

Farm estate planning – what you need to know

Ryan Baker for *Ag Proud*

AT A GLANCE

Demystify farm estate planning, take advantage of valuable opportunities if you act soon and read tips about how to get started.

If you're reading this, chances are you already know you ought to have an up-to-date estate plan in place. You may have witnessed things go wrong with other families, or maybe even within your own, as a farm passed from one generation to the next. The good news is, right now you have a historic opportunity to preserve your family legacy for future generations.

Use it or lose it

Did you know, right now a married couple can transfer \$23.16 million worth of assets to the next generation free from federal estate tax? The bad news is the current estate tax exemption (\$11.58 million per person) is scheduled to sunset at the end of 2025 and could be reduced much sooner depending on the 2020 election. This is a massive opportunity compared to the \$1-million-per-person exemption when I started in the business over 15 years ago.

The difference between using your exemption soon versus letting it expire may mean subjecting an additional \$10

million of assets to the 40% federal estate tax for a married couple. Many people are not aware that you can use your exemption during your lifetime, not just at death. That's a \$4 million voluntary tax if you do nothing and literally could be the difference between keeping your farm and being forced to sell.

Even if you are not subject to the federal estate tax today, you may be in the future if you don't capture the current exemption. But what if we ignore the current tax incentive; does estate planning for your farm need to be done anyway?

Farm survival rates are low

There are over 2 million family farms in the U.S. Only 30% of these family businesses survive into the second generation, and only 12% are still operating by the third.

Losing a multigenerational farm or ranch operation because of poor planning happens more than you'd like to imagine. It happened to my family. It was devastating to everyone involved to see decades of progress come to an unwanted end, especially when it could have been prevented. This does not have to be the case for your family.

Happily, there are defined processes to ensure your farm's safe transfer to the next generation, so you don't have to figure this out on your own.

What is farm legacy planning?

Before getting started, you should have a general idea about what legacy planning is and what the process looks like. Farm legacy planning covers two broad topics: transferring assets and transferring operations.

For planning purposes, the farmland and the business are often two different things, and they need to be addressed in coordination. Specifics will depend entirely on your situation. For example, this might mean using various trust strategies, in combination with other business entities, that need coordinated operating and buy-sell agreements. The idea is to use the right combination of tools for your situation to control the transfer of operating businesses and all of your other assets.

When working with a financial planning professional, you should expect the planning experience to follow this basic process:

- 1 Document a clear understanding of your objectives.
- 2 Build financial models and perform analysis to provide observations about your current situation.
- 3 Provide you with multiple appropriate solutions for each of your

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BENEFITS OF FARM ESTATE PLANNING:

objectives and educate you about each so you can ultimately make an informed decision.

4 Recommend the best combination of strategies to achieve your goals.

5 Follow through with implementation – this is where trusts are drafted, titles changed, business entity agreements updated, etc.

Contrast this thorough process to a novice “plan,” like simply adding your kid to the deed, or leaving the farm to them in your will. The novice approach is simple and can work out just fine if you’re lucky, but it compounds several problems and can lead to very expensive surprises down the road, not to mention fighting between family members. If you’ve determined that planning work does in fact need to be done, it’s worth a conversation with a planning professional.



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Takeaways

If you’ve made it this far, you’re probably serious about protecting and transferring your family farm legacy. Even if conditions were not as favorable as they currently are with the generous tax exemption, farm estate planning still needs to be done.

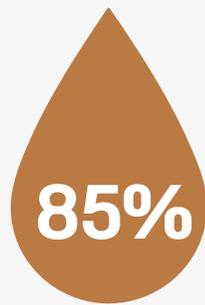
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Ryan Baker is a partner and estate planning specialist at Open Advisors and is also a member of Lincoln Financial Network’s national Agribusiness Services Group. Ryan helps farming families throughout Idaho and neighboring states from his office in Meridian, Idaho.

References omitted but are available upon request.
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- It can capture massive tax exemptions currently available but scheduled to expire.
- It provides organization and control and maintains privacy for your family after you die.
- It minimizes your expenses and estate tax cost.
- It can protect your farm and family from litigation, creditors and claims of a divorcing spouse.
- It transfers your property to loved ones quickly.
- It saves your family from difficult decisions and conflict.
- It covers multiple exit conditions. (We know “farmers don’t retire” but someone else will have to step in at some point.)
- It protects your family legacy.
- It is something you should do with professional guidance.

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91 owners/partners milk **1,500 cows or more** & represent **85%** of Idaho’s milk production.



213 owners/partners milk **less than 1,500 cows** and represent **15%** of Idaho’s milk production.

304

owners/partners operate the **437 dairies**



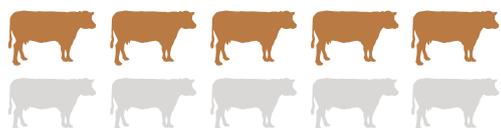
32%

The **10 largest owners/partners** milk **32%** of Idaho’s cows.



47%

The **20 largest owners/partners** milk **47%** of Idaho’s cows.



Source: Graphic courtesy of Rick Naerebout of the Idaho Dairymen’s Association.