

The Client Advisor



Effective Farm Business Succession Planning

by Bill Lockington



It is important to develop and implement an equitable and tax-effective plan for the inter-generational transition of the family farm business.

You will find an outline of a succession plan process in this Client Advisor which identifies the issues to be addressed by members of the family.

Succession Planning truly is a process requiring patience, the assistance of professional advisors and leadership of one or more family members. To be successful, the family members must consider the need for a plan as a priority, be committed to its completion in all respects, and approach the exercise with goodwill, an open mind, and respect for the family and individual values which underscore their relationships. This is a significant but worthwhile undertaking that will eliminate uncertainty, misunderstandings and generational tensions.

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PLAN COMPONENTS

A. THE BUSINESS

- the history of the business
- location and physical assets of the business
- crops and products of the farm business
- employees and roles (key management / production)
- inventory of capital assets and equipment
- business relationships – leases, supply contracts, markets, partnerships, joint ventures
- ownership of the business

B. FAMILY GOALS AND EXPECTATIONS

Founders (Parents)

- our continuing participation (if any) in the farm business
- our financial requirements
- our lifestyle
- our wish for family harmony
- retirement expectations – lifestyle and financial resources

Successors

- management (exclusive, shared or acquired etc)
- ownership (when, how)
- relationship with siblings
- financial (income)

C. IDENTIFY SUCCESSOR

- comparative skills set profile
- identify shortcomings and needed resources
- review process (external or internal)

D. THE BUSINESS PLAN - PREPARATION:

- comparative and pro-forma financial plans
- opportunities
- risks and contingency
- growth (acquisitions, diversification)

E. MANAGEMENT (Operations)

- single
- shared
- committee
- transition (timing, workload)

F. FINANCIAL CONSIDERATIONS

- affordability of the Plan
- locked in capital
- profitability
- debt service
- credit availability

G. OWNERSHIP TRANSITION

- current structure
- changes in business vehicle
- assets to be transferred
- means of transfer (purchase, gift, or combination)
- financing
- valuation
- tax advice
- insurance
- documentation

H. FAMILY CONSIDERATIONS

- personal planning (wills, trusts, powers of attorney, domestic contracts etc.)
- fairness and equality
- communications (family meetings, forum, style)
- dispute resolutions (means)

I. CONTINGENCIES

- death, insolvency, disability, market conditions