

Have You Planned for the Future of Your Farm?



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Have you created a plan for passing down your farm to the next generation? If you are like most, you have not developed a succession plan for transitioning your farm operation to the next generation upon retirement. With the focus on the farm's daily operation, creating a succession plan can easily be put off until close to retirement. This can have potential negative tax consequences as most successful succession plans happen over a longer period of time to help minimize or eliminate any tax liability associated with the transfer of the farm operation. Creating a succession plan earlier is better as it gives you a chance to transition the operation over time and allows you to make decisions that will benefit not only you, but the farm's successor at retirement time.

Developing a plan to pass your farm operation down to the next generation can seem overwhelming and often confusing. Utilizing a business valuation of the farm operation will give you a great starting point for developing your succession plan. A business valuation will provide you with financial information to help determine what plan is best for your farm operation and most importantly your family.

Knowing how much the farm is worth at the start of the succession planning will help you determine how close you are to the goals you want to reach by retirement, and it will also help determine how long it will take to reach those goals. Once there is an understanding of how long it will take to reach your goals, you can determine the best time to implement your succession plan and eventual retirement. An added benefit of knowing the value of the farm will help you understand how much you will have upon retirement to maintain your current lifestyle. Knowing how much wealth you have to transfer over your lifetime to the next generation will determine if you will exceed the federal estate and gift tax

lifetime exemption with 2016 exclusion amount set at \$5.45 million per individual or \$10.9 million for married individuals. It is important to remember that the State of Illinois limitations come in lower than the federal at \$4 million per individual or \$8 million for married individuals. Most small operations will not exceed this limitation, but with appreciated land and with equipment values in recent years increasing, more and more operations are approaching these values. It is important to have a current value of the farm to understand your options for transitioning to future generations.

Once you have an understanding of the value of your farm operation, you should have discussions with your family and likely successors of the farm operation, whether that is your children, other family members or an employee. At this time, outlining the plan that you and your professional team have developed to transition the operation will allow for all parties involved to understand the plan and continue the farm's legacy into the future.

As your farm operation grows and the years come and go it is important to keep up with the value of the farm operation, and understand how that affects your succession plan. Including asset transfer strategies, income tax effects, and successors need for capital. If the succession plan is not reviewed periodically and altered for the increase in value of the operation it could have possible estate and income tax consequences. Reviewing your succession plan on a year to year basis will keep you and your successor aligned to maintain a successful transition to continue your operation well into the future.

