

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

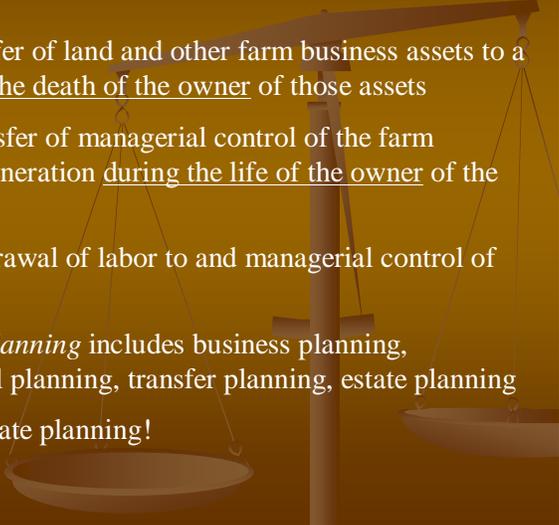
- Defining the terms
- Role in Succession Planning
- Outcomes
- Short-term gain and long-term pain

Role of Insurance

What's happening in Virginia?

Conclusions

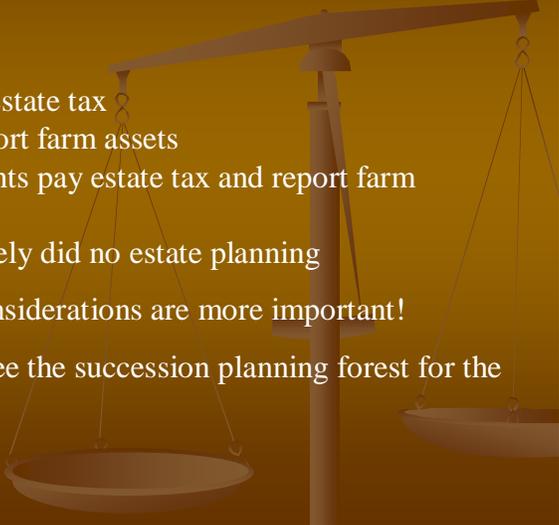
Estate Planning Defining the Terms

- *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!
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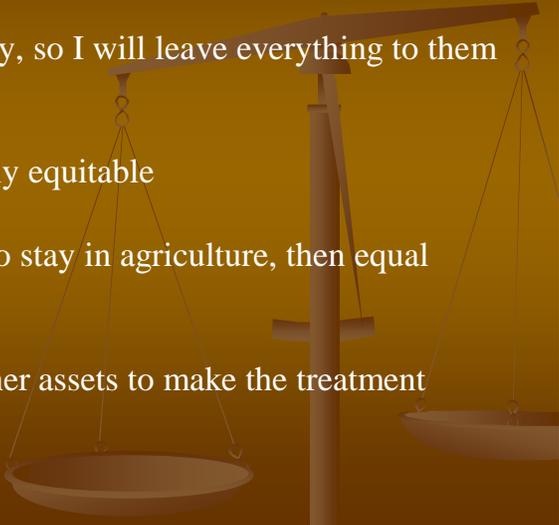
Estate Planning Basics

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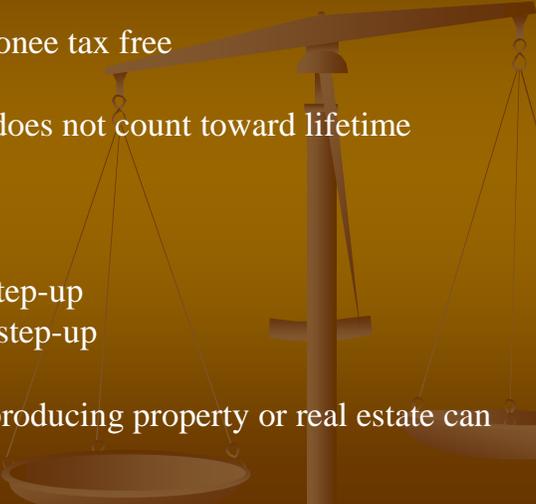
Estate Planning Estate Tax Considerations

- 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
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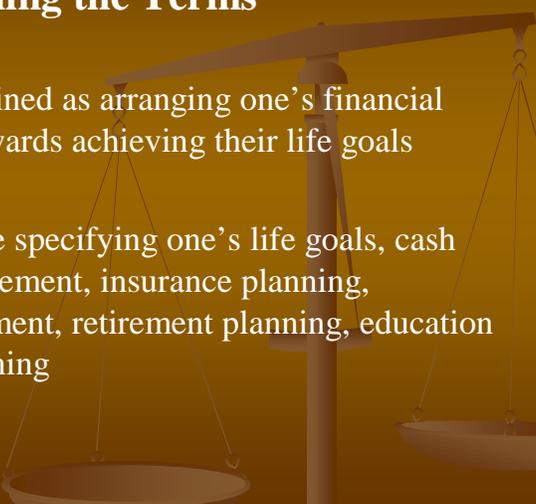
Estate Planning Equal v. Equitable Treatment of Heirs

- “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”
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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
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Financial Planning Defining the Terms

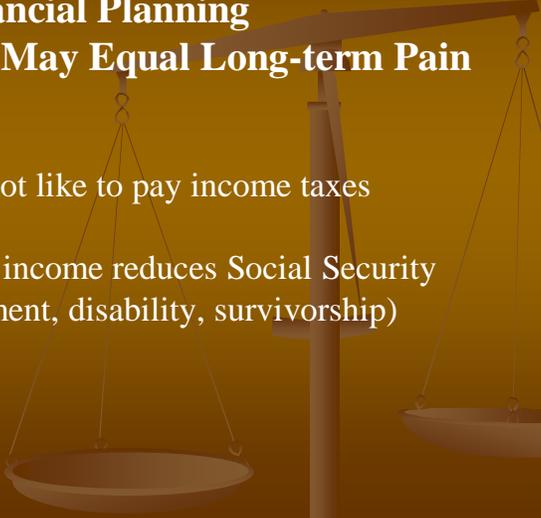
- Financial planning – defined as arranging one's financial matters to move them towards achieving their life goals
 - Financial matters include specifying one's life goals, cash management, debt management, insurance planning, investments, tax management, retirement planning, education planning, and estate planning
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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
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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
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