



AG-VISOR BLOG

Farm Succession Planning

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A huge number of baby boomers have created or continued successful family owned farms. As they approach retirement the future of those farms hinges on their ability to successfully transition to a next generation. Less than 30 percent of family farms successfully transfer to a subsequent generation.

A clear succession plan is the most important ingredient for successfully continuing a family farm. But when surveyed, most farm owners report not having completed any estate planning beyond a will.

Succession planning can easily be pushed aside by farmers focused on day-to-day operations. But an even bigger issue for procrastinating may be emotional issues associated with succession. Making succession decisions is rarely easy. But exploring what is needed and starting early are good things to do. Following simple steps can start farmers on the path of establishing a farm-succession plan.

Organize a team. Involve experts. Key business and estate-planning professionals such as attorneys and accountants can provide knowledge needed to create a successful plan.

Consider incorporation. Converting to a corporation, Limited Liability Company or other formal legal entity can help ensure continuation of a business and also provide limited liability for its owners.

Train successors well. It can take months or years to train successors about farm operations, especially making management decisions. Start early to give them the best opportunity to step into a managerial role.

Document a vision. A step-by-step guide detailing a plan for the future of the farm — including successors — will help future generations understand future goals for the farm set by current owners.

Develop a buy-sell or stock-restriction agreement. Following a triggering event such as an owner's death or disability, an agreement can obligate one owner to buy and another to sell his or her interest in the farm. It can also be structured to control how ownership interests may be transferred to non-family or off-farm family members.

Have an insurance plan. While a buy-sell agreement can help keep the farm in the family, it may be necessary to obtain insurance in order to fulfill obligations in the agreement. Life insurance can provide needed liquidity when a triggering event such as death brings about sale of an ownership interest.

Discuss plans with all individuals involved. Eliminate surprises by telling family members and the farm's management team a general outline of the succession plan. Sharing a vision for the farm can help ensure a smooth transition for everyone involved. Also share who has been chosen to take over the farm – and why.

Review and update a plan periodically. Once a plan is in place review it periodically with a team of estate-planning professionals to address changes that may be needed. Changes in laws or tax code may require adjustments to a plan. Changes in personal life and family situation also require a plan update.

The most difficult aspects of succession planning relate to emotional and family issues surrounding

transition. But they must be tackled. A well-thought farm-succession plan will protect the farm and secure a legacy. And it can eliminate potential conflict and ensure family cohesiveness for the long run.

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