

Farm Succession Planning

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Farm succession planning – the process where management, income and ownership of a farm operation's assets are transferred to a succeeding operator – is an issue faced by all families involved in a successful farm operation. Where a senior owner/operator wishes that a farm operation continue beyond their retirement, sustained planning must be undertaken to avoid numerous risks that can reduce the chances that an operation will succeed under new management. These risks include inadequate management training, critical asset diffusion due to a poor estate plan, limited retirement planning requiring liquidation of farm assets, and unsolvable disagreements between the parties, just to name a few.

Initially, two things are required for such planning to commence: 1) that the senior farmer values that his or her farm remain in production after they retire; and 2) that the farm earn enough income – or have the potential and a plan to earn enough income – to interest a qualified successor (within the family or without) and still meet income needs of the senior generation. For those farm operations where the senior operator does not value or otherwise foresee the farm passing to a successor, critical elements of succession planning are still required to maximize family wealth as it passes to heirs.

Planning for farm succession – including simple estate planning – can be a daunting task. It requires time, resources, and ultimately, difficult decisions. However, broken into manageable steps, accompanied with an acceptance that it is not a one-time event but rather a continuous exercise that will guide the life of the farm firm, succession planning can be achieved by those who want it. Here are some suggestions on breaking it down:

Assess your family and financial situation. This should include a hard look at your willingness to step back from management and control (which will include an assessment of the capabilities of a successor to effectively manage the assets). Think about what how you will spend your time in retirement, whether it involves farm work or not. Also, you should estimate your retirement income needs, and identify the sources for that income (social security, farm rent or other income, pension investments, etc.) and assess the stability of each source of income. In addition, you should consider your health insurance situation in retirement, and should assess the affordability of options for your long-term care to avoid liquidating retirement savings or farm assets. Finally, you should have a business-like discussion with your potential heirs and successor(s) about what their interests and goals are, and whether your values and goals are in synch with theirs. Often begun informally over time, you have probably put out feelers or have otherwise observed what your children's values and goals are. If your potential successor is unrelated, you have likely had time to observe and hopefully develop their suitability as a successor. At some point, you will need to have what amounts to a series of business meetings with your family, to share or otherwise help frame your vision, nail down your family's various wants and needs, and attempt to reach consensus on goals for the operation and/or estate. A key question you will face, treating all heirs equitably (as opposed to equally), will move closer to resolution based on information shared and gathered as you meet with your family.

Assess the income potential of present assets and available resources. This should at the minimum require a net worth analysis to be completed. It also might require a transition in production, with a good plan for where extra income will come from to help fund the succession, either through expansion of a higher value product mix. Will more land be needed? If so, is there sufficient land available in the area to rent or purchase? What is your willingness to secure financing to expand the operation if current assets are not available. Will new equipment be needed? As part of this assessment, develop a plan for transferring management and income

Determine what tools you will use for transferring assets, management and income. This will require an investigation of the tax implications of present transfer by gift or sale, or future transfer through yours (and likely spouse's) estate. Key considerations here will be risk management to prevent ownership and management of the assets slip out of the control of your successor, and otherwise be available for liquidation by others not directly involved in the farm operation. Different agreements, such as machinery sharing arrangements and leases, or partnership arrangements might come into play. Also, investigation of the utility of certain types of business forms, such as partnerships, corporations or limited liability company will be important to determine if these fit your situation. A basic part of this planning will be putting in place your underlying estate plan, including your will and other documents, or otherwise altering present documents to fit your succession plan.

You have a lot of ground to cover before ultimately meeting with the professionals that will help you implement your plan. First, get educated on the subject to learn the major issues involved to help guide you in thinking about your future and gathering necessary information. The North Carolina Farm Transition Network (NCFTN) has built a website (www.ncftn.org) with a library of resources on the topic from across the country, along with useful worksheets to help you answer preliminary questions. Some of these worksheets have been compiled in a new booklet, *Planning the Future of Your Farm: A Workbook on Farm Transfer Decisions*. In addition, NCFTN and NC Cooperative Extension, as well as various private professionals (attorneys, financial planners, etc.) and organizations such as Farm Credit and North Carolina Farm Bureau, put on educational programs for farmers and their families on a number of specific topics such as retirement and estate planning. Also, ask questions of other farmers in your community as to what they are doing, or how they got started.

A team of professional advisors are required to guide you to implementing a plan, or at least answering key questions outlined above you will face in making decisions about the future of your farm. A neutral moderator might assist in the family discussion. A financial/estate planner will help you evaluate retirement and investment options. A farm management consultant, either private or through Cooperative Extension, can help you assess the potential of your operation, as well as provide education on new market opportunities. An attorney with expertise in tax matters will be ideal. If you have an attorney that has assisted you in the past, carefully assess their ability to handle some of the complex estate, tax and business planning issues for which you will need their advice. Your accountant (who will possess key income records) and your lender (who will be assessing the risks of expansion and production transitiona) should also be a part of this team. As is often the case with even the most careful planning, the real world will test the weak spots, so be prepared to continually update the plan to address new situations.