

Talking about Succession



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Succession can be a taboo subject, but it is an essential part of wealth planning for rural landowners.

Timing

Births, deaths and marriages are often the triggers that spur people into action but when it comes to succession planning, it is better to start early and make it an integral part of landowning. Succession is a process, not an event. Broaching the topic with professional advisers and family is the first step in paving the way for the long term prosperity and stewardship of an estate and we encourage clients to include the next generation in the broader picture as soon as possible.

(Great) expectations

It is essential that the whole family engages in key questions that will shape the succession plan, such as; “can the estate financially support one family unit, or more than one”? If only one family can be meaningfully supported, who will that be and are they happy to take on that role? That family then need to be adequately prepared; growing their understanding of the estate and possibly pursuing a profession that will be useful. For those whom the estate cannot support, they need to be made aware of this and what alternative provision (if any) can be made for them. Realistic expectation setting should run through the generations and early adulthood is the best time for these discussions. Other essential elements that improve succession planning flow out of these conversations, such as introducing the concept of family members having cohabitation or pre-nuptial agreements and introducing good lines of communication between family members and professional advisers.

Involvement

When done well, early involvement and power sharing are great ways to engage the next generation emotionally and physically with land. Identifying projects and parts of the estate they are genuinely interested in and can help with, such as environmental focus areas or a business venture, creates buy-in. It is vital to give the next generation the opportunity to realise their own potential and even better if their success and the estate’s can be interlinked.

Structuring and funding

Cashflow is key for landed estates and an essential part of succession planning. There needs to be enough cash to support those parts of the family the estate cannot, to prevent future drawings on capital and avoid conflict. The estate also needs to produce sufficient income to support both the “retiring” and “next” generation of landowners. We encourage clients to think laterally and consider restructuring (including by court application, if for example, older trust structures are hampering flexibility) to unlock potential. It may make sense, for example, to improve estate cashflow through capital improvements and developing new income streams or businesses.

Tax

Ensuring that taxable events are dealt with as efficiently as possible is another key factor. Succession can be spread out over time. During a landowner's lifetime, they can make gifts out of surplus income, potentially exempt transfers under the 7 year rule or gifts to spouses to rebase property for CGT purposes. They can also take steps to ensure that valuable reliefs are more readily available in advance of the taxable event, for example, Agricultural Property Relief or Business Property Relief, both of which are time sensitive and subject to ownership or occupation conditions. A certain amount of stress testing can be carried out in advance of a chargeable event: it may be worth considering a smaller transfer to test whether a relief of the whole will be available. Or in the case of heritage property, applying for it to be designated during the lifetime of the owner, with a view to obtaining conditional exemption in due course.

Asset protection

Protecting assets and ensuring they are not vulnerable to events beyond a landowner's control will be at the forefront of many landowners' minds. It is hard to future-proof an estate but there are steps one can take to mitigate risk – prenuptial agreements, carefully drafted contracts, leases and indemnities – and ensure that it can evolve in a changing landscape. There is, of course, no certainty that succession will take place in a certain order, so planning for alternative outcomes is crucial. Versatility and resilience should be keys facets of any succession planning.

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