

# **Wise Owners Succession Model**

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*Family Farm Issues*

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## WISE OWNERS SUCCESSION MODEL PRESENTATION<sup>1</sup>

### **INTRODUCTION**

1. To provide food for thought to Farm Business families and their advisors as an alternative to what is the traditional thinking, at least in Alberta, about succession.

### **BACKGROUND**

1. Alberta – Part of the Northwest Territory – Surveying started in 1871 on the prairies using the grid system.
2. Settled by homesteaders under the Dominion Land Act. CPR arrives in 1883 and the wave of immigration is largely 1890 – 1905 for homesteads. From 1901 to 1905, there were 40,000 homesteaders in Alberta. For a \$10 fee you could apply to the Crown for a homestead of a ¼ section (huge by European standards) and after occupying for 3 years, breaking some land each year and building a house you would be given a “patent” – a land title for land that had never had a title before.
3. The homestead grid scattered the population. Hudson’s Bay Company got Sections 8 and ¾ of Section 26 (all of Section 26 in every 5th Township) in return for transferring the land to the Crown in 1870.
4. CPR got to select a total of 25 million acres of land from the odd-numbered sections in a belt 24 miles each side of the CPR lines. The even-numbered sections were set aside as homestead land. A homesteader had a right of pre-emption, which was the right to purchase a ¼ section adjoining the homestead for another \$10 fee creating a farm size of 320 acres.
5. So you have a huge land mass with very little population, spread out, with limited transportation, and the farm population largely on a subsistence level, with little or no facilities for transportation, education, communication or access to markets. While the First World War provided stimulus, it was followed by Dirty Thirties and it was not until the Second World War that the agriculture scene in Alberta started to truly develop.

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<sup>1</sup> This paper is an update of a paper originally produced by Barrie G Broughton, Q.C., TEP

## TRADITIONAL FARM SUCCESSION PLANNING

1. Obviously, many families exited farming completely. There was too much work, too little profit and a demanding lifestyle. Of the families that stayed in the business, it was very much a “family business” where everyone was involved in working on the farm, often with the older generation working and living on the farm their entire lives. Usually the profits were reinvested in the farm to buy land, pay off debt and acquire machinery.
2. Many children left the farm either by necessity or by choice. The farming child worked on the understanding that his work would be rewarded by receiving the farm from his parents. Often the only arrangement was that the farm would take care of the parents during their lifetimes, with the son then inheriting the entire farm. In more recent times the farming child would purchase the next piece of land the farm was going to acquire in his own name, and the farm would support the purchase in a manner of ways. Usually the farming child either inherited the farm fully, or there were below-market sales on beneficial terms by the parents to the farming child during their lifetime or pursuant to their Will. These arrangements reflected 2 main factors – that there wasn’t much money in farming, and that the parents wished the farm to continue in the family rather than selling out.
3. I’m sure you have heard the phrase “Fair does not mean equal” used with respect to farm succession planning. Parents do wish to help all their children and attempt to make some provision for all their children, usually with the provision that it doesn’t hurt the farm. One common technique was for the parents to take out an insurance policy on their lives which would go to the non-farm children in the fullness of time. The farm was usually responsible for the payments. In such an arrangement it was totally unknown whether the insurance proceeds had any meaningful relationship to the value of the farm many years later when the parents passed away.
4. The topic of farm succession has been commented upon incessantly. My earliest resource was a 1948 publication by the Federal Government on transferring the family farm. With some cleanup it is not much different that the modern commentaries which reflect the traditional method.