A GUIDE TO SUCCESSFULLY KEEPING THE FARM IN THE FAMILY

We’ll help you find the answers, with down-to-earth, practical support

NEXT STEPS

So when you are ready to start the conversation just pop into your local NFU Mutual office. To find your local office go online at:

nfumutual.co.uk

When you get in touch we’ll explain the advice services we offer and the charges. NFU Mutual Financial Advisers advise on NFU Mutual products and selected products from specialist providers.

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PASSING YOUR FARM BUSINESS ON TO THE NEXT GENERATION

Having a plan in place developed with your whole family will help to safeguard the future of your farm.

Founded by farmers for farmers over 100 years ago, today we are proud to be the UK’s leading rural insurer. Our Agents are embedded within your community and our local presence, combined with over a century’s farming knowledge and expertise, means that no-one understands how important your farm is to you and your family more than us.

We understand what’s important to you

Farming and the rural community remain at the heart of everything we do. We take the time to listen to our customers and create products and services that truly benefit them.

Time and time again you’ve told us that safeguarding the future of your farm and protecting your family’s livelihood is your main priority.

That’s why we’ve developed this handy guide – it’s designed to offer practical advice and useful solutions to help protect your farm for generations to come.

The first step is having an open and honest conversation. If you’ve struggled to choose the right moment to talk with your family or simply don’t know what to say, this guide will help you start to put a plan in place. It contains essential tips and expert advice, plus we’ve included real life experiences from our farming customers so you can discover how they’ve tackled the complex and sometimes delicate issue of passing on the farm.

We’re here to help

Located in the heart of farming communities, our Agents and Financial Advisers appreciate the demands of your day-to-day life and understand that establishing a successful way to hand down your farm is in the best interest of your whole family.

Your local Agent will introduce you to an NFU Mutual Financial Adviser who can help you develop a financial plan to protect you, your family and the future of your farm.

No pomp, no ceremony, just down-to-earth practical support and advice. With our understanding and expertise we can help you develop a financial plan that will protect your farm for future generations.

Fewer than 50% of farmers have a plan in place to pass the farm on

Source: Mindset Research 2017
THE MERCER FAMILY EXPLAIN THEIR STORY

Who: Roger Mercer, fourth generation farmer managing a 2,200ha mixed farm estate, encouraged his sons Robert, Alec and Tom to set up their own enterprises when they were in their mid-20s. Robert runs a free-range pork business, with Alec producing free-range poultry – both based on the home farm. Tom’s London-based enterprise sells oat-based breakfast products.

How it works: “Robert and Alec hold 75% of their own business and the rest of the family shares 25%, to spread the risk,” says Roger.

“It helps build the family pot so that when succession does happen, there is more to share between family members.”

The family holds quarterly board meetings with an independent chairman, and keep most of the land in trust, separating business and assets.

Roger’s advice:

Many of the older generation fear handing over the reins, but you don’t have to pass over the farm and disappear into the sunset.

I believe young people are better in control of their own destiny as soon as possible. The way to drive a family business forward is to allow the individual to express their potential.

Roger Mercer
WHY DO WE NEED TO PLAN FOR THE FUTURE?

Your family may have worked the farm for generations, day in, day out, with years of hard work – so leaving its future to chance means you risk losing your legacy.

We believe the best way to ensure a smooth transition and protect the future of your family’s farm is by financial planning now and not waiting until there is a crisis or emergency.

At NFU Mutual we can help make sure that you are in control of your family’s future. We understand that the needs of every family and farm business are different and that ideas and expectations for the farm’s future vary from generation to generation, and individual to individual. Starting the conversation early and involving the whole family is key. Here are our top tips:

1. Be open and honest from the outset:

It’s vital that all family members lay their cards on the table and talk openly about their wants, needs and expectations. Be prepared for emotions and feelings to run high as your plan is ultimately about protecting the future of the business and the future lives of your family.

2. Include the whole family:

The initial meeting is generally going to be the most difficult, but quite possibly the most informative.

3. Consider appointing an impartial chairperson:

Someone who is not a family member can ask the difficult questions that your family may skirt around and get everything documented. Think about a venue where the conversation may flow more freely.

4. Consider how to benefit the whole family:

Treating farming and non-farming children fairly doesn’t necessarily mean equally – you should be clear on how all farming and non-farming family members will benefit.

5. Life doesn’t always go according to plan:

Life events such as a marriage, birth, death, divorce, illness and retirement may cause your family to think about what the future holds. Business developments such as diversification or purchasing land could also prompt you to consider the management and ownership of your farm.

6. Adapting to changes:

Be flexible and allow for transformation over time, reflecting changing circumstances, aspirations and family dynamics.

7. Remember:

It’s never too early to put a plan in place, but it can be too late. The earlier you start the process of writing and documenting a plan in a format that suits you, the more options you will have available to you. Other guidance may come from other professionals like your solicitor or accountant too.

8. Monitor your goals:

It’s important to keep an eye on your financial goals to make sure they are relevant and on track.
Milly Fyfe Takes Us Through Her Story

Who: Milly and Andrew Fyfe’s desire to put down roots and plan for a family led to discussions about the future of the family’s beef, sheep and arable farm.

How it works: “There was always an assumption that one day Andrew would take full responsibility of the farm and we would live at the main farmhouse,” says Milly. “However, there was never any discussion about when.”

Milly attended the Worshipful Company of Farmers Challenge in Leadership course, which put her in good stead for starting the conversation. The discussions involved deciding that the couple should move into the farmhouse, allowing them to take a more hands-on approach. “The here and now we have ironed out,” she says. “We are putting a long-term plan in place. We’re getting there, but it’s a continual process that we need to keep reviewing.”

Milly’s advice:

By being open to conversation, everyone knows what the options are and what we need to do to capitalise on any opportunities.

Milly Fyfe
WHAT DO WE NEED TO TALK ABOUT?

Some key questions to ask you and your family when you start to talk.

As part of your discussions, you should cover:

1. What is the longer term direction of the farming business?

2. What role each family member will play now and in the future?

3. What development, skills or experience do the younger generation need to acquire?

4. How the assets are to be owned in the short, medium and long-term?

5. What provision will be made for those who are not involved in the business?

6. What level of income does each member of the family want or need from the business?

7. Where each member of the family will live?
This guide has been created to help you and your family talk about the future of your farm.

There is no ‘right way’ when it comes to passing on your farm to the next generation; every farm and every family is different. We’ve outlined four scenarios so you can start to find out a little more about the options available to you. These scenarios are:

• “I don’t want to pass the farm on during my lifetime”
• “Only one of my children wants to farm, how can I be fair to the others?”
• “I want to play a less active role but keep hold of the farm”
• “I want to pass the farm on and step away from the business”

“I don’t want to pass the farm on during my lifetime”

Regardless of when you intend to hand your farm on to the next generation, making a plan will not only mean a smoother transition, it will play a big part in securing the future of your farm.

Wills and agreements

It’s vital that all members of the family involved in the business have valid wills and, where appropriate, a partnership or shareholder agreement. This will ensure the ownership of the business ends up in the right hands at the right time.

If you die without a valid will in place, the law decides what happens to your assets. This can lead to disputes and threaten the viability of the farm, particularly if the farming child(ren) need to borrow money to buy out their non-farming sibling(s).

Example: John, a widower has three children. His eldest has worked on the farm since leaving school, while his two younger children left home and have careers elsewhere. John’s only asset is his farm, which is valued at £1.2 million.

If John dies without a will, under the laws of intestacy, each of his three children will receive an equal share of the farm (£400,000). If his eldest child wants to buy his/her siblings share, they will need £800,000. This may make it unviable for them to continue to farm, which may, in some circumstances, lead to the farm being sold.
Inheritance Tax (IHT)

There are some very generous tax reliefs available to farmers that can help to reduce or even eliminate IHT on farming and other qualifying business assets, including the farmhouse, if certain conditions are satisfied.

The conditions include the house being occupied for the purposes of agriculture. This can present problems, if through ill health, the farmer has to give up farming and move into residential care.

Similarly, the ageing farmer who lets all his land out on a farm business tenancy won’t be deemed to be living in the house for agricultural purposes. This means that the value of the house will be included in his estate for IHT purposes.

Getting the right advice and reviewing your situation regularly can help you make the most of the tax reliefs available.

What you need to know

IHT advice is not regulated by the Financial Conduct Authority.

“Only one of my children wants to farm, how can I be fair to the others?”

There is often a wish to treat all children fairly when it comes to passing on the family business. Because of the different levels of involvement with the farm, treating children fairly does not always mean treating them equally.

There are a wide range of options available to you when it comes to making provisions for non-business inheriting children.

These options include:

• Gift non-farming assets such as property or investments
• All children inherit part of the freehold of the farm and receive a rent
• Setting up a ‘Whole of Life’ insurance policy in trust, to provide a tax-free lump sum payable to non-farming children upon your death
• Build up your pension fund – any funds remaining on your death can be left to non-farming children free of IHT.

What you need to know

The value of pensions may fall and you may get back less than you invested. The tax treatment of pensions and life insurance, depends on your individual circumstances and may change in the future.
Partnerships

One option favoured by many farming families is to go into partnership with one or more of their children. If you take this route, it’s important to put a partnership agreement in place. It allows you to set out whether individual assets are to be treated as partnership property or not.

If land and buildings are to be retained by one partner, you’ll need to establish how the partnership will occupy, and what will happen on the death or retirement of a partner. The way assets are owned can have IHT implications. Getting advice is vital to ensure that your partnership agreement and wills are structured in the right way.

Protection

It’s essential to consider what could happen if one of the partners suffers a serious illness or dies. Putting in place life and critical illness insurances can provide the remaining partners with the funds to help buy the deceased or ill partner’s share of the business, protecting both the remaining partners and the deceased or ill partner and their family.

Income

If you’re planning to take a smaller share of the profits from the farm, it’s important to plan how you’ll provide for the income you’ll need. Pensions and investments are another form of diversification and can provide an independent source of income, which isn’t dependant on farming.

“I want to play a less active role but keep hold of the farm?”

Handing down the farm doesn’t necessarily mean passing over ownership of all assets from day one. It can be helpful to think about the management and ownership of the farm as separate issues.

The older generation may choose to hand over more of the day-to-day management of the business whilst retaining ownership until a later date. The pace of this handover will depend on the circumstances of each family.
Pension

Pensions benefit from tax relief. Currently, for every £80 you pay in, HMRC will contribute £20 and if you pay 40% tax you can claim back up to another £20 with 45% taxpayers able to claim back up to an extra £25. Once you reach age 55 (57 from 2028) you can access your pension as you wish, taking taxable income or lump sums if you prefer.

“I want to pass the farm on and step away from the business”

If you plan to pass on the farm during your lifetime, then there are two key taxes to consider:

Inheritance Tax (IHT)

In its simplest form IHT is a tax on what we leave behind when we die, including any non-exempt gifts made in the previous seven years. Agricultural Property Relief and Business Property Relief can help to reduce or even eliminate IHT on farming and other qualifying business assets. There are a lot of potential traps, particularly for diversified farms, so it’s important to seek expert advice to maximise the benefits.

Capital Gains Tax (CGT)

This is a tax payable when you sell or give away assets that have risen in value since you acquired them.

When giving away qualifying agricultural and business assets, it may be possible to claim Holdover Relief, which allows any immediate CGT to be deferred, with the person receiving the gift taking over the gain of the original owner. You may also be able to claim Holdover Relief on gifts into certain types of trust.

Pensions

Often the older generation want to take capital out of the business upon retirement, either to fund their own retirement plans or to make gifts to non-farming children. In this situation, it may be possible for the farming child(ren) to use their own pension funds to buy farmland or commercial property from the older generation via a Self-Invested Personal Pension (SIPP).

This would provide cash to the older generation and allow the younger generation to own land within their pension fund, to which they would pay a market rent to farm. It’s important that advice is taken to manage any potential CGT liability.

What you need to know

The value of pensions can fall and you may get back less than invested.

Self Invested Pensions require active management and investment expertise. Charges may be higher than for other types of pension plan.

Farmland and commercial property may be difficult to sell.

The tax information is based on current tax law and practice which is subject to change. The value of relief from taxation is dependent on personal circumstances.
Turn your plans into reality with the help of NFU Mutual

Speak to your personal NFU Mutual Financial Adviser to put you on the right path to achieving your financial goals.

NFU Mutual Financial Advisers will work with you to help you create your plan for the future. Your NFU Mutual Financial Adviser will advise on the most appropriate solutions with regards to protection, retirement planning, savings and investments.

Remember if you plan early, you’ll have more options to consider.

Get in touch

Pop into your local NFU Mutual office or go online at nfumutual.co.uk to request an appointment.

When you get in touch we will explain the advice services we offer and the charges. NFU Mutual Financial Advisers advise on NFU Mutual products and selected products from specialist providers.

We understand life changes so your plans should too. As your circumstances change, stay in touch so your financial goals can reflect any life changes.