

FARM/RANCH TRANSITION AND SUCCESSION PLANNING

Allan Vyhnalek

Extension Educator, Farm Succession

303C Filley Hall, East Campus

E-mail: avyhnalek2@unl.edu

Phone: 402-472-1771

Website: <http://cap.unl.edu/succession>



1

ABOUT TODAY

Not a substitute for doing your own estate planning work

Not legal advice for you specifically

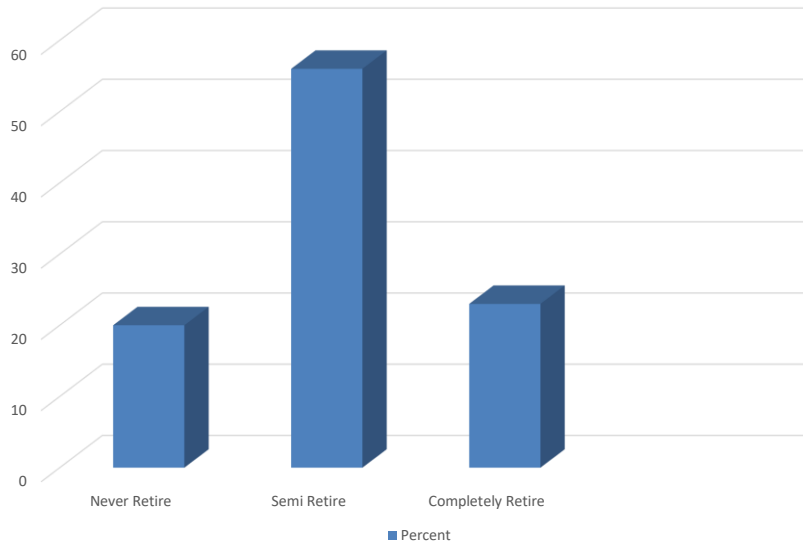
Use the efforts from today to make better use of your professional's time

Program is about: motivation, planning, and communications for your operations' transition and succession



2

Retirement Plans for Iowa Farmers (2019)



3

WHY ARE FARMERS RETIRING AT A LATER AGE – OR ONLY SEMI-RETIRING?

Percent of those responding either important or very important

75% Have a difficult time giving up control of farm

69% Modern equipment – allows them to farm longer

66% Relate retirement to their own mortality

62% Cannot afford to retire

60% Healthier longer/longer life

55% Don't have a successor

54% Don't know what else they'd do

On-line Survey, Fall, 2017

4

NOT TRYING TO EMBARRASS ANYONE INTO RETIREMENT

They are NOT planning to retire.

However, the lesson must center on the idea - which is:

No one avoids the pine box.

What happens to your stuff when you are gone?



5

ESTATE PLANNING

- “..many farm families experience significant difficulty in discussing the future of the family farm. More often than not, planning... tends to be deferred until some critical life event occurs which forces the family to address the matter.” Kaine, et al, *Succession and Inheritance on Australian Family Farms*, TRDC Pub. #198, The Rural Development Centre, U. of New England, Armidale, NSW



6

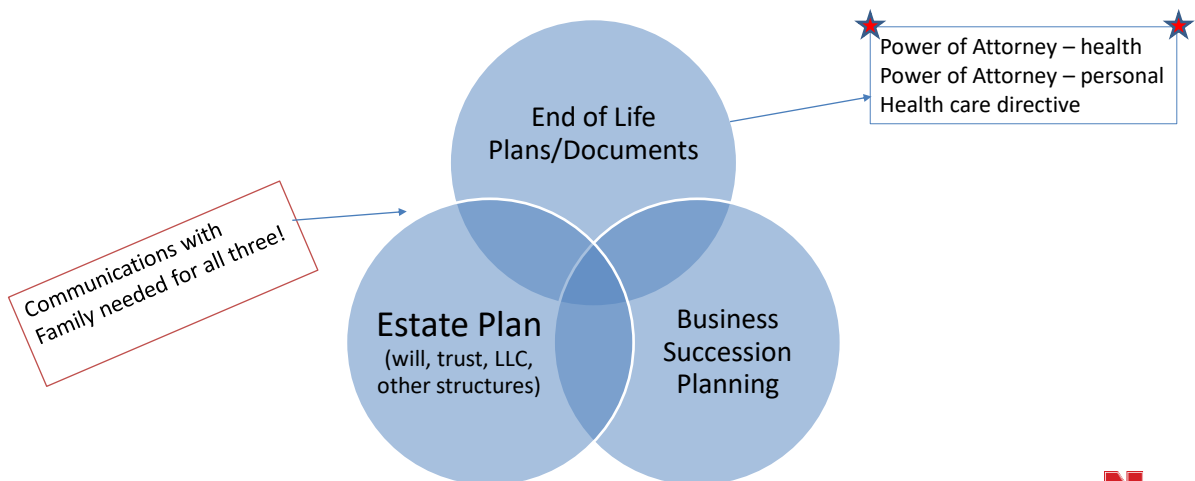
WHY DON'T WE PLAN?

- Too complicated (we assume)
- Don't like to plan
 - It is mental 'work'
- Facing our own mortality
 - Some just don't want to think about death
- **We are afraid that if we do something, it will be wrong (in the future)**

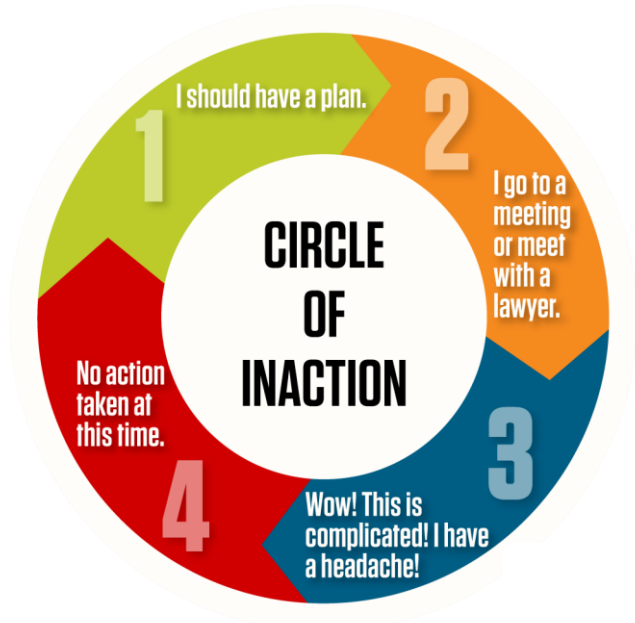


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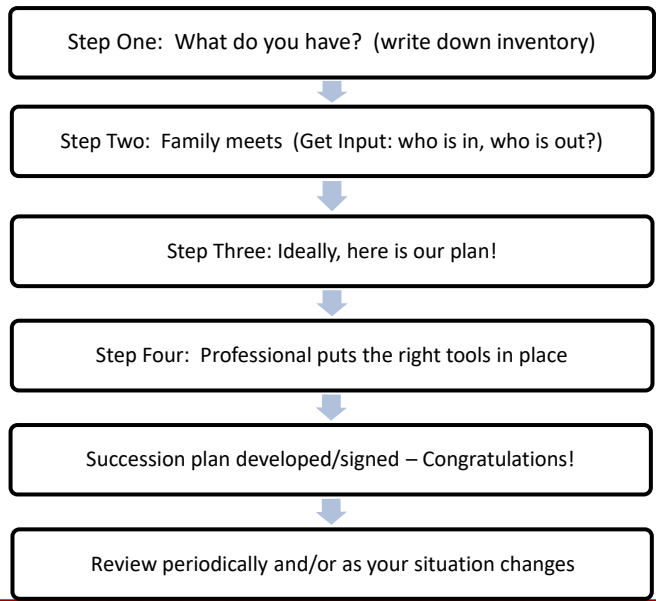
NEAR THE END OF ANY CAREER THREE TYPES OF PLANNING



8



IDEAL PLANNING - SEQUENTIAL



THE LESSON IS, PLEASE HAVE A PLAN!

No plan, or not communicating a plan to the family, leads to chaos in many situations

Causes greed

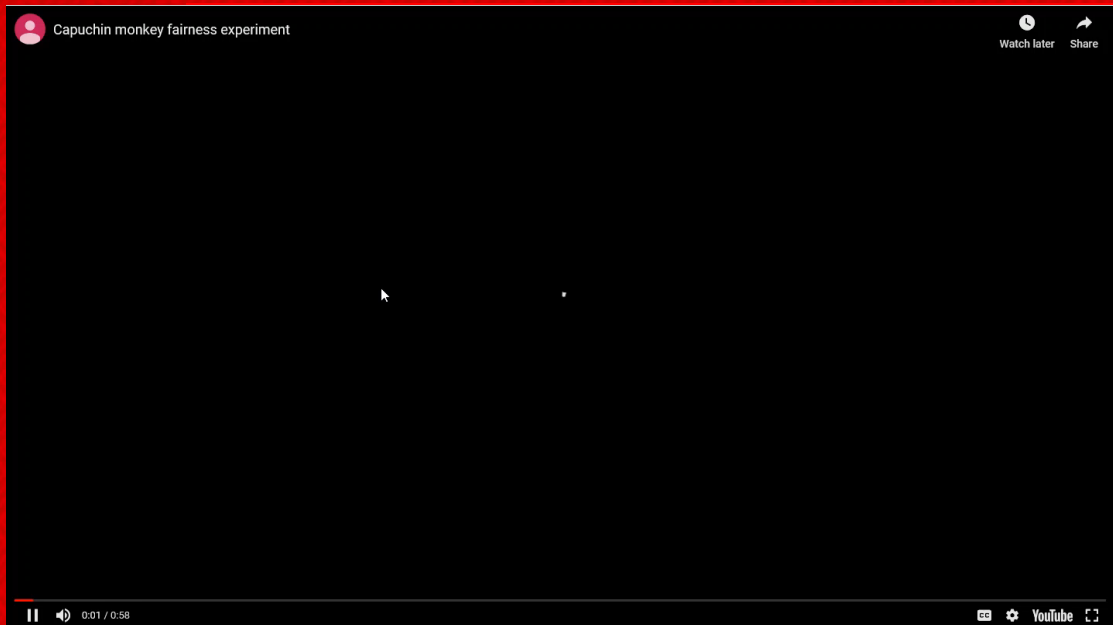
Splits families

See next video – monkeys!



11

Test of Fairness - Emotions



12

FIRST CONVERSATIONS REGARDING ANY ESTATE PLAN

1) When you are done – will you still have a family?

Don't make that assumption – get that commitment

2) Are Mom/Dad, or Grandpa/Grandma on same page?

This needs to be a priority before diving into details.



FARM/RANCH SUCCESSION OR TRANSFER – SIMPLIFIED!

Step one: what do you have?

- Great list of your assets/inventory/investments/everything!
- Consider using ISU Ag Decision Maker file – C4-57 Estate Planning Questionnaire
 - List how things are owned
 - List debts (if any)
 - Be very complete

Evaluating Your Estate Plan: Estate Planning Questionnaire

Ag Decision Maker
extension.iastate.edu/agdm

File C4-57

TABLE OF CONTENTS

I. Personal and Family Information	2
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FARM/RANCH SUCCESSION OR TRANSFER - SIMPLIFIED

Step two – Consider a family meeting (depends on the family)

- Meet with family.
- Get input and find out who is interested in what.
- No decision making!
- Be sure you have appropriate people included.

FAMILY MEETINGS

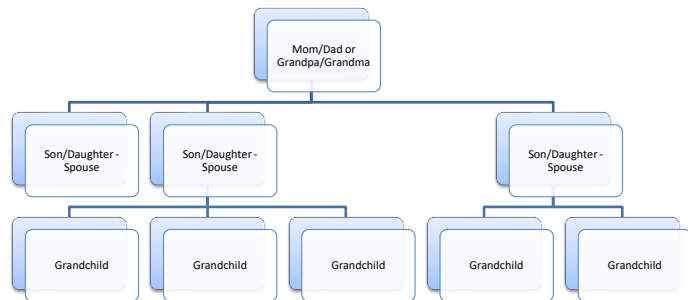
Plan carefully to avoid disaster

Who to invite?

Meeting to allow all to have input

Set clear ground rules:

- 1) No criticizing ideas
- 2) Institute 'gag' rule if needed



FAMILY MEETINGS – DECISION MAKING

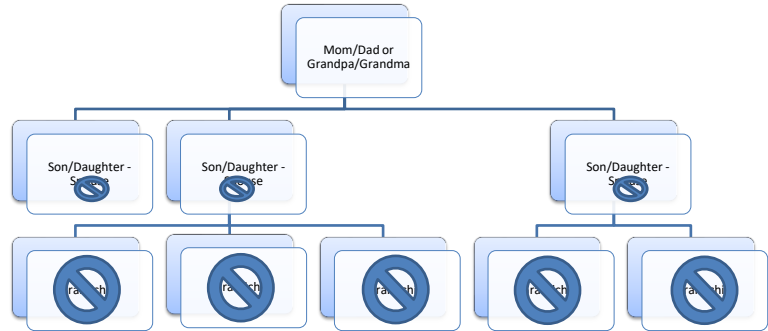
Use the Golden Rule

Who to invite?

Meeting is about decisions

Set clear ground rules:

Majority vote or unanimous vote?



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17

FARM/RANCH SUCCESSION OR TRANSFER - SIMPLIFIED

Step three: what do you want to do with that?

- In your perfect world, write down what happens to your stuff
- Instructions for the succeeding generations – let your thoughts be known
 - Keep – in family
 - Sell
 - Gift – to specific family member or to charity
 - TOD, POD (transfer or pay on death)
 - Don't care

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18

FARM/RANCH SUCCESSION OR TRANSFER - SIMPLIFIED

Step four: employ your ag professional(s) and they will make your dreams happen!

Consider and use these as needed for your situation

- **Lawyer**
- Financial planner
- Certified farm transition specialist
- Banker
- Insurance agent
- Tax preparer (CPA, etc...)



19

FARM/RANCH SUCCESSION OR TRANSFER - SIMPLIFIED

Summary:

- Avoid circle of inaction
- Don't worry about the tool -- your professional(s) will figure that out.
- If one of your team is hard to work with, or hard to understand, find someone else!



20

SUCCESSFUL TRANSITIONS - CONSIDERATIONS

Older Generation

- Retirement lifestyle (money needed) – travel and other activities
- Residence – has that been discussed?
- How are you treating non-farm or non-business heirs (sons and daughters)
 - Fair vs. Equal – consider grandchildren?
 - Contribution
 - Compensation



21

SUCCESSFUL TRANSITIONS - CONSIDERATIONS

Younger Generation

- Lifestyle (money needed)
 - Know that some in older generation don't agree with some spending
- Growth of business – at what pace?
- Attitude toward debt
- Ownership vs. Renting – may or may not have choice
- Family Time vs. Work
 - Older generation values 'work'



22

PHASES OF TRANSFER TO NEXT GENERATION

1 - **Testing** (will the next generation do 'all' tasks?)

- Help with calving – during blizzard, nights, and weekend
- Fencing - all
- Scooping – (anything)
- High work – on ladders
- Low work – on knees or underground



23

PHASES OF TRANSFER TO NEXT GENERATION

2- **Management Transfer** (planned with timing)

- Once you past the 'testing', start management transfer
- Slowly – not all at once
- Put plan in place, include dates
- How does anyone learn? By making mistakes.
 - Give management to younger generation
 - Let them gain experience
 - Don't give enough to sink operation
 - Don't interfere with their decisions



24

PHASES OF TRANSFER TO NEXT GENERATION

3 - **Asset or Enterprise Transfer** (livestock or machinery)

- For livestock – if the next generation is helping with calving – they receive a % of the calf crop
- For either crops or livestock – use the gift tax exclusion each year
 - \$17,000 per person can be transferred or gifted per year



25

PHASES OF TRANSFER TO NEXT GENERATION

4. **Whole Farm/Business (farmland) Transfer**

- Given current tax laws, will occur at the passing of the previous owner
 - Gives next generation the stepped-up basis
 - Works for trusts and most corporations – not for sub chapter (S) corporations
- Some want to gift farmland while they are still alive
 - Be careful
 - Changes in family can be troublesome
 - Basis is not changed for gifts – can be a problem



26

OTHER THOUGHTS - TRANSITION

- Do all with written plans (that include dates)
- Include exit plans (for either generation)
- Use Job descriptions
 - Clearly define who oversees what
 - You still help each other with all tasks



27

THE PARENTS' GENERATIONS MAKE SEVERAL ASSUMPTIONS – ARE THEY RIGHT?!!!

- Our business is OUR business, it does not get shared with anyone!
- The kids all get along great now – I know that will continue.....
- I know that my children will want to keep this asset in the family – even when we are gone
- The kids will just have to figure out how to divide – I'll be gone. I don't care what happens.
- Since I have four children – my assets have to be divided 25% to each – equally – that will be the fair way to do it
- "Some day, this will all be yours!"

In some cases – these assumptions are great – however.....



28

COMMUNICATE

- Listening is the key!
- First, understand – then to be understood
- (Practice) Make partner repeat what they thought you said – to be sure that they heard you, or that you said what you wanted to



29

COMMUNICATE (CONTINUED)

Step two:

Practice – **Asking clarifying questions**

- Listen for the answer – repeat and add a clarifying question
- Listen for answer – add another clarifying question
- Never talk about yourself or what you'd like to say



30

COMMUNICATE

- Share with non-local family
- Surprises cause problems – sweetheart deals
- Younger Generations require better communications than what we've received



31

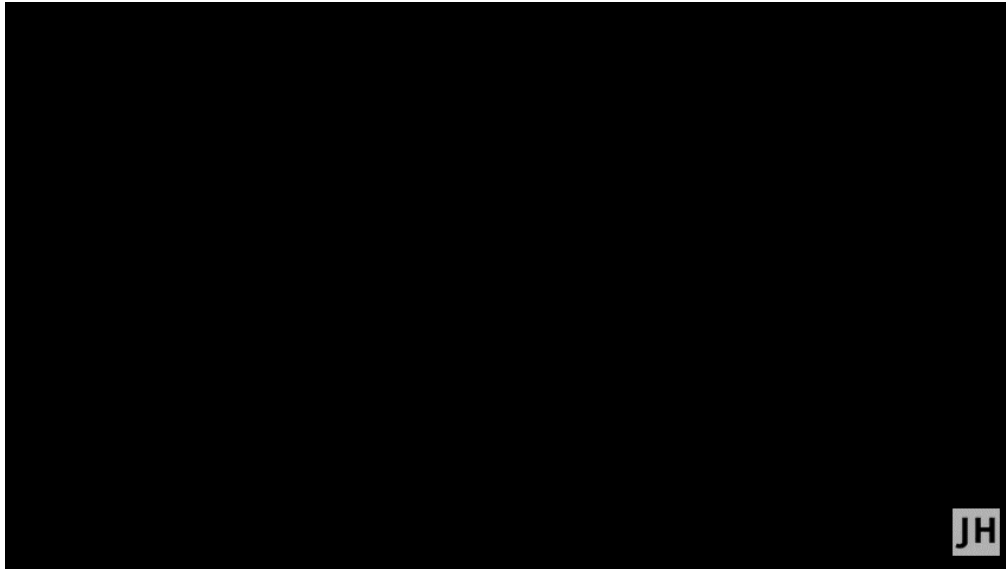
COMMUNICATIONS MISTAKES

- Asking a question - not to find out what they will say, but to say what you wanted to say
- Making any assumption of what someone else will say
- Thinking about how we will respond while the other person is talking
- Don't judge what is being said, listen to understand
- Trying to fix an issue, without being asked (see next video)



32

IT IS NOT ABOUT THE NAIL!



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33

DIFFICULT PERSONALITIES

Difficulty might be:

- Don't share personal information: This is my business and my business only – generational value typically
- Don't want to give up control – think about not being in control
- Don't want to think about death – so avoiding those thoughts
- Don't feel appreciated by other family members

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34

DIFFICULT PERSONALITIES - STRATEGIES

Best remedy – increase communications

- Make them feel appreciated!
- Get them to talk about something (anything else to begin with)
- Find the king maker that the king will listen to
- Give choices – ask for their preference

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35

HOW OFTEN DO WE NEGOTIATE?



- Negotiation - vyhalek

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36

What is Negotiation?

A back-and-forth process designed to reach an agreement when you and the other party have both shared and opposed issues



37

NEGOTIATION – TIPS AND TACTICS



38

How were most of us taught to negotiate?

- Allan's Dad taught Allan how to negotiate!
 - We had to 'WIN'
- How does winning work with family?
 - Will family members feel good if they feel like they 'lost'?



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39

Negotiation

- Not about winning! (especially with families)
- How do you create value for all parties? (win – win)
- Think outside the box! Get creative!

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40

2 OTHER IDEAS TO BE CONSIDERED

- * What about rural Nebraska?
 - What is your responsibility?
 - Avoid unintended consequences
 - Community
 - Businesses
 - Churches
 - Schools
 - If you want to help your 'hometown', do it!!
 - Allan's story of 2 vs. 7 children!

- * Difference in perception of contribution – between siblings

41

If Transitioning land to next generation:

Three taxes to be aware of:

Estate Tax

Exemption increased to \$12.92 million in 2023, \$25.84 million per couple

Capital Gains Tax (or loss)

Taxed as income: the bracket you are in now – to avoid most people keep the farm, then when they pass the next generation gets stepped up basis

Inheritance Tax – changed 1/1/2023

Nebraska Tax – you will pay

- 1 % as a direct relative (\$100,000 exempted)
- 11 % as a non-direct relative (\$40,000 exempted)
- 15 % as a nonrelative (\$25,000 exempted)

42

Tax Implications of Gifts and Sales

If you received the land as a gift...

Upon sale, you will be responsible for capital gains tax using the original purchase price

If you gift the land to another it is only worth original basis, but will be considered at market for your lifetime exclusion (may require filing an IRS Gift Form)

If you received through the estate funnel

Upon sale, you will be responsible for the capital gains tax on the step-up (or down) value

If you gift the land to another it is worth new basis, and will be considered at market for your lifetime exclusion (may require filing an IRS Gift Form)

43

Know how you own land

Be aware of unintended consequences

- Sole Proprietorship
- Land owned Joint Tenancy (WROS) (with right of survivorship)
 - Watch for divorces, re-marriage issues
- Land owned Tenants in Common
 - One party can force sale
 - One party passes and now 4 children own that portion of the asset

44

LAND LINK

- Started February 1, 2021
- Problem – two-fold
 - Land seekers don't have access to land so they can farm/ranch
 - Older generation does not have succession path (their children are not farming/ranching)
- Matches Land Seekers with Landowners
- Applications will be used with both groups
- All applications will be reviewed – follow-up phone interviews will be completed
 - Possible land seeker matches will be shared with land owners to decide who they want to interview



45

IF INTERESTED IN LAND LINK

- <https://cap.unl.edu> – look for land link
- Online information and application is at this website
- Questions – contact Allan



46

NEBRASKA RESOURCES

Nebraska Rural Response Hotline

800-464-0258

Call to make appointment – or get questions answered

Monthly clinics across the state

Beginning Farmer Information (NextGen) – Nebraska Department of Agriculture

402-471-4876



47

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48