



LEGACY PLANING FOR FARM OWNERS



Simple Steps for Exiting Your Business



PLANNING YOUR FUTURE

You've worked hard building your family farm. And now, you've decided it's time to move on. As a farmer, you know how important it is to be prepared for any contingency. And you should approach your business exit with as much planning and preparation as you run your farm.

First question—what are your goals? Do you want to keep the farm in the family? If so, know the odds are not in your favor. Statistics show it's rare for a family business—any type of business—to make it through the third generation and almost unheard of to make it to the fourth.

But you can save the family farm with proper succession planning.

THE IMPORTANCE OF GOAL SETTING

Setting goals is not a solo performance. All family members should be involved in the process and establish goals for both the future of the farm and for themselves. Ultimately, those goals must be compatible—and prioritized.

3 Keys to Setting Goals

- **ACCESS:** What do you want for the farm business? For your family? How do you envision your retirement?
- **PRIORITIZE:** What's most important to you? Keeping family harmony? Ensuring business success? Living out your retirement dreams?
- **DEFINE:** Your goals should be clear, documented, well-defined, and realistic. You need to establish a timetable as part of the goal-setting process.

WHAT IS SUCCESSION PLANNING?

Don't over complicate this. Succession planning is simply the process of writing a plan for when a business owner decides or is forced to step down from leading their business due to a voluntary or involuntary departure.

Elements of a Good Succession Plan

A succession plan addresses:

- **YOUR GOALS:** What do you want to get out of the business when you retire?
- **YOUR SUCCESSOR(S):** Who will be taking over?
- **OWNERSHIP:** Will there be multiple owners? If so, be specific about ownership percentages and responsibilities.
- **MANAGEMENT:** Are non-family members involved in the farm's operation? How will you keep them in place through (and possibly beyond) the transition?
- **TRANSFER:** When will the transition take place? How will it be implemented?
- **FINANCES:** Where is the money to buy you out coming from? What will the tax impact be? How will that affect your personal estate plan?

Common Issues Facing You and the New Owners

For the new owners:

- Is the older generation willing to let go?
- Do they have equity to bring to the farm business?
- Do their projections show they can make their payments and make a living?
- Is there off-farm income to support the family?

For you:

- Does the successor have the necessary management ability?
- Can they comfortably retire—emotionally and financially?
- Will there be issues between family members?
- Can the farm support multiple families?

Reasons for Farm Transition Failure

See chart to the right

Intentions: A Matter of Trust

Most farmers intend to keep the farm in the family, according to a [USDA NASS survey](#):

- 48% want to keep it in a trust
- 23% want to sell it to a non-relative
- 14% want to sell it to their family
- 14% want to gift it to their family

Keeping the farm in a trust is the number-one intention for farmers. Trusts can help farmers manage and distribute their assets, so you can meet farm transfer goals—both during your life (called “living” trusts) and after death (“testamentary” trusts).

Trusts are often incorporated with a will as part of your estate planning strategy.

LEARN YOUR EXIT OPTIONS

If you want to avoid a failed transition, it’s essential to understand your exit options. They include:

- Transferring or selling ownership to a vested family member. If you’re worried about your other heirs, you can leave them settlements of money, stock, or other assets.
- Liquidating farm assets, such as auctioning equipment and livestock or selling off land
- Rent or lease your land and equipment. In fact, quite a bit of U.S. farmland is rented or leased from someone else.
- Selling or contracting out the property

When considering your exit options, keep these questions in mind:

- How do you envision the future of the farm?
- Do you want to stay involved with the operation on a smaller scale?
- Do you need income from the farm for retirement or health care costs?

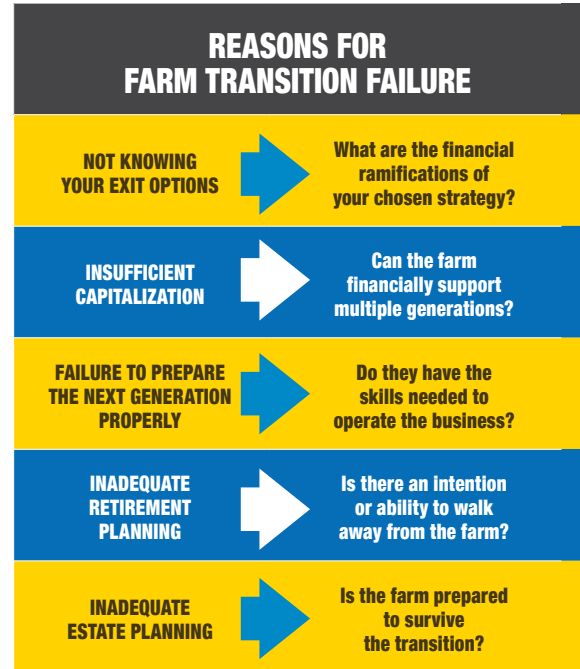
Exit plans sometimes fail because those involved overlook certain risks during the planning stages. It’s important to ask for help from qualified professionals who don’t have a stake in the final decisions. They can help you make sound, unbiased decisions.

Don’t confuse exit plans with estate plans. Those focus on tax liabilities and the various ways to lessen the tax burden. Exit planning is about the future of your farm business and the financial future of your family.

THE “GOLDEN RULES” OF RETIREMENT PLANNING

Have a clear picture of what your retirement life looks like

- What’s on your bucket list? It’s easier to move on when you have something to look forward to.





Determine the income replacement value of your business.

- How much money will you need to live a fulfilling life in retirement?

Understand how your exit strategy could impact your retirement income.

- There are different ways to transition out of the business, and each could impact your retirement planning differently.

What will your roles and responsibilities in the business be, post-retirement, if you plan to continue to receive income from the farm?

- If your retirement plan is to stay on the payroll, be clear with your successor/s what your involvement will be and ensure your compensation is commensurate with that role.

ACHIEVING A COMFORTABLE RETIREMENT: CREATE A PERSONAL FINANCIAL PLAN

Your business retirement planning and your personal retirement planning should be done in conjunction with one another. Working with a financial professional can help you create a plan that determines how much savings you'll need to meet your retirement goals.

How much savings will you need for retirement? It depends on a variety of factors:

- How much do you expect to spend when you're retired?
- At what age do you plan to retire?
- Your expected lifespan (though that's pretty difficult to know)
- The economy, including inflation and investment returns
- Funds available from other sources, including Social Security, pensions, inheritances, etc.
- Projected future healthcare costs

WRAP-UP: SUCCESSION PLANNING

Again, succession planning is creating a written plan for when a business owner decides or is forced to step down from leading their business due to a voluntary or involuntary departure.

Common Mistakes to Avoid

- Be sure your farm is sufficiently capitalized
- Estimate your retirement income needs and fund them
- Select and prepare the right successor
- Put the plan in writing and communicate it to all relevant parties
- Review your plan at least every three years

WHAT IS ESTATE PLANNING?

In general, estate planning is the act of preparing for the maximum transfer of wealth and assets during life and at death in the most tax-efficient manner possible.

Specifically, your estate plan should address the issues that matter to you. Decide what you want to accomplish, not only after you pass away but while you are alive as well.

Your estate plan should:

- Determine who gets what, how, and when
- Maximize the size of the estate that will pass to your intended beneficiaries
- Minimize the estate taxes and administrative expenses required to settle your estate

- Provide liquidity to pay required taxes and expenses

A solid estate plan puts you in control of your future. It helps you maintain maximum control over your wealth, allowing you to pass the maximum inheritance on to your heirs with the most protection possible.

And remember your biggest asset...your farm!

CREATING YOUR ESTATE PLAN

No two farmers are exactly alike, so you have different needs and goals for your estates. But there are some documents everyone planning an estate needs, including:

LIVING WILL: A written statement explaining your desired medical treatment under circumstances in which you no longer can express informed consent.

HEALTHCARE PROXY: (also known as a durable power of attorney for health care, medical power of attorney, or appointment of a healthcare agent): This document appoints another person to make healthcare decisions for you if you cannot speak for yourself. Naming a healthcare proxy is one of the most important things you can do to ensure you get the healthcare you prefer. Healthcare proxy laws vary by state.

POWER OF ATTORNEY: Giving someone your power of attorney authorizes them to act on your behalf in a legal or business matter if you cannot do so. There are different types of POAs that give your attorney-in-fact (the person who will be making decisions for you) different levels of control.

WILL: This legal document explains how you want your probate assets distributed after your death. As part of your will, you name an executor who ensures the estate taxes and other liabilities are paid and that the remaining assets are distributed according to the provisions of the will. If you die without a will, then intestacy laws will govern the distribution of your assets. (This means a court-appointed administrator will compile the assets, pay any liabilities, and distribute the remaining assets to those deemed as beneficiaries. The probate process also varies by state.)

REVOCABLE LIVING TRUST: You can avoid probate if you transfer assets to the trust prior to death. This can speed up the distribution of assets to your beneficiaries and minimize transfer costs. Trusts are not public documents.

Even if you have a living trust, it's recommended you have a "pour-over" will, which states that any assets not in the name of the trust at the time of death will be transferred to the living trust.

BUY-SELL AGREEMENT: This document is a must-have for business owners. A buy-sell agreement is a contract between business owners that dictates what happens to the business in the event of the owner's death, disability, or departure from the business. The agreement (you need an attorney to draft it) states who can buy the shares, what type of event triggers a sale, and what the purchase price is in total or per share.

Make sure you update these periodically to reflect life changes.

Gather and Document Your Assets

Before you can create an estate plan, you need to determine what you own and how much it is worth.

You'll need the following documents:

REAL ESTATE DOCUMENTS: These include deeds, land contracts, abstracts, or title insurance policies, and have legal descriptions of your property, show the record titleholder and form of ownership.

REAL ESTATE TAX STATEMENTS: These summarize all the real estate you own and give a baseline value of the property.





LAST DEPRECIATION SCHEDULE: This shows the tax value of the property.

LIVESTOCK INVENTORY: The most recent count of cows, bred heifers, open heifers, calves, bulls, etc. (if steers include size), etc.

FEED INVENTORY: Estimate what's on hand

LIST OF MACHINERY: Include as much detail as you can and give an estimated value.

AERIAL PHOTOGRAPH OR OTHER PICTURE OF FARM: This is not strictly necessary for an asset list, but with drone technology, it's easy to obtain.

ACREAGE BREAKDOWN: Break down your total acreage by tillable, pasture, wooded, nonproductive.

BALANCE SHEET: A balance sheet or other record that shows your liabilities.

If you produce a market value balance sheet for your bank each year, that will contain most of the information you need.

Estate Planning Challenges for Farmers

Farmers face different challenges, from an estate planning perspective, than other business owners, including:

- The federal crop subsidy programs are often changed. When the economy is uncertain, there are often calls to decrease farm subsidies.
- Due to the size of many farmer's estates, particularly in the land's value, estate taxes are more likely to be collected.
- Illiquid assets in the form of land, equipment, and livestock, along with seasonal cash flows, may be a problem.
- It may be challenging to keep the farm in the family. What if some—or all—of your kids don't want to work the farm. How will your estate plan take that into consideration?

BUSINESS VALUE

Income Producing Potential vs. Fair Market Value

There is a special valuation rule for farmland, created to reduce the number of farmers forced to sell their farms to pay federal estate taxes.

The Tax Reform Act of 1976 added Section [2032A](#) to the Internal Revenue Service Code. If specific requirements are satisfied, the executor of an estate may elect to value farm or other real estate used in family businesses for federal estate tax purposes by one of the methods provided in Section 2032A rather than at its Fair Market Value as required by section [2031](#).

Make sure to consult with your tax and legal advisors to discuss your specific needs.

Wrap-Up: Estate Planning

Again, estate planning is the act of preparing for the maximum transfer of wealth and assets during life and at death in the most tax-efficient manner possible.

Next Steps

- Review your current situation and plans
- Determine what taxes, losses, and conflicts could occur
- Consider business and estate planning alternatives
- Have legal documents prepared as needed
- Determine the types of products you'll need to fund your plan or cover taxes*
- Review plan annually with your advisors

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