



Helpful Tips for Farm Succession Planning

by David “Levi” Suhrenbrock, CPA Senior Tax Advisor

Do you have a plan for passing your farm operation down to the next generation? If you do, you are probably in the minority. It seems that the task of developing a succession plan is something that is easily put off until one reaches the retirement years. Unfortunately waiting until the last minute often results in unnecessary costs, lost opportunities and perhaps even family turmoil.

Developing a plan to pass your farmland and farm operation to the next generation is a task that should be started relatively early in your career. The plan can then be adjusted over time as your situation and farm operation changes and grows. Every farm succession plan is different and should be tailored to your farm family's specific situation. Depending upon the size of your operation you should include your CPA, attorney and other professional advisors to assist you in developing the plan.

The first step is to simply discuss your alternatives and wishes with your spouse. Issues such as how to handle non-farming heirs versus farming heirs should be considered. Potential allocation of non-farming assets should be discussed. The next generation's skill sets such as operations, marketing, finance, etc. will need to be assessed.

Once you have a general idea of what you want to accomplish with your succession plan, you should have a meeting with your spouse, your children and your successor management, if not family. Discuss your vision and receive input from all of them. You can then decide how best to adjust the plan to reflect their input and ideas.

The next step is to review the rough outline of your succession plan with your professional team. Based upon their input, the tax and legal structure necessary to accomplish your succession plan will be developed and documented. This may include the use of one or more business entities to facilitate your plan. These entities could include General Partnerships, Limited Liability Companies, and/or Corporations. Initial and eventual ownership of these entities would need to be determined.

Your professional team should advise you on potential estate and gift tax exposure as well as provide planning for any income tax ramifications of the proposed succession plan. They will prepare the various legal agreements, which will document and govern your succession plan.

Ideally, a time line would be developed as to when certain

assets or entity ownership would be transferred from the current generation to the next generation. Often we find that time must be given to allow successors to take their place and prepare for the responsibility coming their way.

Typically, for estate and transfer tax purposes transferring small pieces of an asset or entity over a long period of time results in the elimination or minimization of transfer tax liabilities. With an individual's federal estate and gift tax exemption at more than \$5 million, estate and gift tax liabilities for smaller operations should be minimal.

It is a good idea to develop, with the help of your advisors, a “non-legal” outline of the entire succession plan. This document would include a plain English overview of the succession plan and the thinking behind the plan. It could also include a step-by-step guide to each task that needs to be accomplished under the plan and the time line as to when each of those tasks should be accomplished. This document should be reviewed periodically to determine if the plan is on track or if revisions are needed due to changing circumstances. Annual review and discussion should be considered but a review every five years would be the bare minimum.

Finally, and perhaps most importantly, you need to develop a training and development program for the next generation farmers. This training should not only include farm operations, it should also include training on marketing of commodities, financial aspects including a thorough understanding of the accounting systems, employment issues if you have outside employees, safety, equipment purchases, etc. This training can be hands on over a period of time, but should be discussed, documented, and agreed upon so that the next generation farmer has an excellent way to track the progress towards understanding the farm business.

Whether you are a large farm operator or a small one, developing a plan to pass the farm on to the next generation is one of the most important tasks you have to accomplish. Without a plan the farm operation could cease to exist at your death or retirement. Family strife and turmoil may result in a situation where there is no comprehensive succession planning. The lack of a plan could result in significant estate and even income tax liabilities. TODAY is the best time to begin the process of developing your plan to pass your farm on to the next generation.

KEB

Kerber, Eck & Braeckel LLP
CPAs and Management Consultants

St. Louis, MO: 314.231.6232 • Litchfield, IL: 217.324.6611 • www.kebcpa.com/ag • Follow us on Twitter @AgGroupKEB