

# Transitioning the Farm to the Next Generation

*"Farming and ranching operations aren't just family businesses, they're legacies spanning as many as six or seven generations. Keeping the legacy alive is part of the job, and often the most difficult." Shelby Mettlen Ag Daily*

**NC STATE**

**EXTENSION**

NC FarmLink

March 19, 2021  
Small Business Center

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For timely guidance and resources, visit:  
[covid19.ces.ncsu.edu](https://covid19.ces.ncsu.edu)

## News and Updates



### Farm Transition Tactics

William Hamilton is a 15-year veteran dealing with farmland in North Carolina, specializing in a wide array of issues

### Calling All Current & Future Farmer Veterans!

Consider participating in this educational conference to learn about resources available to North Carolina Farmer Veterans, gain some ideas ...

— 1 month ago



### Farmers of Color Network Infrastructure Grants

Grant applications are now open for the second round of grants from the Farmers of Color Network Infrastructure Fund ...

— 1 month ago

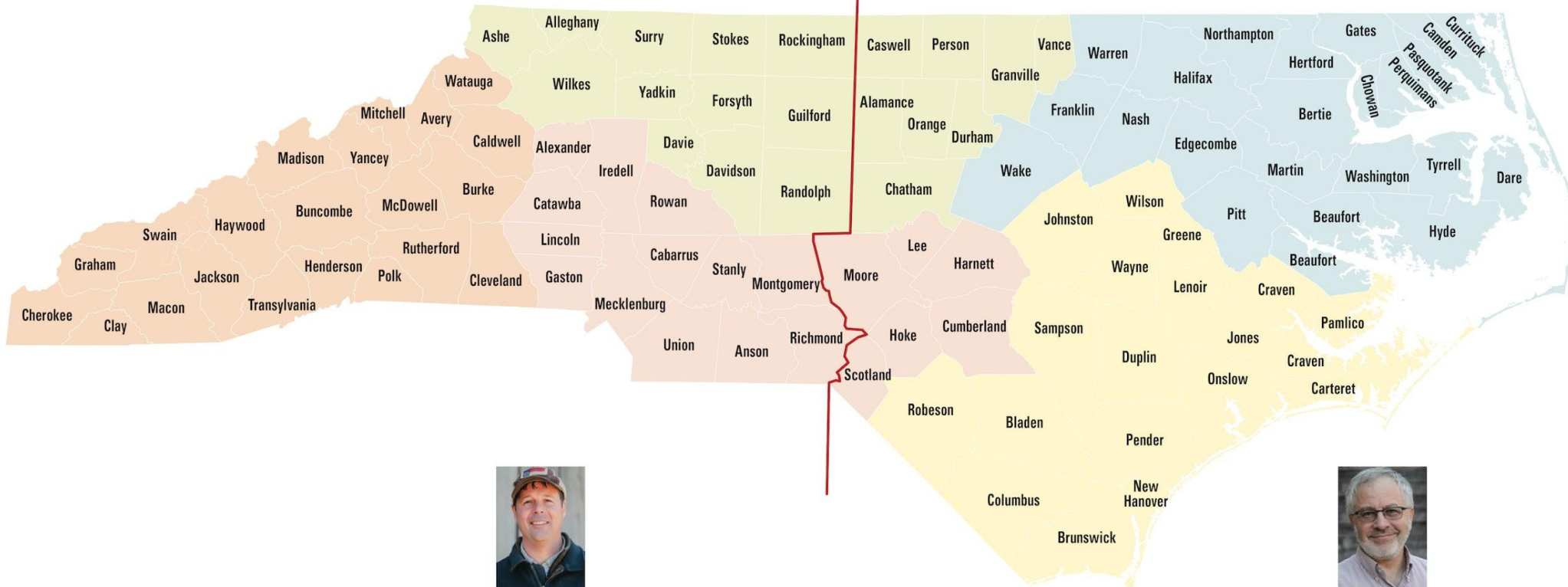


**NC STATE EXTENSION**

NC FarmLink

**Western Region**

**Eastern Region**



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# Outline

- Are you Ready?
- Strategies
- Utilizing Partnership and Corporations
- Transferring Livestock and Machinery
- Should you Sell Real Estate?
- Gifting Farm Assets
- Tax Considerations
- Treatment of Heirs in the Transfer Process
- Developing a Written Plan Outline
- Financial Help

Credit: Hatchfeld Gary A., Bau David B., Holcomb Robert, Kurtz James N. (2009) "Transferring the Farm Series". Ag Business Management. University of Minnesota Extension. Available at:  
<http://senecacountycce.org/resources/10-fact-sheets>



# Preparing

- 1 - Financial position of retiring farmer and entering farmer
- 2 - Your willingness to let go
- 3 - Your emotional readiness to transition the farm (examples)
- 4 - Your health
- 5 - Some key questions to ask yourself (examples)
- 6 - Establishing Goals (steps 1, 2, and 3)

# Farm Business Transfer Strategies

- 1) Communication
- 2) Sole Proprietorships: ( Trial Period) (Farming together but apart)
- 3) Multi-Owner Joint Ventures
- 4) Partnerships and Corporations
- 5) Family Business Meetings

Avoid inequities or appearance of inequities. Requires patience, good communication, tolerance, division of responsibility, delegation of authority, sacrifice, and trust.

# Using Partnerships & Corporations

- 1) Uses shares to pass ownership to entering generation over time. Does away with the need to transfer separate individual assets which is difficult and time consuming.
- 2) Partnerships: General & Limited Liability Partnerships
- 3) Limited Partnerships: Limited Partnership, Limited Liability Limited Partnership, Limited Liability Company
- 4) Corporations: S Corporation, C Corporation

# Transferring Livestock and Machinery

- 1) Income tax and self employment tax considerations
- 2) Selling breeding livestock and machinery
- 3) Leasing equipment
- 4) Gifts
- 5) Piecemeal sales
- 6) Hybrid methods: (lease, gift, sell)
- 7) Charitable Remainder Trust
- 8) Have a written outline, timeline, legal and accounting advice



# Should You Sell Your Real Estate?

- 1) Reasons why exiting farmer may retain ownership of farmland
- 2) Reasons why exiting farmer may wish to sell their land at retirement
- 3) Disposal of buildings and personal residence: (sale or gift)
- 4) Methods of selling land
  - lump sum with accompanying taxes
  - contract for deed (owner finance)
  - piecemeal
  - 1031 exchange
  - check with attorney and accountant

# Gifts of Farm Assets

- 1) A valuable tool that can be used to: help reduce a taxable estate, transfer income tax obligations to the children, help get the next generation established
- 2) Gifts are always valued at fair market value (FMV) at the time of the gift
- 3) Gifts of Appreciated Property
- 4) Gifts of Grain or Livestock
- 5) Gifts of Machinery
- 6) Gifts of Land
- 7) Gifting owner financed payments

# Tax Considerations

- 1) Income Tax Basis
- 2) Personal Residence
- 3) Some states have a Homestead Tax Credit
- 4) Installment Sales
- 5) Tax Free 1031 Exchange
- 6) Spread out Income
- 7) Capital Gains, Income Averaging, Self Employment Tax

# Treatment of Heirs in the Transfer

## 1) Protecting the on-farm heirs

- develop and implement a transfer plan
- offer a purchase agreement
- provide protection in your will or trust
- life insurance planning

## 2) Passing on your farming know how

## 3) How to be fair with non-farm heirs. Fairness does not mean equal.

## 4) Communication of final plans prior to death to avoid catastrophic family controversy

# Developing a Written Outline

- 1) Clears up questions and potential misunderstandings
- 2) Who should be involved?
- 3) Examples of what should be included
- 4) When should a plan be established?
- 5) Put the Plan in Writing!

# Financial Help

- 1) Parental Financing
- 2) FSA Loans
- 3) Local Banks