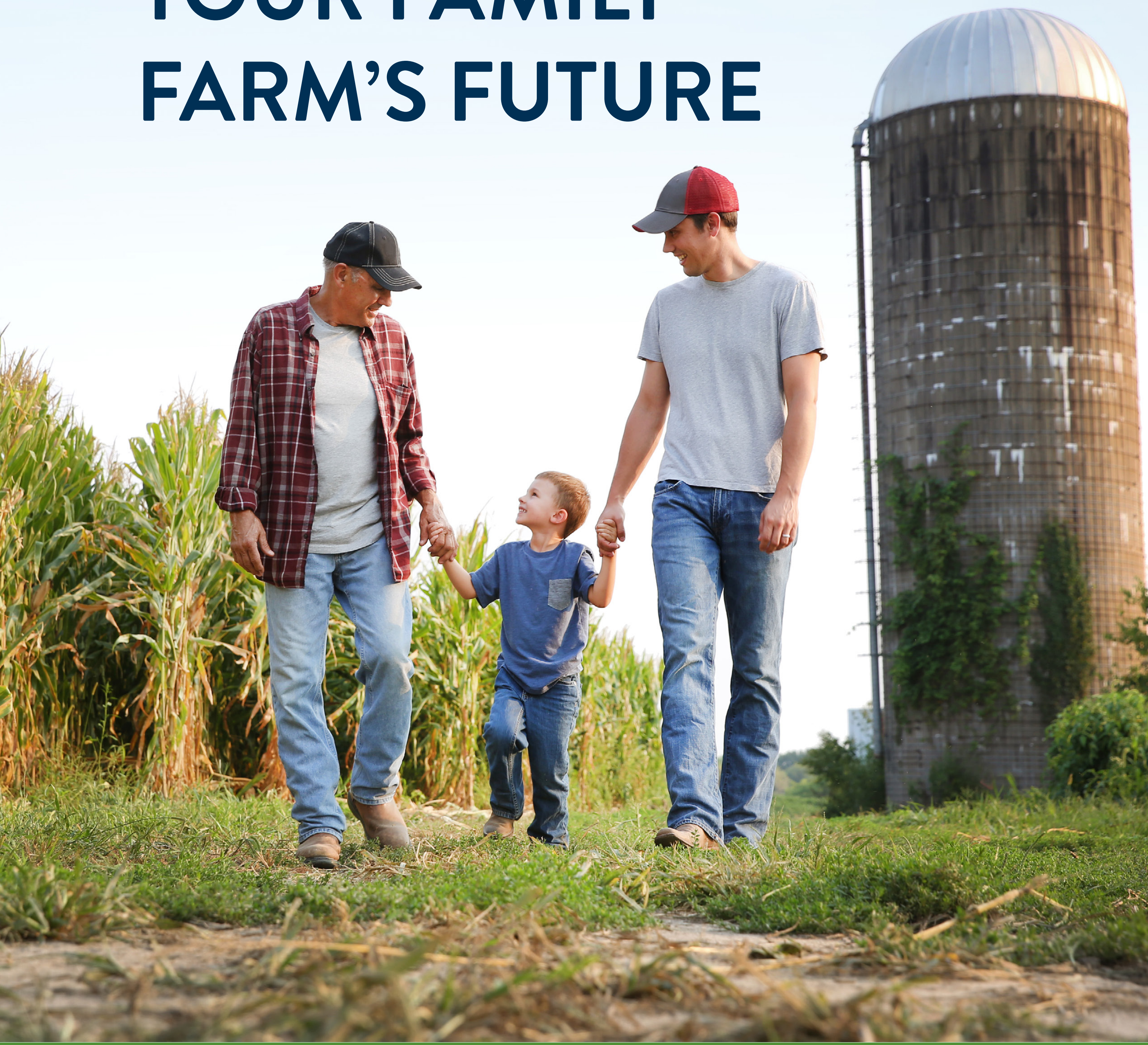
Your Guide to

PLANNING FOR YOUR FAMILY FARM'S FUTURE



AgSouth Farm Credit

844.AGSOUTH | AgSouthFC.com

NMLS #619788

YOUR GUIDE TO PLANNING FOR YOUR FAMILY FARM'S FUTURE

One of the most common topics in agriculture is how can/should parents bring the next generation into the farm business?

However, one question that never comes up is what stops parents from bringing the next generation into the farm business?

Most of us get serious about transition planning when someone in the community dies. We all see the negative impacts on that person's family, and we say, "I won't let that happen to my family." When thinking about transition planning, it can be overwhelming. Your mind starts to cloud over with thoughts of lawyers and accountants and LLCs and estate taxes. Another thing is that the lack of communication becomes a hurdle to discuss everyone's future plans. This often leads to the too often used familiar statement, "Well, we don't have to do it this minute. We have plenty of time to develop a plan."

According to the Family Business Institute, only 30% of family businesses successfully make the transition from the first generation to the second generation; roughly 12% make it to the third generation; 4% make it to the fourth generation. And you want to know the sad part about this low success rate – in most cases the failure is voluntary.

So, how do you start planning your family farm's future? Follow Dr. Alex White of Virginia Tech University to start your journey!

Dr. Alex White
Professor in Department of Dairy Science at Virginia Tech

WHAT ARE OUR OPTIONS?

Dr. Alex White from Virginia Tech University says that the first step is to start the conversation.

Try to determine the goal of your transition plan. When you boil it down, there are basically 5 main options when it comes to transition planning for a family farm:

1. **Keep the farm in the family** – this option refers to the goal of the family to maintain ownership of the farm whether they are actively farming or renting out the land.
2. **Keep the family in farming** – this option tries to keep the family farm in agricultural production either by keeping the existing farm in production or selling it to purchase a farm with better resources.
3. **Chain the family to the farm** – unfortunately, many times the transition plan forces someone in the family to remain on the farm, whether that farm is profitable or not, or whether they want to or not. Open communication is critical!
4. **Keep the family from farming** – this situation usually comes about because the older generation wants to treat their heirs equally. While you don't want to show favoritism, usually, this option leads to intra-family arguments over the future of the farm. There's a difference between treating your heirs equally and equitably.
5. **Sell the farm** –what is the difference between a "good sale" and a "bad sale"? A "good sale" occurs because it is the best course of action for the family and it meets everyone's goals. A "bad sale" occurs when the farm must be sold against the will of at least one of the family members. Unfortunately, "bad sales" are often the end result of Option 3 and Option 4.

Once you've determined which of these options is best for you and your family, here are a few more steps to get the ball rolling.

- Start the process when you have the time to devote to it
- Decide to take action and start as early as possible.
- Develop a transition management team (i.e financial managers, accountants, lawyer, estate development guides)
- Set up a timeline for the transition
- Develop a written plan (both a business plan and transition plan)
- Accept the fact that transition planning is an ongoing process.

PUT YOUR TEAM TOGETHER

Do you have a "go-to person" for advice? Children often rely on their parents or grandparents for advice. Adults often rely on certain friends. Dr. White says his students, rely on Wikipedia, Google, or YouTube. Farmers often rely on their accountant for advice – about everything related to the business.

There are a lot of issues related to transition planning that need to be discussed and analyzed: Taxes, Liability, Ease of Transfer, Management Control, Communication, Cash Flow & Profitability, etc. You need to develop a transition planning team so that nothing major slips through the cracks.

So, who should you consider for your transition planning team?

- **Accountant** – great for income taxes for different forms of legal organization (LLC, S-corp, etc) and retirement plans, as well as tax implications of gifts and trusts.
- **Attorney** – they can guide you on the legal and liability exposure of different forms of organization. They can discuss the "mechanics" of various estate planning tools such as wills, power of attorney, advance medical directives, gifting strategies, and trusts. They can advise on buy/sell agreements and operating statements. **Choose an attorney who has experience in estate planning**
- **Lender/Financial Agent** – having a team member who understands and can explain the financial implications of your options can make your life a lot easier. Understanding your current and projected financial condition – liquidity, solvency, financial efficiency, profitability, and repayment ability will allow you to make a better business decision.
- **Insurance Agent** – Insurance can be a powerful tool in transition planning, but too often is used as a substitute for planning. "Just buy this insurance policy and use it to pay your estate taxes or transfer your business…" Ugh, I cringe when I hear this statement! Insurance is a tool, and like any tool, it has its proper uses and its "not-so-proper" uses. (i.e on farm children get farm assets and non farm child gets insurance policy; used for end of life medical expenses and much more)
- **Other Business Consultants** – some other influential people in the agricultural arena are veterinarians, extension agents, and crop consultants. Consider having at least one other business consultant on your transition team.
- **Business Partners** – You probably want to include your current business partners and future partners on the team, this may include family members such as spouses.
- **Mediator** - "Wait, what?! A mediator? We don't need a mediator, we're a family!" And we all know how open and honest most of our family communication is, don't we? Let's face it, there are natural reasons why family communication is limited. That's why an outside mediator might be a valuable part of your team.

Talk with these people to see if they are interested and how they would like to be compensated for their services. Regardless, get the people who can provide you with the advice and guidance you need.