The Growing Forward Accord**

- A Competitive and Innovative Sector
  - Facilitating entrepreneurship, and business planning and skills development for enterprises, while respecting areas of provincial and territorial jurisdiction

## Further work needs to be done.

- Facilitating the use of new tools:
  - Farmers helping farmers
  - Mentoring/coaching
  - Board of advisors
  - Encourage a management team approach
- Build strategic capacity (advisors, producers).
- Further analysis and dissemination of “best farm management practices.”
- Innovative solutions adapted from other countries, other sectors.

***The challenge is still out there --let's talk.***



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