



Retirement and Resource Allocation Strategies

Retire to a comfortable home in a comfortable region on a comfortable income; make sure the kids have a reasonable division of the property when the time comes; keep developers from paving over my fields; and make certain that the farm business is turned over to capable hands. These are just a few goals that you may have settled upon with your family. Now you need to figure out how to achieve them. You need to determine the details that will help lead you to sound objectives. There are numerous strategies that you could tailor to your situation.

The Three Strategy Categories

The strategies that will lead your farm and family to a profitable and comfortable new future are divided into three categories.

- Resource Allocation: The basic methods used to transfer assets from one party to another.
- Business: The variety of business models that one can adopt to potentially change the rules of the transfer in your favor (see *Business Structures and Strategies*)
- Managerial: Management methods to smooth over the relationships and interactions between the entering and current farmer as well as the relationship between the sitting farmer to his own family so the transfer is conducted with a minimum of anxiety for all parties (see *Entering the Farming Field*)

The Resource Allocation Strategies

The Standard Sale: Transferring property to a buyer in an all-at-once transaction.

Bonuses:

- Payment made in full
- Complete payment is guaranteed

- Maximizes the immediate benefit of your property investment

Potential Drawbacks & Concerns:

- May limit the market for potential buyers
- Limits ability to keep the property in use for farming
- 'Highest and best use' may or may not be in agriculture

The Installment Sale: An installment sale is a means for transferring property in which the buyer makes a number of payments over a period of years.

Bonuses:

- Payments can be made on a monthly or yearly basis.
- You provide the financing for the sale.
- You determine the installment price.
- You set the interest rate.
- You don't have as much money to report on your income taxes each year.
- It is a great opportunity for a buyer who has a small budget
- You can use the payments to supplement normal income

Potential Drawbacks & Concerns:

- If you rely too heavily on the payments as income your finances can be negatively impacted by inflation
- The buyer's finances can be negatively impacted by deflation.
- If you rely heavily on the payments as an income source, buyer default can have very serious consequences.
- A heavy reliance on payments for income is also a risk if you outlive the term of sale.
- Because of section 1239 of the Internal Revenue Code, you may incur a greater tax penalty if you are selling depreciable land to a relative.
- Any depreciation recapture income has to be reported the year of the sale even if you haven't received any payments.

For additional information regarding the intricacies of installment sales and the related taxes and forms please visit http://www.wwwebtax.com/income/installment_sales.htm for further details.

The Piecemeal Sale: A sale in which you sell portions of an asset over a period of time for the full price as opposed to the installment sale in which you sell an entire asset for portions of the price over a period of time.

Bonuses:

- The seller's income taxes are spread out over a long period of time instead of one lump tax on one year.
- The seller can spread out the tax payments on deflation recapture.
- The buyers can buy new assets as they can afford them.
- The buyer does not have to worry about paying interest.
- And can immediately take full possession of the property along with all the responsibilities that entails.

Potential Drawbacks & Concerns:

Speak with your attorney and accountant about potential concerns.

The Lease: There are three leasing strategies that you can use to transfer farm property. There is a standard easement until the lessee can take over the farm. There is a lease with an option to buy at the end of the lease term, and there is a lease in which the lessee gradually buys his leased items over an extended period of time.

Bonuses:

- Ownership of the property is maintained.
- One can still collect depreciation deduction on depreciable leased property
- A cash flow of rent payments is gained.
- Income taxes are charged as income is received
- Provides a financially inexpensive method for an entering farmer to establish their business
- Gives the entering farmer the opportunity to develop the capital to buy the property
- Rental payments for the lessee are tax deductible

Pointers:

- For the purpose of calculating the lease price, the responsibilities of the lessor and lessee toward the property to be leased should be determined.
- The lease price should be high enough to cover the lessor's costs but low enough to not burden the lessee.
- Lease payments on property, such as machinery, that is shared can be calculated according to hours used or acres covered.

Potential Drawbacks & Concerns:

- The IRS may categorize your leasing efforts as a business and tax you for self employment.
- The IRS may reduce the social security benefits of lessors under 70 who collect on their social security.