



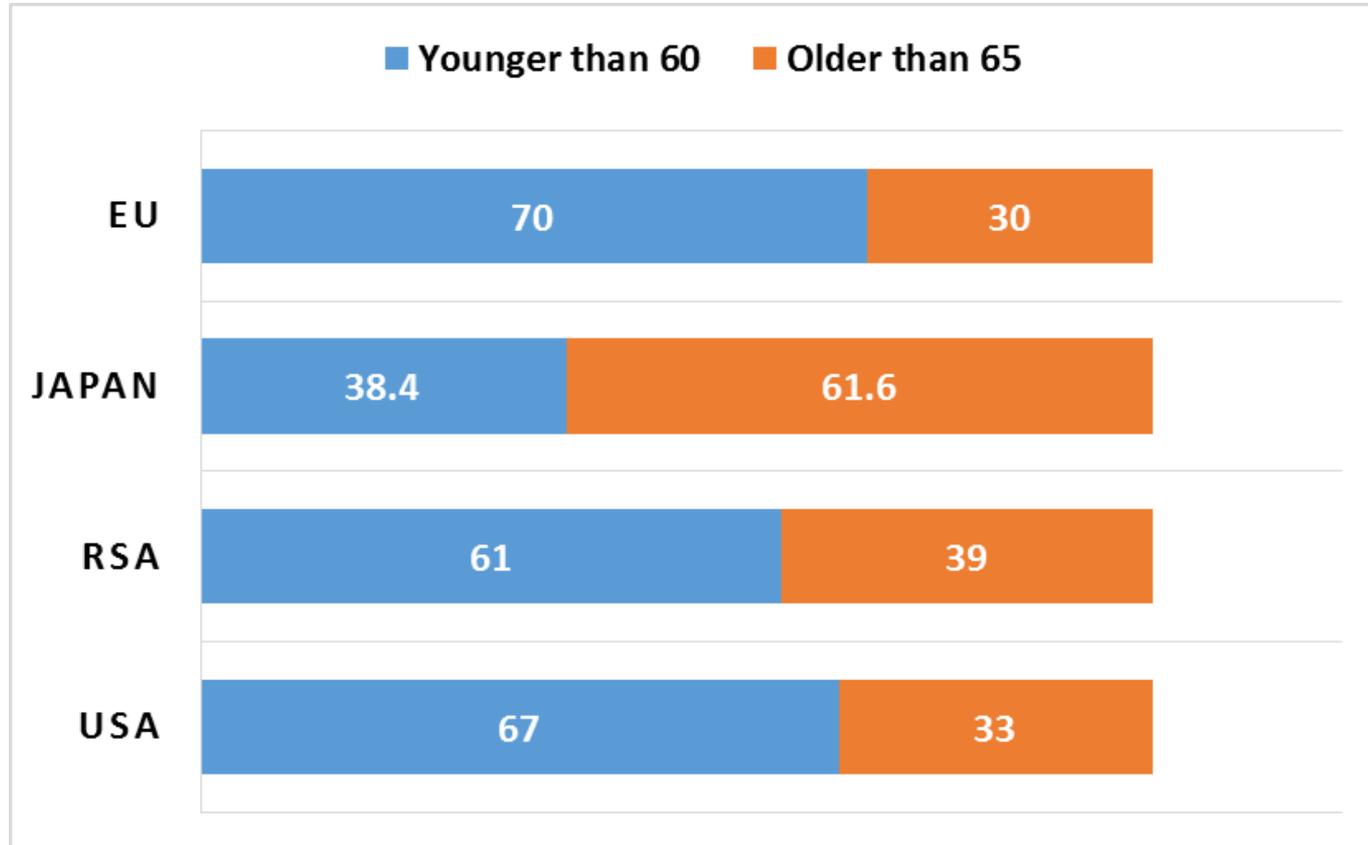
# Intergenerational Farm Transfers in the United States and South Africa: Comparative Analysis

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# Problem Statement

The farmer population in many countries is aging drastically!



**Sources:** U.S. Census of Agriculture (2012), Agri South Africa, Perception Survey (2015), Statistical Handbook of Japan (2014), Johr, (2012).

For RSA, the age range accounted for in this statistic is 55 and above. Further clarification of this estimate will be added.



# Problem Statement

The massive upcoming intergenerational farm transfers imposes concerns regarding:

- demand for farmers to produce food and fiber for the rapidly growing global population
- impact on the agricultural sectors in both countries



# Goal & Objectives

## **Our goal is**

To show that aging farmer population, in the USA and South Africa, is a concern and address how this shift can affect the agricultural sector.

## **In this study, we**

- Describe current structure and organisation of US and South African agricultural sectors.
- Approximate potential scope of farm transfers.
- Identify facets of economy that may be affected by this transition.
- Conclude if there are similar trends in both countries' agricultural sectors regarding intergenerational farm transfers.



# Our Hypothesis

Legal, economic and social environments surrounding intergenerational farm transfers in both countries are expected to differ due to varying political, economic institutions and cultural norms.



# Methodology

## Methods

- Survey of current economic and family business literature.
- Existing statistical evidence and economic analysis to conduct comparison analysis.

## Data sources

- United States Department of Agriculture Economic Resource Services (USDA ERS).
- Department of Agriculture, Forestry and Fisheries in South Africa.

# Literature Review

The importance of family-owned farms in USA and RSA

- 80% of family farms in South Africa are family-owned
- 97% of farms in America are family owned

Farm operators in expected age group to transfer during the next 2 decades

- 76% in the US<sup>1</sup>, 39% in South Africa

Poor succession survival rates during transfers

- 30% of family farms survive succession from the 1<sup>st</sup> to 2<sup>nd</sup> generation
- A further 16% survives transfer from the 2<sup>nd</sup> to 3<sup>rd</sup> generation

Succession failure reasons

- Inadequate succession planning, absence of a successor, poor communication between generations regarding succession

<sup>1</sup>All farms with the operator of age 50 or older in 2012 are included in this estimate. They are assumed to retire at the age of 70. Source: US Census of Agriculture, 2012.

# Commercial Farm Structure of in U.S. and RSA

	United States (1997-2012)	South Africa (1993-2007)
Change in number of farms,%	-4.81 (110,000)	-37.07 (39,966)
Change in size of farms, %	+0.7 (434 acres)	+43.7 (5,070 acres)
Average age of farm operator, 2012	58.3 years	62 years
Scope of farm assets transfer	>50% of all farmland	39 % of current farm operations
Family-owned farms and businesses, %	97	80

**Sources:** U.S. Census of Agriculture (2012 & 1997)  
 Department of Agriculture, Forestry and Fisheries: Agricultural Abstract (2014)

# Key aspects of the farm transfer environments

	United States	South Africa
<b>Legal mechanisms available</b>	Will, Trust, Buy-Sell, Lease-to-Buy, LLC, Gifting, Outside Investor.	Will, Trust, Buy Farms in Market, Lease-to-Buy, Land Redistributions, Corporations.
<b>Estate transfer taxes</b>	40% if taxable estate exceeds \$5.25 million per living spouse	Estate duty at 20% with a R3.5 million abatement. No estate duty on farms that are in a trust entity.
<b>Nature of transfer</b>	Transfer at death (via will), purchase, gifting strategies are also used.	Market purchase, land redistribution by government.
<b>Succession tools</b>	Private consulting companies, close family/business advisers.	Financial/legal advisers, Private consulting companies, trusts provide risk and insolvency protection as well as a way to protect farm assets and property.
<b>Major family concerns</b>	“Sweat” equity, gaps in communication between the older and younger generations, lack of retirement income planning, reluctance of older generation to let go the decision-making power, fairness vs. equality.	Inadequate succession planning, poor communication between generations, no planning for income stream for retirement, lack of proper and honest succession preparation, lack of knowledge about legal terms.

**1USD = R11.58**

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# Conclusions

- Both countries have similar legal mechanisms available for farm transfer, estate tax provisions (U.S. taxes at a higher rate than RSA but has a higher exemption rate), and succession tools.
- As for the nature of transfer, government role in the redistribution of land is still present in RSA but not US.
- Most family/communication issues are the same for farm families in both countries. However, South African farm families appear to lack knowledge about legal system of transfer as well as understand the importance of succession planning, and the US farm families face a challenge of “sweat equity” and “fairness vs. equality” which are not that acute for South African families.

# Facets of agricultural economy that may be affected by this transition

	USA	RSA
<b>Structure of farmland ownership</b>	> 50% of farms is concentrated in hands of farmers who are 50 years or older	54% of farms is concentrated in hands of farmers who are 50 years or older
<b>Role of farming in national economy</b>	1% of total GDP, 2013	1.9% of total GDP, 2013
<b>Role of farming in rural economy:</b> <ul style="list-style-type: none"> <li>- <b>Contribution to rural economy</b></li> <li>- <b>Labor mobility</b></li> </ul>	<ul style="list-style-type: none"> <li>• 14% of all counties are classified as those dependent on farming</li> <li>• Continued loss of population in 61% of all non-metro counties</li> </ul>	<ul style="list-style-type: none"> <li>• Significant provider of employment in rural areas. 22% of the South African population is dependent on agriculture</li> <li>• 62% of the South African population lives in urban areas – Driven by rising incomes.</li> </ul>



# Affected Facets of Agricultural Economy

- Structure of agricultural sectors: similar trend but different magnitudes
- Impact of aging farmer population on the facets of the agricultural economy:
  - A similar affect on structure of farmland ownership in both countries.
  - Farming in RSA is a larger contributor to national GDP compared to the one in USA.
  - Higher percentage of population in RSA is dependent on agriculture in than USA.