



INSTITUTE FOR **Rural Futures**

# Farm Succession And Inheritance: An International Comparison



This study compares Australian trends in career progression, farm succession and retirement with those in other countries participating in the International Farm Transfers Study. To date, studies have been conducted in England, France, Ontario and Quebec in Canada, Iowa, Virginia, Pennsylvania and California in the USA, Japan, North Germany and Poland.

The survey was mailed to 5000 farm families Australia in the winter of 2004. The response rate (allowing for return to senders) was 36%, providing a sample of 1180 farm families for analysis.

## The findings

More Australian farmers prefer semi-retirement than those in other countries. Most plan to retire or semi-retire at age 65, which is older than the planned retirement age of farmers in Canada, France and England.

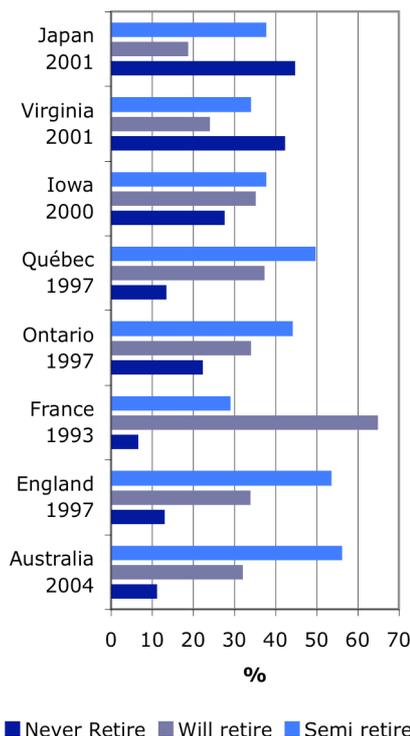


Figure 1: International comparison of retirement plans.

Australian farmers who plan to retire at older ages (70 and over) tend to prefer semi-retirement. Yet, one fifth of the respondents reported they intended to retire or semi-retire at an age younger than 55 years. A greater number of these farmers were on smaller farms.

Just under half of the respondents (48%) planned to move from their current home when they retired or semi-retired. Most (57%) intended to move to town, which allows for continued involvement at various levels in the farm business.

In comparison with other countries, Australian farmers' planned sources of retirement income are fairly evenly spread across a range of options. The most common source of income in retirement was the sale of farmland and other farm assets (58%). Several wanted to access the aged pension but their legal involvement in the farm business meant that they are ineligible. These farmers are not keen on transferring ownership of their land, thereby forgoing security in their declining years and being entirely dependent upon the pension.

*It is very hard under pension eligibility as I am asset-rich and not eligible for a pension. For financial security for my wife and myself, it is very hard to transfer assets to our son and still be guaranteed an income for the rest of my life.*

While the majority of respondents (70%) had discussed retirement plans with their spouse or partner, less than half had talked over the issue with their family.

*At 34 years old, my spouse and I find it very frustrating to be kept in the dark regarding succession. I have two sisters who will be considered.*

Twelve per cent of those polled had not discussed these issues with anyone. Yet compared with other countries, there is generally more discussion of

these issues within Australian farm families. More Australian farmers discuss their plans with accountants.

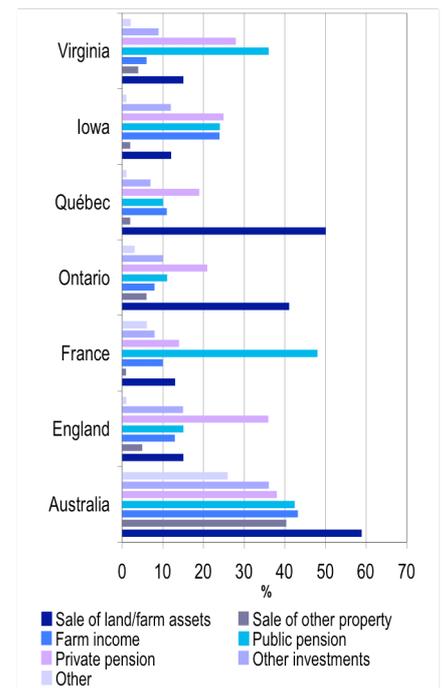


Figure 2: International comparison of sources of retirement income: Full retirement.

## Succession

Just over half of the respondents (51%) had identified a successor for their farm business. These successors were most likely to be a son. Most daughters are excluded from inheritance of land. Daughters are provided with a good education as compensation. Successors were better educated than their parents. Many farm families see farming as a low return business and are increasingly encouraging their children to gain tertiary qualifications in areas outside agriculture and then, if the children choose, come home to the family farm.

Farmers tend not to consider succession before the age of 50 but compared to farmers in other countries, Australians are at a younger age when they select a successor. Farmers on smaller farms were less likely to have nominated a successor. Properties greater than 50,000

hectares were also less likely to have a successor. This is possibly because many large outback properties tend to be run as companies rather than family farms.

In Australia, as in Canada and England, most successors (32%) were working alongside the older generation on the family farm. Some successors (30%) also held full responsibility for a particular enterprise within the farm business; in most cases these were cropping or livestock enterprises. Others (24%) had a full partnership with the older generation. Most of this group also held full responsibility for a separate enterprise within the farm business. As found in most other countries, successors on smaller farms were more likely to be working off-farm. Of these, more Australian successors than those in most other countries were either running a non-farm business, employed on another farm, or working in off-farm employment.

There were similarities between Australian farmers and their English counterparts in attitudes and patterns in the transfer of managerial responsibility to successors, which occurred at a much slower rate than in other countries. However, this may be a consequence of more retiring farmers intending to rely upon the farm for income in retirement. On Australian farms, as is the case on farms in all other countries, financial decisions are the last responsibility transferred to the younger generation.

The major differences were that on Australian farms, decisions regarding the long-term balance and type of enterprise, and decisions relating to the purchase of machinery and equipment, were handed over to successors at a much later stage compared with farms overseas. This may possibly be due to the larger size of operations in Australia and the size and cost of machinery.

Despite some evidence of a shift toward large corporate farms in Australia, most farm families are tending to remain within traditional legal structures of property ownership, such as family partnerships (62%) or sole operations (17%), and they employ only family labour. However, younger farmers favour newer forms of business structure.

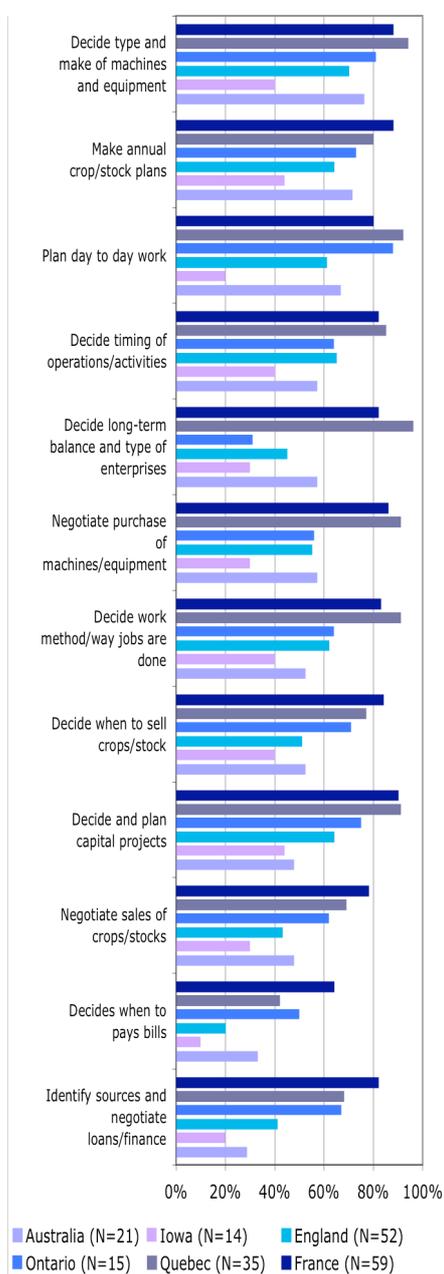


Figure 3: Proportion of farms where the successor has an equal or greater share of the decisions for various tasks.

### Factors influencing succession and inheritance

Several factors impact upon farmers' plans for succession and inheritance including the possibility of divorce within the family and the subsequent loss of all or part of the family farm in family court settlements, the impact of assets and income tests on eligibility for pensions, the impact of government taxes, the financial pressure caused by escalating costs, the persistent drought and the need to preserve the viability of a farm business.

The study revealed that Anglo-Saxon traditional approaches to succession and inheritance still influence farmers' attitudes and values and consequently the way in which they manage retirement, succession and inheritance. Most respondents (45%) believed that

passing the farm onto a sole heir was the best way to maintain the farm within the family and maintain a whole, viable farm business. Others (26%) believed all children should inherit equally. Some reported they would sell the property to ensure that all their children received an equal inheritance.

Two-thirds of the respondents were farming land that had been in their family or their spouse's family for several generations, on average at least three generations. Those who reported a long family connection to their land were mostly of English heritage. Respondents who were descendents from other ethnic groups, such as Russian, Hungarian and Basque, displayed a clear preference for ensuring all family members have an equal share of the farm business.

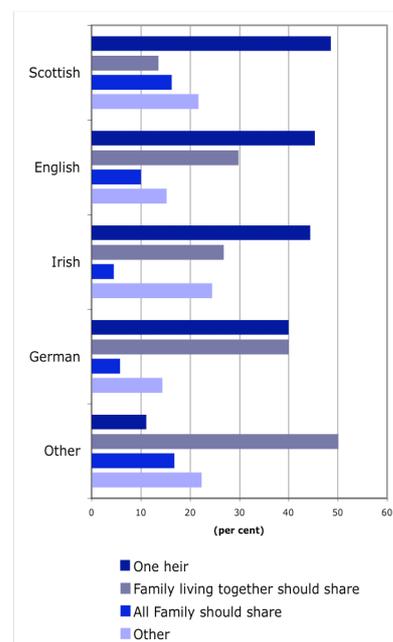


Figure 4: Attitudes to the division of property by cultural heritage.

Several farmers commented that succession planning was an extremely difficult and complex process for everyone involved.

*This issue is the most underrated impediment to business performance. From my experience, differences between generations and siblings can stall business development for a decade or more, until the issue is dealt with.*

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