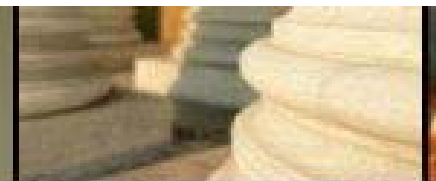


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Farm Transition Planning

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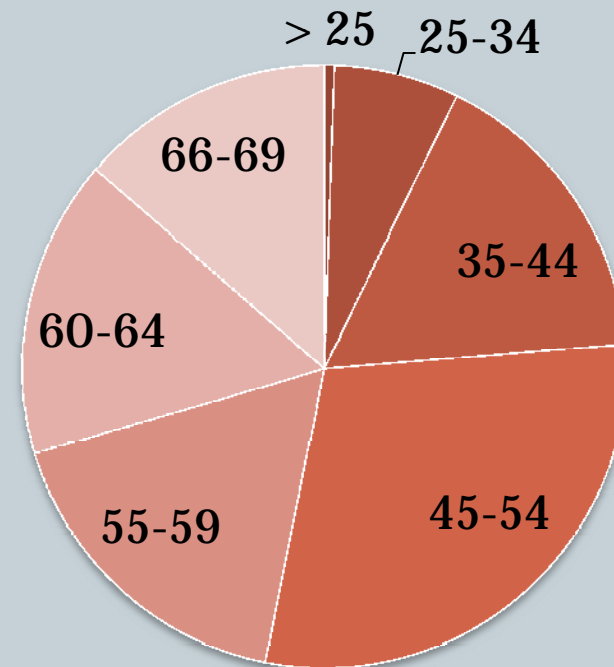
esprings@uark.edu

Why is this important?

- 57.1 years: Average age of US farmer (2007)
- 56.5 years: Average age of AR farmer (2007)

Arkansas Specifics

Total No.: 49,346
Age 60+: 20,682 (42%)
Age 65+: 14,227 (29%)
Age 75+: 8,656 (18%)



Where Do You Start?



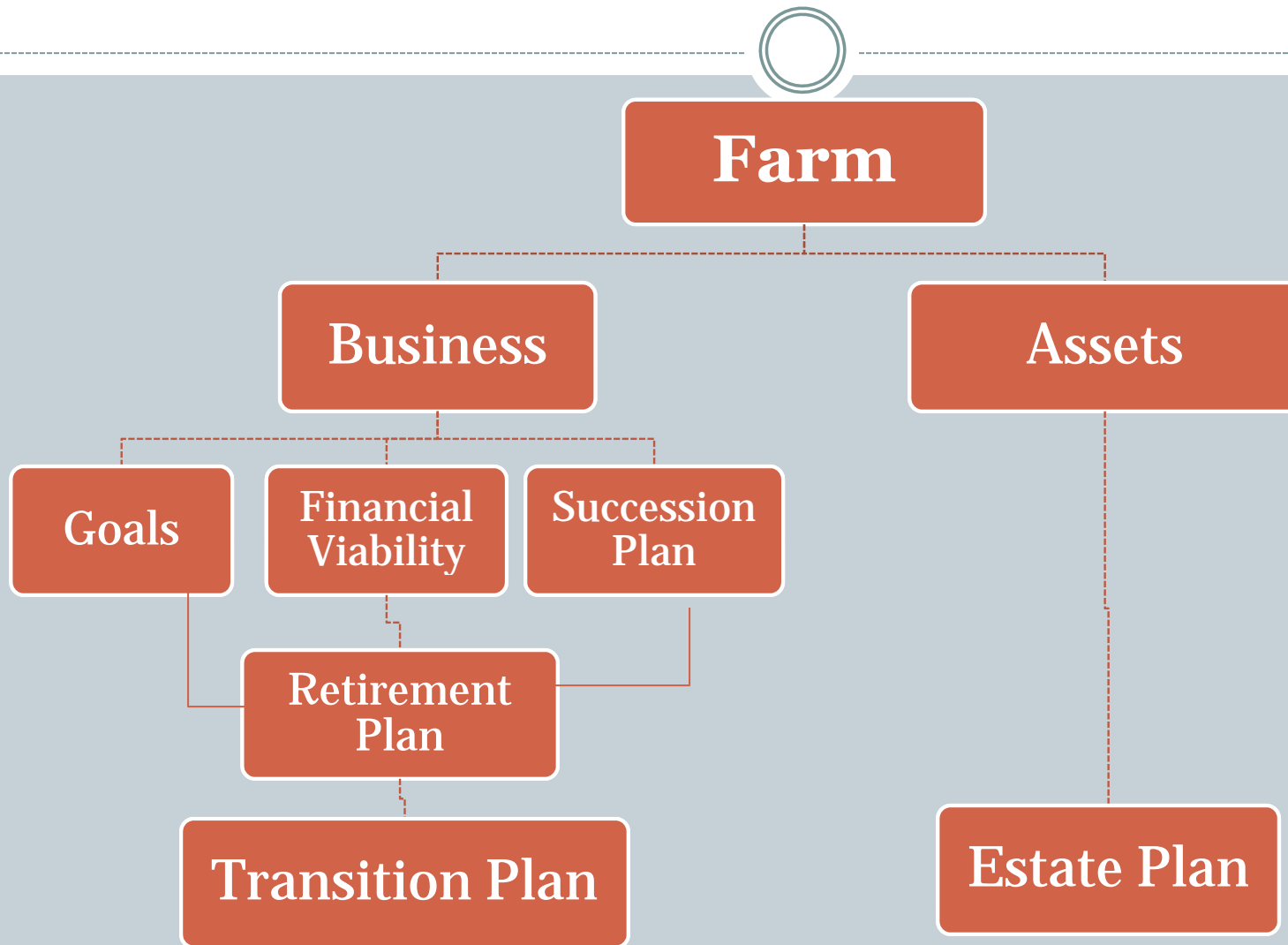
Q:

- Do you want to transfer your farm or ranch as a “business” or simply as a “group of assets”?

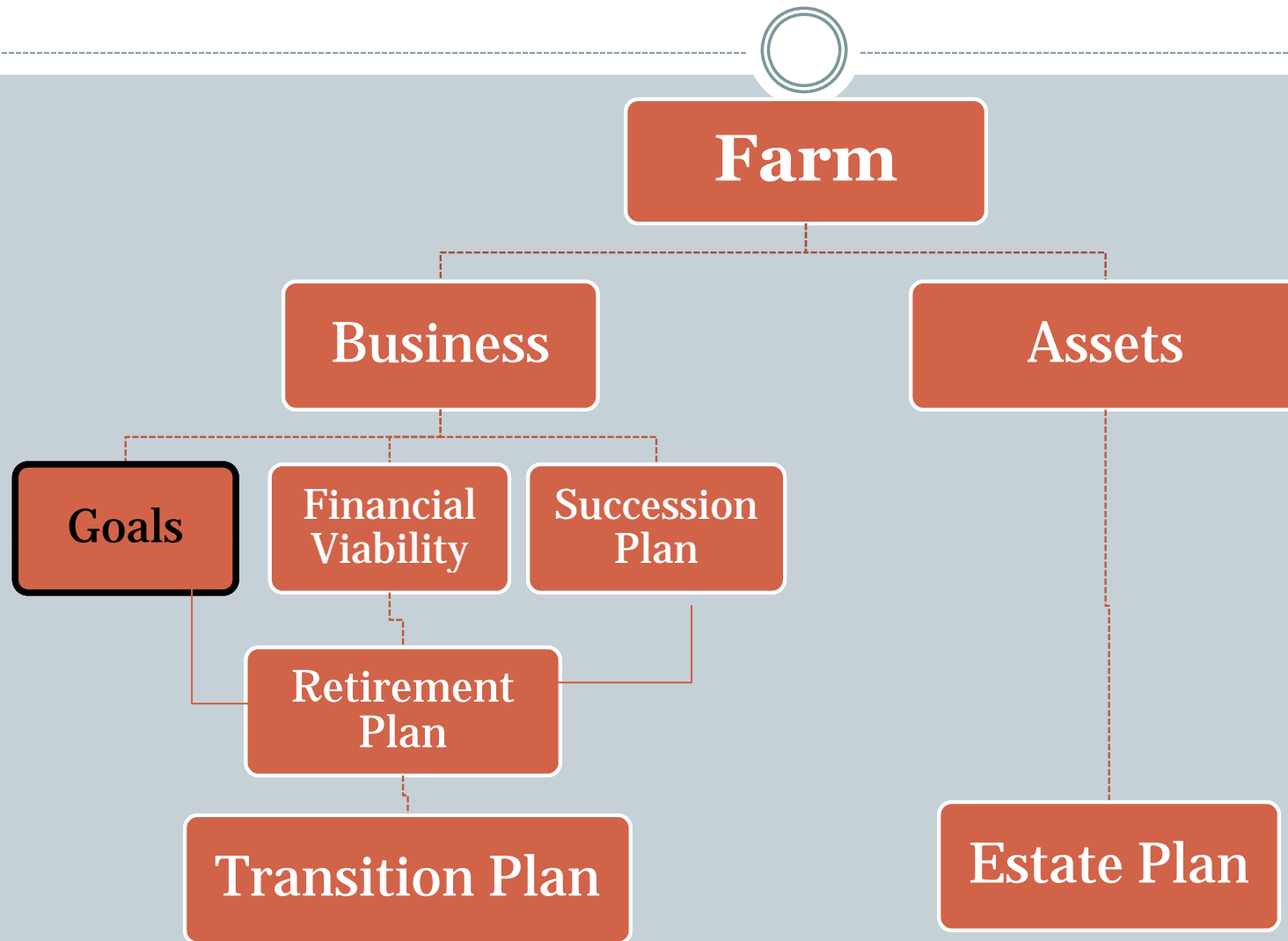
A:

- If business:
 - You’ll need both a transition plan and an estate plan
- If assets:
 - You’ll only need an estate plan

What's the Difference?



Planning for the Future: Goals



Things to Consider: Goals



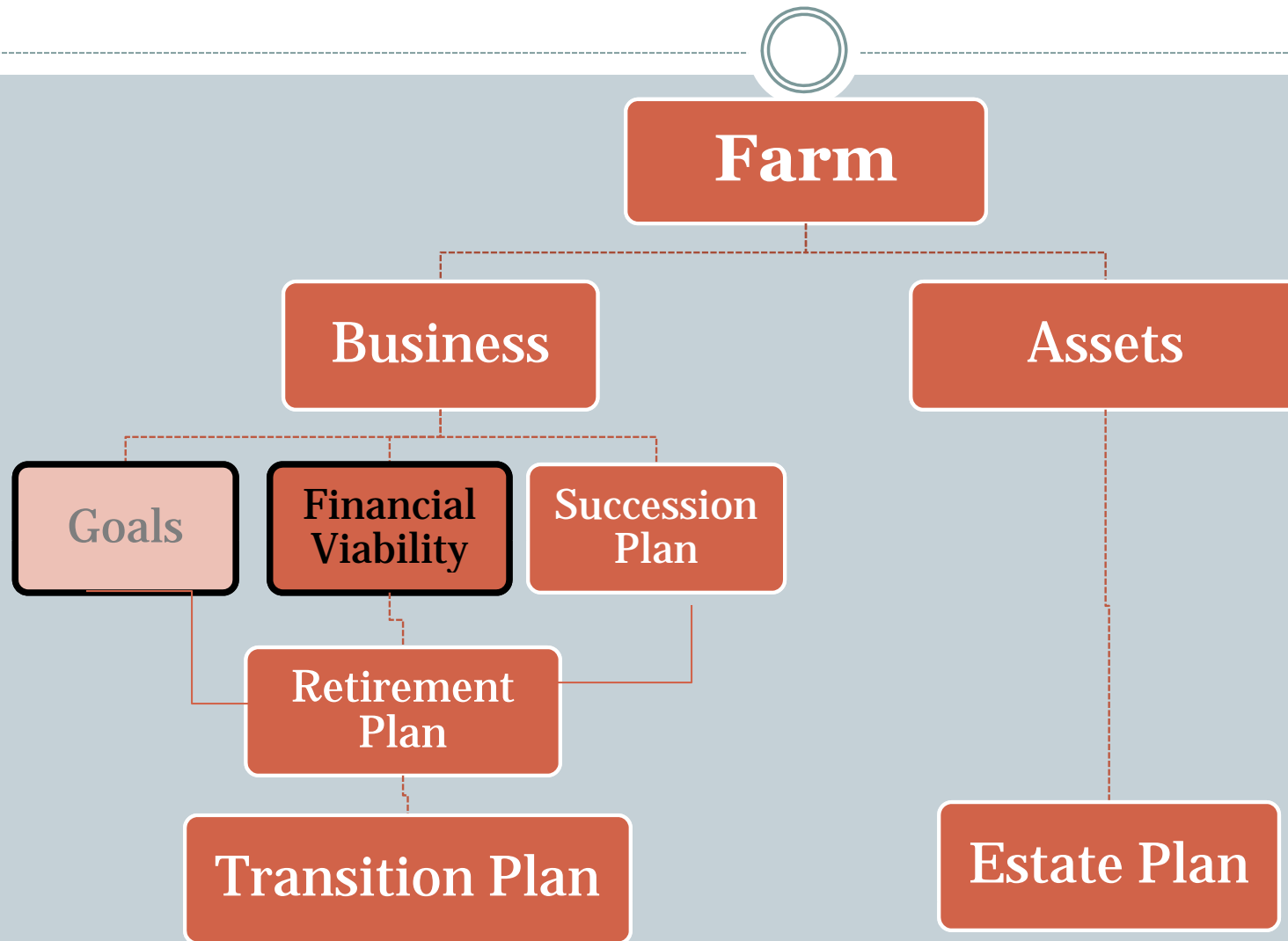
Older Generation

- Retirement lifestyle (money needed)
- Nonfarm heirs
- Residence

Younger Generation

- Lifestyle (money needed)
- Growth of business
- Attitude toward debt
- Ownership vs. renting
- Family time vs. work

Planning for the Future: Financial Viability

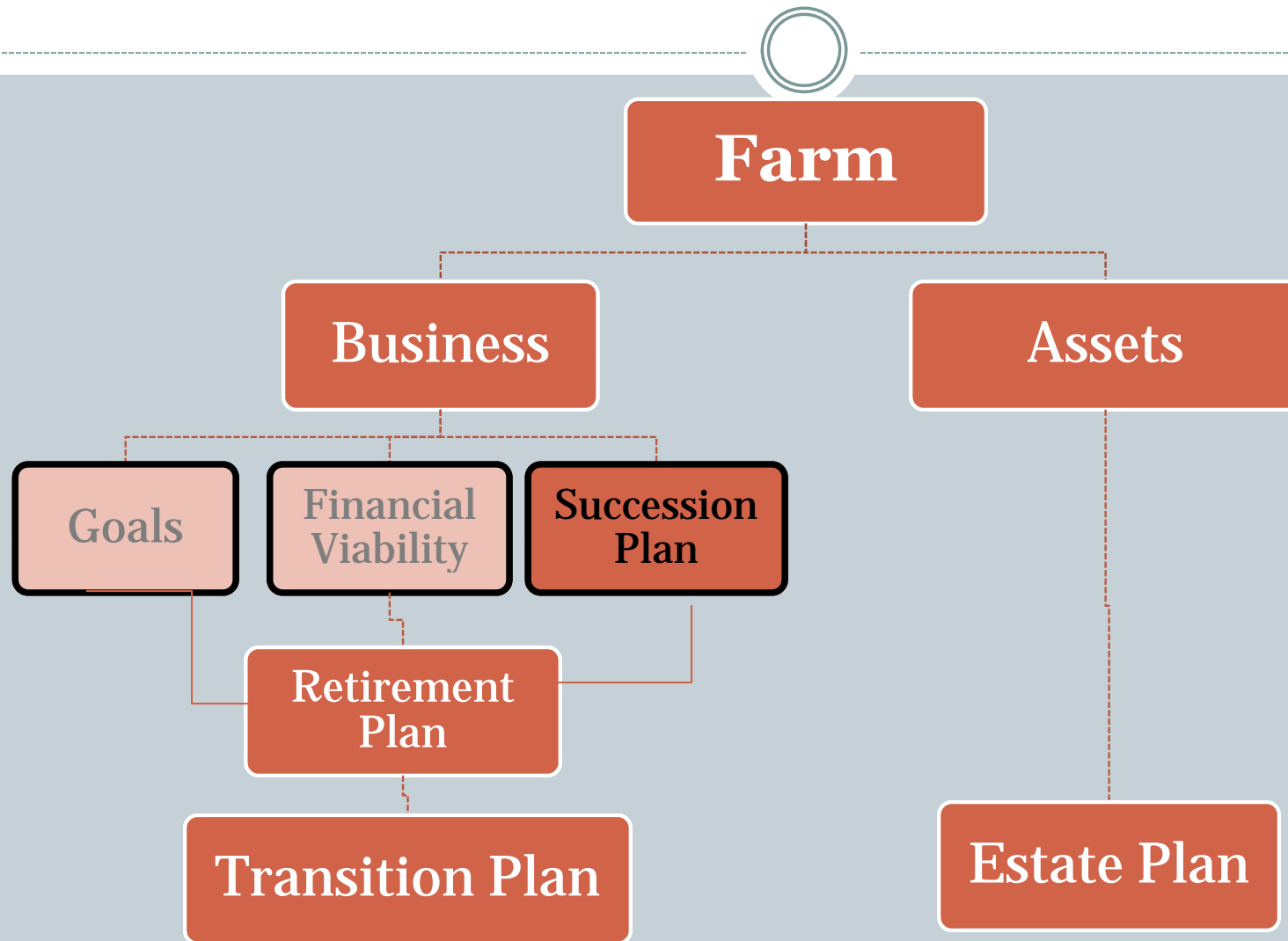


Things to Consider: Financial Viability

- **Farm Income**
 - Amount
 - Source
- **Farm Debt Structure**
 - Long term v. short term loans
 - Interest rate
 - Principal payments
- **Family Living Cost**
 - Retiring family
 - Farming family
 - Off-farm employment
 - Insurance
- **Farm/Ranch Size**



Planning for the Future: Succession Plan



Things to Consider: Succession Plan



- Are the parents ready for a partner?
- How committed is the child to farming?
- Is the business large enough?
- Do you have a common vision of your future together?
- Can you live and work together?
- Are the non-farming children supportive?

Components to Transfer



Ownership



Management



Income (divided)



Labor

Succession Planning: Ownership

Methods to Consider

- **Gift**
 - Possible gift tax implications
- **Sales**
 - Consider financing options
- **Timeline**
 - Specifically outlined and followed
 - Gradual change in ownership
- **Inheritance/will**
 - Consider off-farm heirs



Succession Planning: Management



Questions to Consider

- **How will management be split?**
 - Enterprise
 - Whole farm
 - Farm activity (marketing)
- **Timeline for management transition**
 - Learning or testing phase
 - Completion/phase-out date
- **Parent/child relationship vs. business partner**

Succession Planning: Income/Labor

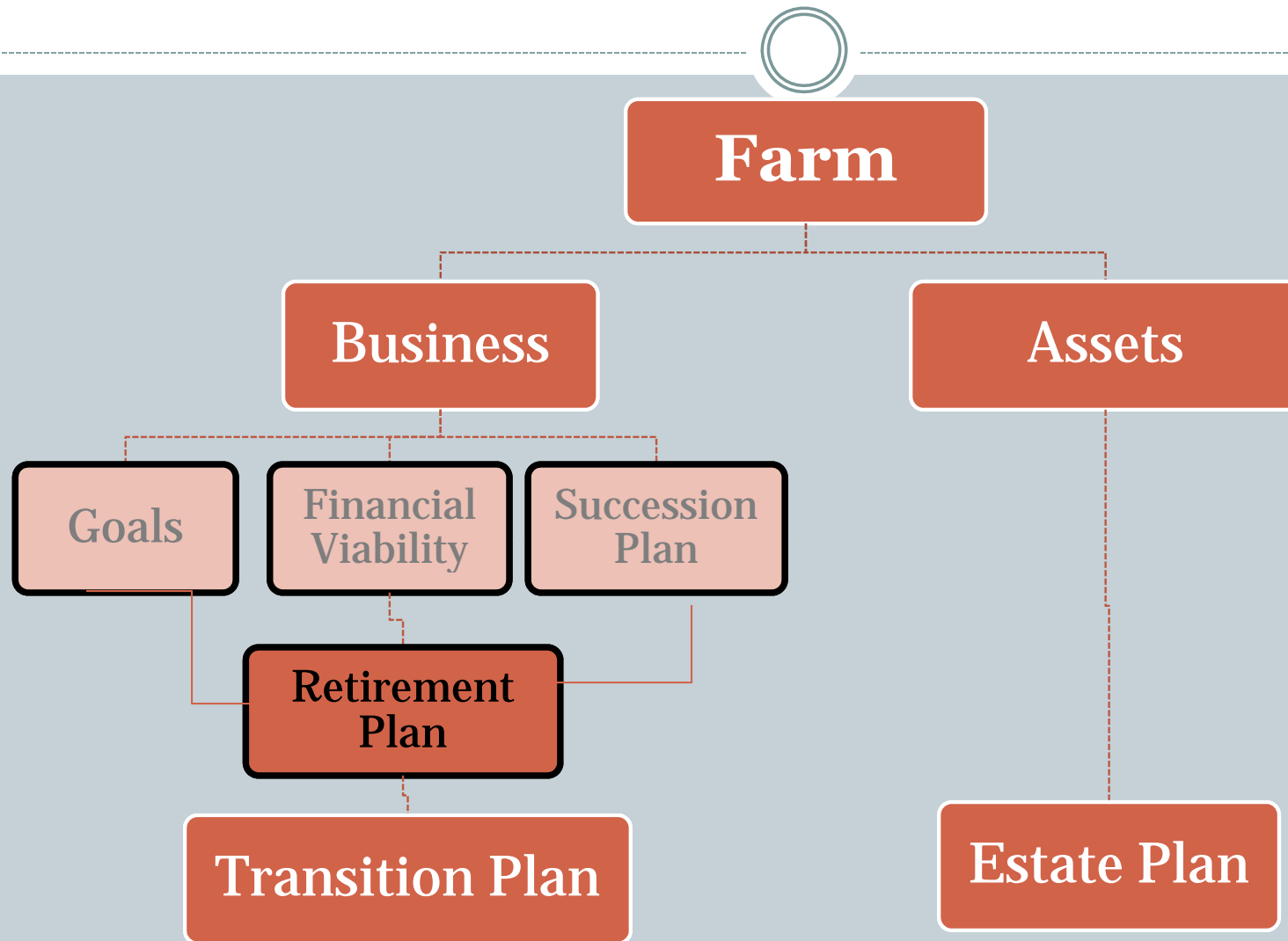


Questions to Consider



- How will income & labor be split?
 - Enterprise
 - Shares
 - Wage
 - Combination
- Timeline for split income and labor
- Job description

Planning for the Future: Retirement Plan



Things to Consider: Retirement Plan



- **Timeline of farm involvement**
 - Considerations of management, labor, ownership
- **Where will money come from?**
 - Considerations of income
- **Where will you live?**
- **How will you account for non-farm heirs?**
- **What will you do?**
- **Your will is your contingency plan**

Retirement Income Options



- Operating heir can rent land from parents
- Operating heir can purchase land from parents on long-term land contract
- Land rental payments or land purchase payments can be retirement income stream for parents

How Do You Accomplish This?



Communication • Communication • Communication

- Regular business meetings during entire transition period
- Talk about it, then write it down
- Share with non-farm family members
- Surprises cause problems!!
- Work with an attorney



10 Ways to Sabotage Transition Plans



1. Procrastinate

1. Don't write a will or transfer plan. Let the children worry about it after you're gone.

2. Avoid planning or making decisions

3. Don't discuss the subject of estate transfer.

1. Keep information from younger family members. This is a sure way to increase family conflict.

4. Blame others for problems. Stay angry.

5. Do all you can to block the younger generation from any involvement in goal-setting or decision making until they are middle aged

Source: Fetsch

10 Ways to Sabotage Transition Plans



- 6.** Refuse to listen to other family members' viewpoints.
- 7.** Hold on to total control of the family business.
- 8.** Assume others know what you want. Avoid discussing your wishes about transfer with family members.
- 9.** Make sure all your sense of worth, your identity, and life's meaning come solely from the business. Resist transferring to the next generation. This way they have the least influence and the most stress.
- 10.** Pay no attention to wake-up calls like a farm/ranch accident, illness, death, or major choice point by an offspring.

Source: Fetsch

Keys to Success



- Strengthen family relationships
- Improve communication skills
- Recognize individual differences
- Management participation = learning
- Decision making
- Make it work attitude
- Encourage diversionary activities
- Separate housing is required
- Fit the agreement to the situation
- Develop a written agreement
- Update the business arrangement
- Talk to an attorney

Most Important Thing to Remember



**YOU MUST PLAN FOR
TRANSITIONING. IT WILL
NOT “JUST HAPPEN” BY
ITSELF.**

Sources



- **John Baker**
 - Iowa State University
 - Director of the Iowa Beginning Farmer Center
 - Email: jrbaker@iastate.edu
 - Phone: (800) 447-1985
- **David Goeller**
 - University of Nebraska
 - Transition Specialist
 - Phone: (402) 472-0661
 - Email: dgoeller@unl.edu



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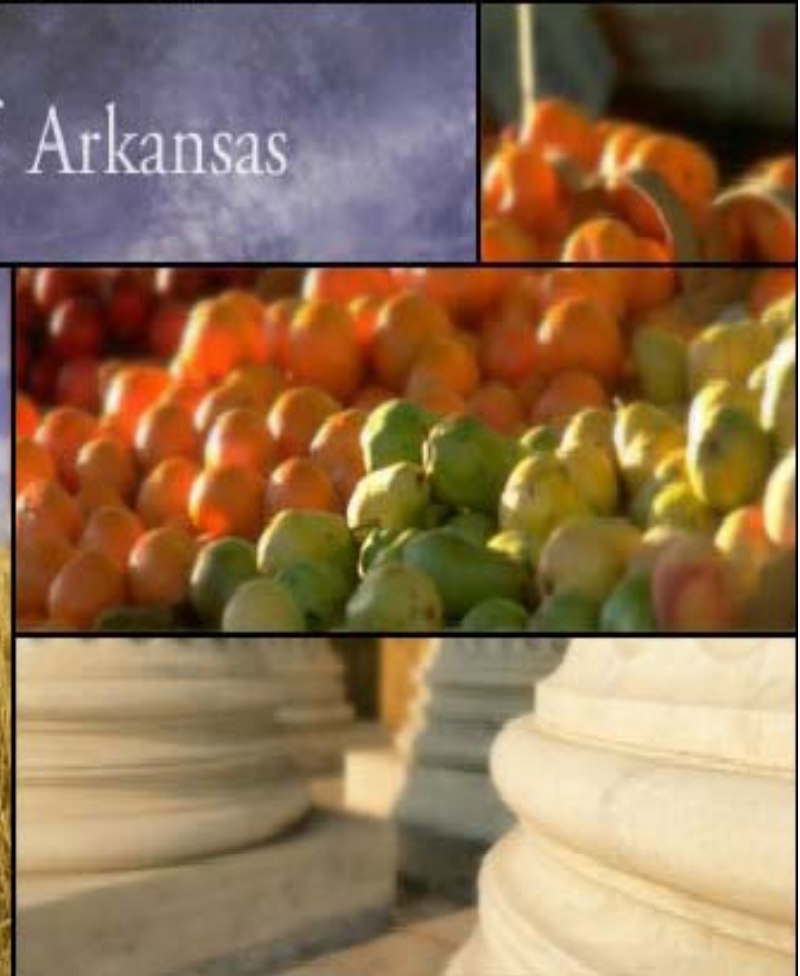
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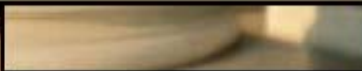
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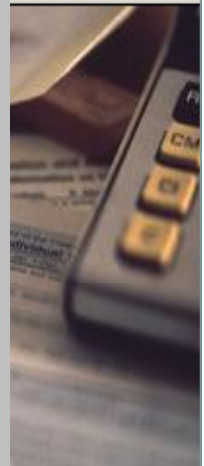
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Internal Revenue Code Estate and Gift Taxes, 26 U.S.C. §§ 2001-2007





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