



Planning Ahead for your Farm Transfer

Because of the complexity of farm transfers, they require considerable thought, discussion, and planning beforehand. Ten to twenty years in advance is best. Transferring the farm can be such an emotional topic for some farmers that they delay talking about it with their families until retirement is upon them, in which case the transfer can become a stressful and hurried affair. If you start to talk to your family about the transfer early it will eventually become a common topic of discussion and you will be able to get the ball rolling on developing a sound and efficient plan. With the plan already developed, when retirement starts to approach, your farm and family will be ready to make a transfer that not only meets everyone's needs but is transacted smoothly and with a minimum of emotional anguish.

Where Are You Now and How Can It Be Made Better

To begin your journey to a successful farm transfer you must first take stock of your farm. Have all of your assets (the land, the buildings, the machinery, crops, livestock, etc.) catalogued and appraised. Be sure that the appraiser specializes in farm assets for there is a difference between appraising farming properties and other forms of property. The different values which your appraiser will provide you with, particularly the Fair Market Value will be needed when deciding which transfer methods are the best for you. It is also suggested that your appraiser ascertain the "highest and best use" of the property in case your land is being eyed for development such as a freeway expansion or a new housing community. In these cases, you could potentially get more money for it.

Be sure to document all of your liabilities as well as your assets. Once both have been catalogued and the values determined you can make cash flow projections, an important financial tool for any business. In addition to your assets and liabilities, when making projections you should take into account income from previous years, operating expenses, the debt ratio, replacement of capital, inflation and the everyday cost of living. It is also recommended, if not already done, that you get into the habit of preparing a balance sheet every year. A balance sheet will help you organize all of your financial information - assets, liabilities and equity - so you can make financially healthy decisions for your farm.

There is a twofold benefit of projections and balance sheets. They not only provide you with a basis to begin planning but they also help you organize your finances, thereby helping you to financially stabilize the farm and prepare it for transfer. In a way, getting ready for a farm transfer is not unlike selling a house. When a family gets ready to sell their home they will try to pay off any outstanding debts and put aside the necessary funds to replace, renovate, and restore those sections of the home that have fallen into disrepair. For instance, a family selling their house might give the home a new coat of paint, change some wallpaper, upgrade to wood floors, and knock out a wall or two. Similarly, before transferring a farm one might repaint the barn, repair animal stalls, and replace the carburetor on the old tractor that has been sitting idle for years waiting for the money to get fixed. Payment of debts and improvement of capital will help you financially in the long run by increasing your equity and the property's market value.

Developing Your Transfer Plan: Establishing Clear Goals and Objectives

You have a detailed account of your assets, liabilities, and equity. You're beginning to explore ways to pay off your debts and spruce up the farm. It's time to sit down and really think about what it is that you want for your business, yourself, your spouse, and your children. Get together with your family, and/or the family members whom you intend to take over the farm, and discuss these things. Figure out what everyone wants. Once you have a clear idea of what each member of the family desires from the transfer it is important to establish a timeline of your goals and objectives, and follow it as best you can. In this instance a goal is defined as a broad, long term aspiration which you want to achieve. An objective is a short term aspiration which will help bring you one step closer to achieving your goal.

Everybody Wants Something

During your discussions with your family, many topics and opinions will come up. However, it is quite likely that you want your farm to remain in agricultural use and you would like to pass it on to someone your trust. For yourself and your spouse, you would prefer to not hassle with finances when you retire. Additionally, you want to be able to leave the children with something beyond funeral and burial expenses when the time comes. On top of this, the division of your property among your children should be equitable and fair. You love your children and you would hate to have them squabble over your property when you're gone.

Your children will also want a fair distribution of your property. However, they may or may not be interested in getting involved in the farm. They may already have a career in the city or be interested in a career that does not involve agriculture. You might

have to turn to someone outside the family who is interested in farming. Are you prepared to turn outside the family to preserve the future of your farm? The farm may have been in the family for generations. However, it may come down to the farm being liquidated and turned into a new retirement community, or be transferred over to a young person who is just starting out, who wishes to continue the agricultural tradition, but is not related to you and has different ideas about how to run a farm.

Whatever the case, if you have someone you trust to take over the farm and they are willing to step up to the plate, be they your own child or that of another, they will want to have the capital and materials to be able to successfully launch their own farming careers.

Advice when planning around the desires of the three groups: Retirement, Inheritance, Succession Planning

Three different groups have needs to be met. On one side there is the retiring farmer's need to be financially secure in their retirement. On another side, there is the farmer's children's need to receive a fair inheritance when the farmer passes away, and there is the need for the entering farmer to have enough capital, assets, etc. to comfortably launch his or her agricultural career. A lot of financial juggling is required to meet these needs. You may be able to perfectly meet everyone's needs. On the other hand, though, some concessions made need to be made.

Inheritance

Consider your children's inheritance. If you do not intend to retire this can become a major issue, and it is one of those topics that can take a charitable, loving family and turn it into a boiling point of jealousy, greed, and cries of injustice. How can you be just when dealing with your family? How you and your children define justice will greatly impact whether you are perceived as being fair or not. As young children, your offspring likely complained that a situation was unfair because one of their siblings got more of something than they did. This is one form of justice, the justice of a seven-year-old, is an equal, unbiased division between perceived equals. In the workplace, employees are given salaries based on performance, experience, and merit. In law, criminals are punished according to the severity of their crime. This form of justice awards each according to what is due them. However, the problem with justice in any definition is figuring out who is equal or how people's situations and actions should be measured. Because this is an entirely subjective issue, if the inheritors do not agree with your decision or misunderstand your interpretation of justice, considerable strife can be stirred up. It is necessary then to discuss these matters with every member of your family that

stands to inherit. Find out what everyone believes to be a just division and settle on a last will and testament in which every person involved can understand the reasoning behind it and can agree upon all of its directives. To achieve this, compromise may be needed in favor of a form of justice that appears to unjustly favor one sibling over another.

Let's say for instance, that you own and manage a dairy farm. You have a daughter who has never had an interest in the farm's operation but wants an equal division on your assets when you pass away. You also have a son who possesses a PhD in animal and nutritional science but does not have a farm of his own. He was hoping to take over yours when you retire or pass away, but would not be able to do so if you have an equal division of your assets between both children. Regardless of which decision you make, neither child will be completely happy. At which point you will have to bring both children together and mediate the problem. Your son may have to agree to a gradual buy-in where he purchases the farm bit by bit as he can afford it. Your daughter may have to agree to the idea that the farm will not be liquidated. Instead she will inherit half of the farm on the condition that she leases it to her brother until he can buy her out. Someone will need to compromise.

Retirement

If you are willing to retire, you are going to need to plan for the financial security of your senior years. Since most of your assets are tied in to your farm, and once it is transferred- depending on the method you use- you will no longer be able to collect money from the farm's profits, planning ahead for your golden years is extremely important. When planning for your retirement you should consider the date by which you want to be retired. It can take a considerable amount of time to plan and execute your farm transfer so it is important to settle on a time when you will step back from the farm and fully make the transition to senior life.

The quality of life you want and where you want to retire are other important considerations. Different regions have differing costs of living. You may have to balance your expected quality of life with the state and region that you live in and with the amount of money that you will collect from social security along with any assets that you retain. In line with this is how much money you will need to live in the place that you want to live at the level that you want. You may need to move or make concessions for your potential quality of life if you want to live in the region that you prefer. When considering how much your retirement is going to cost, you should bear in mind that senior citizens have increased health costs which could also impact your planning. Lastly, once you have determined all of the above, you should figure out the best way to get the money you need to retire. There are a number of strategies to minimize taxes and maximize your income potential which will be explained later on.

Finding the Right Professionals

As was stated in the introduction, this guide is here to help you understand the process, challenges and opportunities of transferring the farm while presenting you with valuable options and strategies. However, you will need the help of qualified professionals to assist you in determining the best route to achieve your goals and guiding you along it. You will need realtors and financial appraisers to appraise your properties, accountants and tax specialists to help you make good sales and tax decisions, and attorneys to help you in legal matters. When selecting a professional- how much they charge, at what rate, what financial options they have, and what the total bill may be, are probably the first questions to come to mind.

However, when looking for a professional you should also find out how experienced they are in agricultural matters and how much of their firm is dedicated to the field. You should know whether they have ever handled farm transfers before, how much paperwork they require, how long their help will take, and how they plan to help you resolve your problem. Any conflicts of interest are a must know, and you should know what other persons may be working on your case.