



# 8 Steps To Get Started



“Succession planning always starts with a conversation.”

## 1. Schedule a family meeting.

Succession planning is a team sport. It requires input from the entire family, including current farm partners, as well as your children and their spouses.

“Succession planning always starts with a conversation,” says Elaine Froese, farm coach and author of *Do the Tough Things Right: How to Prevent Communication Disasters in a Family Business*.

During family meetings, Froese suggests talking about a target retirement date (even if it’s a decade or more down the road) and goals for the future of the farm. Understanding how all of the stakeholders feel about passing the farm to the next generation is an essential first step in succession planning.

If needed, bring in a farm coach/advisor to facilitate the process and keep the conversation on track.

## 2. Assemble your team.

You’ll need experts to facilitate various steps of the succession planning process, including offering advice on the legal and tax implications of various decisions.

“One of the upsides of having a team is access to options and the best ideas,” says Kevin Bearley, an attorney specializing in agricultural law with the Colorado firm K•Coe Isom. “Sometimes [advisors] don’t communicate well with each other and can’t agree on the best option.”

Choose advisors you like and respect, and who, ideally, work well together (perhaps several experts from a single firm) and prepare to have them involved throughout the process.

## 3. Establish goals for succession.

Think about a target date for retirement and the steps that need to happen between now and then. Those steps might include the phased transfer of labor, management and assets; training/mentoring the next generation; a financial plan (to fund retirement); and plans for contingencies that might arise between establishing and executing the succession plan.

“If you want your farm to continue to be an operating farm [after you retire], it’s important to think about your goals for the future of the farm,” Betts says. “[You have] to make sure such a transition is possible and successful.”

Ask the stakeholders (current partners, farming and non-farming heirs) about their goals for succession. If there are discrepancies, take time to work them out.

Disagreements, Betts explains, “can cause significant stress and conflict in the business and farming family.”

## 4. Make a list of assets.

As part of the transfer of ownership from one generation to the next, it’s important to know which assets need to be accounted for in the purchase/sale, or included in the trust or gift.

In addition to listing assets, include a note about who owns them: Do you own 100% of these assets? Are there partners or shareholders who own a portion of them? This information is essential to share with the advisory team, who will use it to create a plan for transferring assets to the next generation.

Your list should also include non-farm assets, including retirement accounts, rental/vacation properties, life insurance and investment vehicles not tied to the farm, according to Robin-Lee Norris, partner in the Guelph, Ontario, office of the Canadian national law firm Miller Thomson LLP.

“Most farms are asset rich and cash poor,” Norris notes. “You need to know what you have to help plan for the future on and off the farm.”

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## 5. Make a list of debts.

Debt is also an important element of succession planning. If assets are still being financed, you'll need to put a plan in place to pay them off or establish financing agreements for the next generation to take over the debt.

There is another reason it's a good idea to assess the overall financial health of the farm, according to Heather Watson, executive director, Farm Management Canada. "In a debt position or down market, the farm may be a burden or liability for the next generation, not an opportunity," she says. "If there is more debt than assets, farmers have to ask if the farm is worth passing on."

## 6. Gather existing documents.

To help get a complete picture of the farming operation, your advisors will want to know what documents already exist as a starting point for succession planning.

Assemble any shareholder agreements, life insurance policies, wills or trusts, durable power of attorney and healthcare directives for the team to review and update if needed. If you have a previous and/or outdated succession plan, include that too.

"Your succession plan needs to be reviewed on a regular basis," Norris says. "If it's out of date, it might not reflect current goals or regulations."

## 7. Agree on a timeline.

Transfer of ownership and assets from one generation to the next doesn't happen overnight. As part of the planning process, agree on a tentative timeline for succession. Remember: It can take a year just to get a plan in place and up to a decade to fully execute a succession plan.

"It's a good idea to start early and do it a little at a time," Norris says.

Betts agrees that establishing a realistic timeline (advisors can help make recommendations for the ideal transfer of assets and operations) and taking it slow is best. Rushing to complete a succession plan, he explains, "can lead to financial loss, equity loss, or worse, family conflict and crisis."

## 8. Take action.

Once all of the pieces are in place, it's time to work with the team of experts to create a succession plan and begin implementing it—and this can be one of the hardest parts.

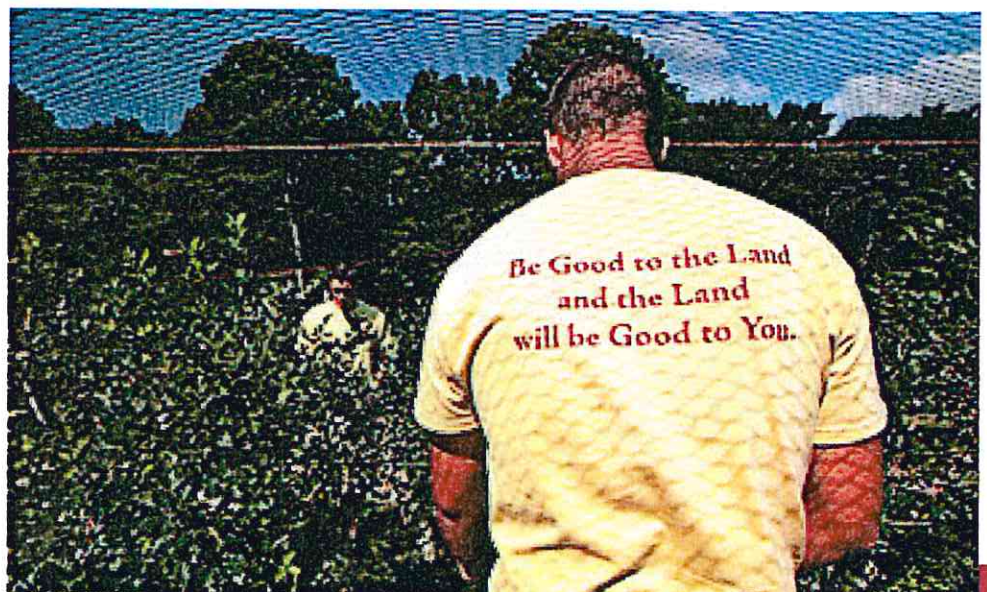
"People get stuck at the implementation phase," explains Froese.

To keep the succession plan from sitting on the shelf, Froese suggests allowing the most passionate member of the farm family to take the lead and help drive the process.

"There is an old Japanese proverb, 'Talk does not cook rice,'" she says. "It's the same with succession planning. You can't just talk about it, you have to take action." **FL**



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## Know Your Options

Even if succession seems straightforward, as when passing on assets and operations to a single heir, multiple steps are still required to create a plan to facilitate the transfer of the farm from one generation to the next.

The succession planning process may require changing business structures, deciding between rollover, direct sale or placing assets in a trust. In more complex cases, it might make sense to divide farming operations, enter into a contract with an outside farmer or sell the farm.

“I wish I could say there is a one-size-fits-all approach, but it’s just not the case,” notes Robin-Lee Norris, partner in the Guelph, Ontario, office of the Canadian national law firm Miller Thomson LLP. “It’s complicated.”

Because of a succession plan’s complex nature, a team that includes a lawyer and accountant is indispensable in helping evaluate the legal and tax implications of different business structures and vehicles, like trusts, used to transfer assets and operations. A professional team will also complete the paperwork required to prepare a formal succession plan.

### Evaluating Operations

Once your family has established goals for the future of the farm, including an estimated retirement date, and a plan to transition operations and assets, your advisors will look at the current business structure and determine whether it can help you meet those goals or if restructuring is needed.

Each business structure—sole proprietorship, joint venture/partnership and S-Corp—has its own advantages and disadvantages, and each will have an impact on taxes, liabilities and the ease of transferring assets in and out of the farm business.

**SOLE PROPRIETORSHIP:** Although this is the simplest and most common business structure, according to the U.S. Small Business Administration, it also carries the most risk. A sole proprietor owns and operates the business as an individual; the proprietor receives all of the profits, but is also responsible for the debts, losses and liabilities the farm business incurs.

**PARTNERSHIP:** A partnership refers to a single business with two or more owners (partners). The partners share responsibilities for all profits and losses. A joint venture is a form of partnership that is created for a limited period of time or specified project. On a farm, for example, one partner might own land and the other owns the equipment (as separate businesses), while operating a joint dairy-calf operation. Joint ventures offer some liability protection and the ability to put assets into the farm (or pull them out) without incurring taxes. Another partnership option is a limited partnership, which allows partners to minimize their liabilities and take responsibility for varying degrees of input on management decisions based on their share of the business.

**S-CORPORATION:** Often called an S-Corp, it’s a separate legal entity that separates the corporation from its owners/shareholders. The corporation is formed through the IRS. An S-Corp offers tax savings, tax credits and liability protection, but it’s also subject to stricter operational processes, such as scheduled shareholder meetings, adoption of by-laws and additional record-keeping.

The right business structure for your farm depends on a number of factors, notes Kevin Bearley, an attorney specializing in agricultural law with the Colorado firm K•Coe Isom. The decision to restructure is best made with the help of an accountant and attorney.

In general, Bearley recommends farmers establish partnership agreements. “Partnerships let us separate land from farm operations and allows operations to be >>

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placed with the partner who's farming," he explains. "Having all of the assets tied up in one business entity can cause problems."

For the purposes of succession planning, a partnership structure, Bearley explains, gives farming heirs control of the operations, including the freedom to maintain the farm, purchase equipment and make decisions about operations without interference from their off-farm siblings, who own the land (and often receive rent from their siblings who farm it).

In Canada, there are fewer options for structuring businesses, according to Norris. For larger farms, Norris recommends farmers create corporations with strong shareholder agreements to provide protection against lawsuits; smaller farms, she says, might find partnerships more advantageous (the pros/cons of different business structures are essentially the same on both sides of the border).

## Crafting a Plan

After the business structure is evaluated (and restructured, if needed) the next step is creating a plan for how operations will be transferred and who will take over the farm.

Dennis Stein, farm management senior educator at Michigan State University, recommends transferring ownership in phases, following these three steps:

- 1. HAND OFF ASPECTS OF FARM MANAGEMENT:** Giving farming heirs additional responsibilities will help prepare them to take over farm management when the founder(s) retire. Consider dividing up livestock from cropping operations, for example, and letting the farm heir run a specific aspect of the farm business.
- 2. CONVERT FARMING HEIRS FROM HOURLY WORKERS TO PARTNERS:** As their responsibilities increase, farming heirs should be rewarded with additional compensation, including a salary and performance incentives.
- 3. START TRANSFERRING ASSETS:** In preparation for succession, encourage farming heirs to begin acquiring assets or start transferring assets into their name/business. For example, when the farm needs a new tractor or the 40 acres next door comes up for sale, your heir, not you, should make the investment.

"Implementing a succession plan over time is a much more stable method for the future of the farm," Stein explains. "As farming heirs prepare to take over the farm, they'll need help from senior generations to acquire the assets and make a smooth transition."

The phased transfer of ownership from a farmer to a single heir is one of the more straightforward aspects of succession planning. The process becomes more complex if there are multiple heirs, including a mix of farming and non-farming children, or no heirs at all.

"The decisions become very hard," Stein says. "There is a risk that the farm could get chopped up into small pieces or operate with a whole group of partners, including some with no ties to farming, who can't reach a consensus about how to move forward."

## Embracing Alternatives

Although the options might be less straightforward—and less obvious—when there are no heirs or multiple heirs with differing interests in the farm, there are solid options.

To accommodate multiple heirs in a succession plan, scenarios could include separating farming and non-farming assets between heirs (giving land, equipment and livestock to farming heirs, then giving rental properties and mineral rights to non-farming heirs, for example); dividing the farm into multiple, smaller, operations; or selling the farm and splitting the proceeds. (For more on planning a succession for multiple heirs and anticipating uncertainties, see "Protecting Your Assets, Heirs and Heritage.")

With no heirs, the land and equipment could be rented to a neighbor or a beginning farmer. Most states have programs that help new farmers access land, equipment and assets, like breeding stock through partnerships with retiring farmers. In some states, farmers are eligible for tax credits for renting agricultural assets to new farmers. You retain ownership of the farm as part of your retirement portfolio and the rent provides ongoing income. >>

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For additional information about succession planning (and help creating a plan), check out these resources:

## United States

Purdue Extension  
extension.purdue.edu  
765-494-8491

Center for Rural Affairs  
cfra.org  
402-687-2100

International Farm Transition Network  
farmtransition.org

K-Coe Isom  
kcoe.com  
970-685-3500

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507-389-6722

## Canada

Agricultural Institute of Management  
agr.gov.sk.ca

Farm Credit Canada  
1-888-332-3301  
fcc-fac.ca/en/

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519-826-3173

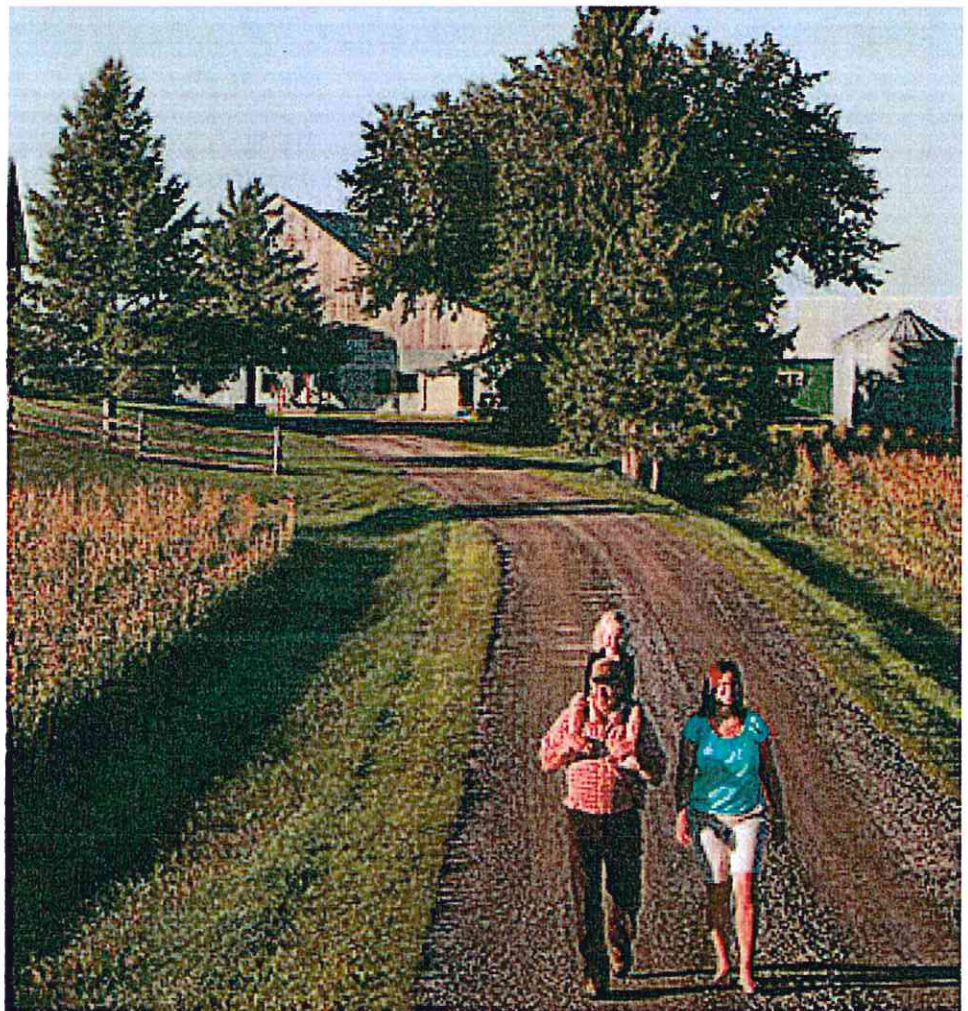
Heather Watson  
Farm Management Canada  
fmc-gac.com  
888-232-3262

If there are no heirs, you could also donate the farm and equipment to a registered 501c3/nonprofit organization. This option allows you to avoid estate taxes, but doesn't guarantee the future of the farm or provide cash to fund retirement. A conservation trust, which can be structured to allow new farmers or heirs to acquire land at "agricultural value" or require land be kept in agricultural use, is also an option. As a last resort, the farm could be sold, but Bearley warns that there are disadvantages, including a significant tax bill, associated with selling off agricultural assets.

It can be expensive to assemble a team to make recommendations about an optimum business structure and plans for passing off operations to the next generation (or alternatives if no one wants to take over the farm). The price for creating a succession plan, according to Norris, ranges from \$10,000 to \$15,000 (or more).

Canadian farmers have access to funding to cover the costs of succession planning. Through Growing Forward ([www.agr.gc.ca](http://www.agr.gc.ca)), a program through Agriculture and Agri-Food Canada, farmers can access cost-share funding for advisory services, including succession planning. In the U.S., farmers have to absorb the cost as a business expense.

Regardless of the cost, Bearley believes investing in a succession plan is essential. "You don't work 30 to 40 years for it to all fall apart," he says. **FL**



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