

## Consider the “Family Issues” in Farm Ownership Succession

Unless carefully planned, the transfer of family farm ownership to the next generation, especially if the farm has been in the family for several generations, can result in considerable emotional stress among the family members involved. There are many “family issues” which confront farm families in working through this transition. Nevertheless, they must be addressed to prevent disturbing the farm’s operation with legal fights. These ownership issues must be discussed by all family members involved and resolved to everyone’s agreement for a successful transfer of ownership to the next generation as well as avoiding the personal conflicts and family feuds that often arise.

**Role of the Dad Issue:** One issue is the fact that Dad is wearing two hats in the farm operation, Boss Hat and Father Hat. When wearing the Boss Hat, Dad is in charge by use of authoritative power. In this role he supervises the adult children as farm employees. When wearing the Father Hat, Dad tends to listen and have a better understanding his adult children’s concerns. This presents a difficult task since Dad must know when and how long to be wearing which hat. The adult children must also make the distinction between the Boss and Father roles that Dad plays in the farm business.

Dad needs to compliment that farming adult child and give praise when he or she does a good job. If he criticizes by continuously pointing out mistakes, a negative family working environment soon develops. Dad must treat a farming son/daughter as an adult person capable of making decisions and providing worthwhile ideas. If Dad only wears his Boss Hat, the adult child may feel that he or she is only hired help with no opportunity for any management input and soon lose interest in the farm and leave.

**The Issue of Mom Outliving Dad:** Another related issue is that fact that Mom may outlive Dad. What if Dad dies unexpectedly before retirement? Will Mom operate the farm as if Dad were still living or will she start making the changes she always wanted but Dad would not allow? Some moms might rent out the farm to a neighbor while other moms would probably sell the farm within a relatively short period of time. How does the farming son or daughter fit into this situation? Will Mom turn over full control to them and let them make the farming decisions? Things can become very complicated if Mom remarries and there is a step-father to contend with. Also consider the fact that some mothers rather than fathers wear the Boss Hat in the family.

**The “Who is Family” Issue:** Who are considered the “real family members” in the farm family business? Are only the “blood related” family members included in financial business decisions? Do they alone have management authority? Do in-laws even the chance for farm ownership? Are the in-laws treated or even considered as “family” in the farm business? Do the in-laws involved in the farming operation actually have a voice in business matters? Are they allowed to make management decisions? If the in-laws are kept in the dark about the farm and are excluded from business discussions, relationships of trust between family members quickly fail. This can lead to suspicions and a lack of respect for others.

**The Issue of Controlling Parents:** Many parents actually raise their children to be followers. Children are often expected to do what the parents expect and want. “Work hard and do exactly what you are told, but DO NOT ask any questions” is often the standard rule in some families. Now parents cannot understand why their adult children have no drive or ambition. What is the behavior expected by the parents for the adult children working in the farming business? Do the parents want these children to be puppets or independent thinking adults with their own ideas? Is it the parents’ dream for the children to return back home to the family farm or is it the children’s dream to farm with Mom and Dad? Children should never feel obligated to return back to the farm when their career interests or dreams lie elsewhere.

The other side of this issue concerns parents who want to help their adult children have a better standard of living. These parents may help their adult children buy their first home or pay for a needed vacation. This may be done with “strings attached,” with Mom and Dad expecting something in return for the favor or gift they have provided.

## Consider the “Family Issues” in Farm Ownership Succession (continued)

**Transfer of Ownership Issue:** Who will end up owning the farming operation when the parents retire? Will the parents still retain total ownership after retirement while the farming children keep doing all the work? Which children will have the chance to gain actual ownership? When will this happen or do the parents plan to retain total ownership until their death? What entitlements do the farm children actually have in the business? Have parents already made promises to any of the children? Will the parents honor these promises or have the parents changed their mind without telling anyone?

**Non-Farming Children Issue:** The most sensitive issue in succession planning is where non-farming children come into play when passing on farm ownership. This issue is hard to discuss because parents often have favorites among their children. In order to avoid the problems of sibling jealousy and resulting grudges, parents must block out their personal feelings of favoritism and devise an estate plan that is fair and equitable to all children and that allows for the farm business to continue. This will require much thought, many hours of discussion by the parents and children together and, if needed, seeking out professional help.

Farm family operations are the most difficult to handle in terms of fairness among all the children since some children worked harder than others and may have contributed more to the parents’ farming operation. Also remember that some children care more about the farm while others are only interested how much money they may receive from the parents’ farm estate.

Ironically, most parents try to avoid this very issue. There are just too many personal emotions involved. Some parents just assume that their children will work it out later by themselves. This only results bitterness and feuding that can split a family apart for future generations.

**Issue of a Fair Selling Price:** If the parents decide to sell part or all of the farm to any of their children, what is a “fair selling price” for the farm property. This is particularly crucial to the adult children farming with them who have invested a lot of sweat equity into the operation already. The largest share of the parents’ financial investment for retirement is tied up in the farming operation. Nearly all of their assets are farm related. If the parents decide to sell the farm for “top market dollar”, could a farming son/daughter ever afford that selling price? It could mean taking on a substantial amount of debt that they will never be able to repay during their lifetime.

Yet on the other side of this issue, the parents cannot afford to just give their farm away or sell at the lowest bargain price. Parents can expect to live a longer retirement and will need a secure financial future for the many years ahead. Working out a fair selling price that provides the parents with a secure financial retirement but at a price that the children can afford is certainly no easy matter. These adult children must begin to gain ownership of farm assets now and to build their own net worth. That way these children are in a position to borrow the necessary loan funds from a lender to finance the purchase of the home farm if the parents decide or are forced to sell.

**Summary:** It important to have a strategic plan for ownership succession in place for the next generation. These sticky and emotional issues need to be discussed among family members since avoiding these issues can have disastrous consequences later. Parents must have a clear vision of the future of their family farm business and then be willing to discuss their ideas with the children who plan to return back home.

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