The Role of Estate and Financial Planning in Farm Transition

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Research and Extension Responses to Farms and Rural Business Transition/Succession Planning Needs

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Overview

Estate Planning
- Defining the terms
- Estate planning basics
- Estate tax considerations
- Equal v. equitable
- Gifting

Financial Planning
- Defining the terms
- Role in Succession Planning
- Outcomes
- Short-term gain and long-term pain

Role of Insurance
What’s happening in Virginia?

Conclusions
Estate Planning
Defining the Terms

- **Inheritance** entails the transfer of land and other farm business assets to a succeeding generation upon the death of the owner of those assets.
- **Succession** refers to the transfer of managerial control of the farm business to the succeeding generation during the life of the owner of the business.
- **Retirement** means the withdrawal of labor to and managerial control of the business by the owner.
- **Farm business succession planning** includes business planning, retirement planning, financial planning, transfer planning, estate planning.
- The process is more than estate planning!

Estate Planning
Basics

- Will
- Property titles
- “Living Will”
- Power of attorney
- Trusts?
- Business organization
Estate Planning

Estate Tax Considerations

• Not the issue!
• 2.2% of decedents pay estate tax
  - 5% of these report farm assets
  - .11% of decedents pay estate tax and report farm assets
  - 90% of these likely did no estate planning
• Family and business considerations are more important!
• Sometimes we cannot see the succession planning forest for the estate tax trees

Estate Planning

Equal v. Equitable Treatment of Heirs

• “I love my kids equally, so I will leave everything to them equally”
• Equal is not necessarily equitable
• If you want the farm to stay in agriculture, then equal treatment is a disaster
• Use life insurance, other assets to make the treatment “equitable”
Estate Planning
Gifting

• Can gift $12,000/year/donee tax free

• This annual exemption does not count toward lifetime exemption of $1 million

• Basis step-out
  - gifts receive no step-up
  - bequests receive step-up

• Gifting of non-income producing property or real estate can aid estate plan

Financial Planning
Defining the Terms

• Financial planning – defined as arranging one’s financial matters to move them towards achieving their life goals

• Financial matters include specifying one’s life goals, cash management, debt management, insurance planning, investments, tax management, retirement planning, education planning, and estate planning
Financial Planning
Role in Succession Planning

• Successful or potentially successful business operation (evaluating the business)
• Clearly identifying the goals of each party
• Communicating the goals, issues, concerns, etc. of all parties in a constructive manner
• Arranging for living income for the out-going (senior) parties
• Providing the potential for adequate living income for the incoming parties
• Household cash management

Financial Planning
Outcomes

• Controlling the household expenses (and therefore improving cash flow)
• Controlling household debt levels (thereby improving liquidity, solvency, and cash flow)
• Reducing risk exposure through diversification of household and/or business assets and investments
• Do not rob Peter to pay Paul!
• Both generations (or all 3 or 4) must have adequate income without cannibalizing the farm operation
Financial Planning
Short-term Gain May Equal Long-term Pain

• Farmers do not like to pay income taxes

• Reducing taxable income reduces Social Security benefits (retirement, disability, survivorship)

The Role of Insurance

• Must maintain appropriate insurance coverage

• Life, health, disability, property/casualty, and liability
What’s Happening in Virginia?

• Collaboration with North Carolina Farm Transition Network
• Intensive Five-part Succession Planning Workshops
• Farm Business Management In-Service
• General In-Service
• Farm Business Succession Planning identified as Number 1 issue

Conclusions

• Estate planning and financial planning just parts of a very complex, interrelated process
• Cannot think of one part of succession planning in isolation
• Big need for training- farmers/business owners, agents, professional
• Issues will only get bigger