Keeping the Farm in the Family

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Passing farm ownership can be tricky, but here are some guidelines to successful estate planning.

Story by
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One of the best things about agriculture is that families often work together. Because of this, those children grow up with a respect and love of agriculture, and may possibly keep the cattle farm or ranch running in the future. Wanting to keep the farm or ranch within the family is a normal and expected desire within the agriculture industry. However, that could be easier said than done. As Curt Lacy, livestock economist and associate professor at the University of Georgia, says, family and money are two of the most sensitive topics.

The importance of planning

According to a report from the *Small Business Review*, during the next 20 years, close to 80 million baby boomers will retire and $10 trillion will be transferred from the World War II generation to the boomers. This would be the largest intergenerational transfer of wealth in history. In addition, the majority of this wealth is held by the United States' 12 million privately owned businesses, and experts predict more than 70% of these businesses will change hands in the next two decades.

This means that agricultural estate planning is an incredibly important issue to tackle. Lacy notes that after every five years, the average age of farmers increases by one year, so the current average age is 57.1 years old. Additionally, life spans are longer now, and many people wait until later in life to get into farming. The importance of planning is accentuated by the fact that fewer young people are getting into farming. Therefore, the only way to get younger generations into production agriculture, Lacy says, is to properly plan for estate transfer. The biggest thing is to plan early.

Small family operations

Scott Bennett, 22, of Knoll Crest Farm Inc., Red House, Va., is a fourth-generation farmer who works on his family's farm, Knoll Crest Farm Inc., with his father, two uncles and grandfather.

"It is important that we preserve the business that we have, so that it may continue to provide for our family; but, more importantly, we must preserve our family so that those interested in the business are best prepared to handle it," Bennett says.

For as long as Bennett can remember, his family has juggled the roles of family members and business partners. He offers some advice based on how his family operates:

- The farm can always be family time, but family time should not always be farming.
- A family is a team effort, so the business should be, too.
- It is important to know each other's interests and strengths and to embrace them.
- Have faith in God, and support each other.

Bennet says it is important to know each other off the farm, too. Each family has traits in which they excel, and these translate into the business. For instance, he said that his dad handles breeding decisions and their marketing and advertising program; one uncle handles finances, land management and employee matters; and his other uncle handles the herds, culling for selected breeding traits, and also supplies new ideas to the business model.

Any shape or size

Each family's operation is different, but no matter the shape or size, planning needs to be done, says Curt Lacy, livestock economist and associate professor at the University of Georgia. He urges cattlemen to do estate planning early, because poor planning can put families in trouble.

Lacy suggests seven major considerations pertinent to any operation for transition planning:

- Is there a clearly focused goal?
- Whom does the transfer impact?
- Is the farm profitable today?
- How do you fairly treat participants and non-participants?
- What is the correct entity?
- Do you maintain one unit or divide?
- Do you have a firm buy-sell agreement?

Ron Hanson, agriculture economist and professor at the University of Nebraska–Lincoln, notes that it is imperative to keep family relationships strong in such a stressful endeavor. Parents should have a clear vision for the future of their farm, but they also need to discuss this vision with their children, both farming and non-farming children. He stresses that the plans need to be in writing.

In cases such as farming and non-farming children, equal is not always fair. Many times a child will come back to the farm and contribute to the net worth of the farm, termed "sweat equity." Something to consider is how that sweat equity will be paid, Hanson adds, whether it is that the child gets the first chance to buy the farm or may end up with a larger share of the estate.

As people are living longer, a consideration could be to sell the farm to the children, which allows the parents to retire comfortably.

"Working out a fair selling price for the farm that provides the parents with a secure financial retirement, but at a price that the children buying the farm can afford as a feasible financial investment is certainly no easy matter," Hanson says.

He suggests sweat equity be repaid in farm assets so that the children have personal equity. This puts them in a position to borrow money from a lender to finance the purchase and gives the parents a fair price on the farm.

In any situation, he stresses, parents need to treat their adult children with respect. With open communication, family relationships can stay intact, and the farm can stay in the family.

Bennett says that support for and knowledge of each other serves as a checks-and-balances system so that, "no ego ever gets too big, and no extreme decisions are ever made. Slow and steady conservative business decisions work for us."

Tommy Maples of Maples Angus Farm, Elkmont, Ala., offers another business plan for a smaller family operation. Maples' farm has been in his family since 1818, a year before Alabama became a state. His children are the seventh generation on the farm, so it is in his best interests to properly transition the estate. His family's method is a gradual process; his parents and he and his wife operate the farm.

He says that their transition happened in gradual steps. He started to take over the books from his father, especially because his wife is a certified accountant. When breed records became electronic, Maples took care of the recordkeeping, too. Gradually, when his father decides that he doesn't want to farm anymore, Maples will have full control of the farm.

He says it is important to have an agreement with all members of the family about the transition (both his brother and sister are off the farm). Maples' dad and his three sisters settled the estate once their parents passed, and came to an agreement. Because they did settle the estate, Maples knows he can use/rent land from his dad and his three aunts.

Because Maples works so closely with his parents, he says, "You've got to really love the people you're working with."

Large family operations

Don Schiefelbein of Schiefelbein Farms, Kimball, Minn., shares the unique and successful business plan that works for his large family, which includes his parents, nine sons (including him), eight daughters-in-law, 31 grandchildren and 10 great-grandchildren. The size of their family warrants a concrete business plan.

Their business plan was formalized with their lawyers in 2005, with an updated business structure and estate plan. Schiefelbein says they dragged their feet in finalizing the plan, but realized the government could own the land if they didn't. The plan took about a year to construct. He offers the rules and guiding principles that went into its creation.

His father's two major rules for all nine brothers were that everyone must leave the ranch for at least four years and that all business meetings were for operators only.

The business plan set protocol for asset transfers, management transfers and defined the "What If's," which Schiefelbein says needed to happen before the estate transfer. His personal "what if" was that, at 37, he discovered he had a heart condition and needed a pacemaker.

To make the business plan, Schiefelbein says, the group agreed to five guiding principles:

- fair vs. equal would be determined in various operations;
- the operators have control;
- the tax understanding to minimize tax burden;
- the structure of three organizations within the farm; and
- the unselfish rule in that the farm's success was the first priority.

Schiefelbein says their farm has three entities. The first is Schiefelbein Farms LLC, where the operators are the only active owners. The next, Schiefelbein Angus Farms LP, deals with land only. Everyone can be a member, so it allows him to transfer his land to his daughters. This also allows family members to transfer primary assets whenever it makes the most sense for them. The third, Schiefelbein Feeders LLC, is only their cattle feeding operation. It has a different year end, which provides for some tax implication advantages.

With an operation as complex as this, the question begs, "Who is in charge?" He answers, "We put those people who are the most qualified in charge, regardless of their age, etc., etc. However, the entire group always trumps the individual." With that philosophy in mind, the farm can be preserved for future generations.