

The Promise and Peril of Family Financial Help

Agriculture is a capital-intensive business. Land, with any significant debt against it, is challenging to cash-flow. Equipment is expensive, and parts are not cheap. Labor rates and family living expenses are high. Inputs or feed need to be purchased well ahead of any revenue from crop or livestock sales. And, the markets and weather conspire to make some years difficult to generate much, if any, revenue and net income.

It's no surprise that young people considering a career in farming or ranching are intimidated by the financial investment. It's also no surprise that older family members, or those with revenue from other sources, want to provide financial assistance to family members.

Financial help by family members takes several forms. It may be an outright gift of cash or a transfer of land, or payment of crops or livestock in exchange for work. More often, it comes through reduced land rent or the use of equipment.

While such financial assistance is a blessing for many in agriculture, mixing money and family members in business can be a source of severe conflict. As a partner in a CPA firm, I see firsthand how conflicts over financial matters can tear a family apart. When contemplating how to help a family member financially, consider the following tips.

Be Transparent. I often say, “To be a good family business, don’t act like one.” What I mean is that any financial assistance should be discussed by those participating in the enterprise, much like it would be in a business where people are not related. Loans or gifts should be clearly understood to all so the contribution is not taken for granted and does not foster a sense of entitlement by the recipient. Everyone knows exactly what form of assistance has been provided and how it was delivered.

Write It Down. Another phrase I often use: “In the absence of a good story, people make one up.” If the various methods of financial assistance and the amounts are not documented, over time, people develop differing

recollections, or “stories,” about what exactly was done and when it happened. Putting the arrangement on paper today and making sure the affected participants have copies of the same document help to keep the record straight about how family members offered, and benefited, from financial assistance.

Clarify the Terms. One of the benefits of being family members in business together is the desire to help without necessarily expecting something in return. This happens financially in the form of outright gifts, loans with favorable terms, debts forgiven or reduced rents.

But, should it last forever? How much assistance is needed, and how long is it expected? To prevent misunderstandings, discuss and document the terms of any financial assistance between family business members.

Educate the Family.

Some of the most gut-wrenching family conflicts happen over inheritance expectations and decisions, and they often have roots in how

different siblings benefited from their parents’ financial help earlier in life. Consider having family meetings or sharing the documents around financial assistance so everyone in the family, and not just those in the business, understand what transpired.

One reason such information is not shared earlier is fear of conflict, but keeping the information hidden does not prevent the conflict—it only delays it, leaving time for assumptions to flourish. If you anticipate difficulty, enlist the help of your accountant, attorney, financial adviser or a facilitator to help guide the discussion.

Family financial assistance can be a blessing. By discussing and documenting the assistance and its terms, then educating the broader family, you can prevent such financial help from also becoming a family curse. ///



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