

Beyond proprietorship (II)

By Don McCannell

“For many families and individuals, a partnership is exactly the right way to go. But if you start wrong, it can get ugly real fast.”

Not every decision is meant to or should last a lifetime. A partnership can be the perfect option for you and your family, or for you and perhaps a cousin or another farmer who shares your objectives. But that doesn't mean the partnership must be forever.

You may evolve out of the partnership as your family grows (perhaps forming a corporation) or you may phase out of or limit a partnership with a neighbour as your objectives diverge.

It also doesn't mean that life within a partnership is always happy and harmonious. Difficult issues don't disappear. In fact, there can be times when it seems the partnership actually makes life more difficult, because responsibilities are shared.

The great thing about partnerships, though, is that if you recognize these factors on the way in, you can design your partnership to deal with these issues before they arise, so that you are tapping into each other's strengths.

Of course, you can ignore them too. But you do that at your peril.

When partnership is right

First, get professional advice from your farm advisor, your accountant and your lawyer. Everyone's situation is unique and this column can't address all possible scenarios. Nor can it address all the possible ways you can set up a partnership. Indeed, unlike sole proprietorships and corporations, partnerships don't have a rigid set of design criteria.

Still, a partnership can be a perfect choice for a family where a child or children are entering the operation. It allows the child to come into the farm with little capital, generating a larger stake over a period of time.

Conversely, a partnership can help the parents phase back without having to give up title to assets, or it can help both the parents and the children set up a process for transferring ownership over a period of time.

A partnership can also help you split income with a spouse, providing you pay

close attention to your advisory team's recommendations. This is probably the first thing the Canada Revenue Agency would look at, whether you have or do not have an agreement in place.

As well, a partnership can let you form a close alliance with another farmer, whether that person is related to you or not. In my own practice, I find that when they work well, these partnerships are exciting and highly effective structures. Some farmers form partnerships to obtain sufficient economies of scale to reduce their inputs costs and to afford efficient

Every partnership today must start with a strong partnership agreement. There are no exceptions

machinery. Once they're set up, though, the partners often find the greatest advantage is time management, with double the labour resource.

Very successful partnerships also recognize that the partners bring different strengths. One may be a genius with a wrench. The other may love marketing. Allocating jobs to the person best able to tackle them improves overall performance for each of the partners.

On top of all that, a partnership can give you a way to achieve your goals and still give you a relatively easy way to keep your books and monitor your financial position.

Making your partnership succeed

A partnership agreement is both a defensive strategy, and equally importantly, it is also a tool that will let you get much more benefit out of your arrangement.

If you can't feel comfortable sitting down with your potential partner to discuss how you will handle disagreements, how can you expect to be able to talk about those disagreements when they inevitably arise?

A partnership agreement will also give you a framework to talk about asset values

on the way in, to discuss how and when you will draw income, and to look into issues such as cross-insurance, how you will handle tax issues, and how you will proceed when it's time either to expand or to wind the partnership down.

The agreement must have a continuation clause to allow the partnership to continue with the remaining partners in the event of death of one of the partners. Otherwise, there can be an unwelcome tax event. Please discuss this with your lawyer and accountant.

Along the way, you will also need to address other significant issues. If yours is a family partnership, for instance, you will need to discuss what to do in case of divorce, disability, bankruptcy or premature death, and you will want to at least begin looking at succession planning. Also, discuss the rules of the agreement in case of a disagreement that cannot be resolved, especially if one of the partners tends to be the leader and non-compromising.

Your first step

Fortunately, farmers and their advisors, accountants and lawyers across Canada have worked as teams and have already wrestled with the issues that you will face. They have developed processes to help you discuss all the critical issues, and they have developed a range of potential solutions for almost every challenge.

In other words, as long as you take the team approach, the process can be more efficient than you might expect, even though it must be comprehensive.

In my experience, farm families and individuals find the time requirements realistic as long as they understand where they are in the overall process, and as long as they feel they are making progress with the end in sight. **CG**

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