

Passing over the farm without passing over family interests

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CASE STUDY BACKGROUND

This case study focuses on a farming family in regional northern NSW which holds extensive agricultural interests built up over many years. The farming business was, and continues to be, operated via a partnership of the parents, and their son, who is married with a young family. There are also two married daughters living in capital cities with their own families.

The family sold one of its property holdings two years ago. Mum and Dad decided that it would be a good time to sort out their succession planning as all of their children were married, had started their own families and wanted to determine their own destinies.

They wished to leave their farming interests to their son, while also treating their daughters in an equitable manner.

The entire family was involved in the succession planning process and each member signed a binding legal agreement to ensure that the process happens as agreed.

A key element of the farm succession strategy detailed in this article was the creation of a family trust for the daughters. While the daughters' respective children are the only beneficiaries of the trust, the daughters' spouses were not included to protect the trust's capital against the possibility of divorce. A reasonable initial capital contribution was made to each of these trusts to initiate an investment portfolio.

For the next five years, the trusts will also receive an ongoing annual lump sum payment from the farming partnership to achieve the capital contribution level agreed upon.

Self-managed super

Mum and Dad have a self-managed superannuation fund that has been in operation for some time and has built up significant capital. The farming business is also making regular and concessional (tax deductible) contributions to the fund.

The aim is to build up sufficient capital in the fund so that Mum and Dad can purchase a home whenever they choose and meet their income needs in retirement.

Because of the concessional tax rates, superannuation is the most tax effective manner for them to accumulate assets for their retirement.

The son continues to operate the farming partnership (without interference from his siblings) knowing that he will receive the land assets once his parents retire or pass away.

A significant life insurance policy was taken out for the son. This will ensure that there would be sufficient proceeds to pay out any remaining capital payments owing to his sister's trusts, clear the business debts and leave adequate funds for his wife and children to move off the farm, buy a house and meet their living expenses.

Balanced investments

Financial advice has been provided to the daughters to enable them to build an investment portfolio and assist with investing the ongoing contributions to their family trusts. Due to the need to grow the capital base over time, the trusts have invested predominantly in direct shares, using Lonsec's core equity model portfolio

(Figure 1). They have also invested in direct property.

Mum and Dad also sought advice from BFS in relation to their self managed superannuation fund. They had been managing the fund themselves and – they are willing to admit – not very successfully.

The portfolio held more than 30 different shareholdings with no real structure or plan. It included large holdings in agricultural stocks such as AWB, Graincorp and Incitec Pivot.

The number of stocks was reduced to 15 with relative weightings and sector allocations. The family had enough exposure to the agricultural sector via their farming operation and didn't need to 'double up' this risk by having exposure to agricultural shares in their superannuation fund as well.

Overall, the three investment portfolios are now well structured, they invest in a disciplined manner and the performance of the portfolios is easily measured.

Each member of the family has a clear plan to take them into the future with financial security.

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FIGURE 1: Lonsec core equity model portfolio

