Making a success of succession

STRUTT & PARKER

IT'S OVER TO YOU NOW...

Succession is one of the biggest challenges facing landowners – but it is one that is definitely best tackled head on to avoid further problems down the line.

It is said that only two things in life are certain: death and taxes. And although never truer than when it comes to rural estates, many landowners, while accepting the inevitability of the latter, try to avoid, or procrastinate, addressing the former. But as land management spans generations and most landowners wish to preserve their estates for their heirs, they must broach the sensitive subject of their own mortality in order to plan ahead to pass on their assets in the most suitable and tax-efficient manner possible.

Every family and business is different, so there is no 'one size fits all' solution when it comes to succession planning. However, there are many common concerns and mistakes that people encounter, so it can help to draw on other landowners' experiences and to bring in an independent expert to facilitate the discussions.

There are three vital questions that must be confronted:

1. When are you going to hand over your assets?
2. Who is going to inherit them?
3. How are you going to approach and structure the hand over?

One of the most important aspects to successful succession planning is transparency and managing peoples' expectations. That is why it is so important to talk – but it is not always easy to do so.

Often, families find it helpful to bring in an independent facilitator to navigate the potential pitfalls and take the emotion out of what can be a stressful discussion.

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One of the most common difficulties that the older generation has is how to treat all their children equally. Sometimes an estate cannot support the whole family, so how can they preserve the business without treating some of their children unfairly? Often, assets can be divided into farming assets and non-farming assets, and handed on in that way. But where this is not possible, having a frank discussion with the whole family present can really help.

Explain the reasons behind your decision, and make sure your chosen heir actually wants to take over the business. Don’t make assumptions about what other people want. Often, they may surprise you. The worst thing in any inheritance is a nasty surprise – if people know what to expect, they can come to terms with it and avoid family disagreements down the line.

Another common mistake is not allowing the younger generation to have an active, decision-making role in the business. Giving up control can be extremely hard, but if your heir feels that they aren’t trusted, he or she may become frustrated and could even leave the business rather than continuing to work within the family.

Of course, the older generation must also provide for themselves during their retirement. They should take care that for tax purposes, they don’t hand everything over to their heirs, thus leaving themselves financially dependent on them in the process.

There is always a huge amount to consider when it comes to succession planning – but the alternative could, at worst, break up both your family and your estate. It may be difficult, but it is good to talk, so get on and take the first step.

Real life succession plan failures to avoid:

- A father became incapacitated, and his heir and business partner discovered huge hidden debt in a private bank account that he was due to inherit.
- A son and partner in the business didn't realise that his father hadn't allocated any profit to him over the years. His personal drawings had therefore left him hugely in debt to his father. Despite a family fallout, he could not leave the business.
- The pressure of being heir-in-waiting for decades, with all the responsibilities but no authority, led to the heir having a breakdown.
- Excessively complex tax planning resulted in land being owned in multiple trusts with multiple beneficiaries, who had conflicting objectives – leading to a very unhappy estate.
- Overzealous tax planning by parents led to very wealthy grandchildren but an impoverished son.
- Fifteen years after the death of their father, siblings wanted to swap the properties left to them, but by that time the Capital Gains Tax liabilities prevented them from doing so.
- The younger generation were so confident of their succession that they never took on gainful employment, only to find that the estate could not support their lifestyles.
- Siblings became crippled by envy when the eldest son and heir sold the estate following their father's death, resulting in a family breakdown.

For more information or advice on succession planning for your farm or estate, contact Strutt & Parker:

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