Returning to the Farm

David Goeller
Transition Specialist
402 472 0661
dgoeller@unl.edu

Dept. of Agricultural Economics
University of Nebraska-Lincoln
# Age of Nebraska Farm Operators

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Source: Census of Agriculture, NASS

Adj. = Adjusted
## Age of Nebraska Farm Operators

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Source: Census of Agriculture, NASS
Nebraska Cash Income & Family Living Expense

- $0
- $20
- $40
- $60
- $80
- $100
- $120
- $140

Thousands


Net Cash Income
Family Living

Source: Nebraska Farm Business, Inc.
Nebraska Cash Profit Margin

Source: Nebraska Farm Business, Inc.
Business Life-Cycle

Source: Wadsworth
Business Life-Cycle

1st Generation

2nd Generation

Source: Wadsworth
Business Life-Cycle

Source: Wadsworth
Estate Planning Research

- 2/3 of Iowa Farmers plan to never "Fully Retire"

- Over 1/2 of all Nebraska farmers do not have a Will
Why don’t we Plan?

- Too Complicated
Why don’t we Plan?

- Too Complicated
- Don’t like to Plan
Why don’t we Plan?

➢ Too Complicated

➢ Don’t like to Plan

➢ Facing our own Mortality
KEY QUESTIONS
KEY QUESTIONS

Is there a successor?
KEY QUESTIONS

Is there a Successor?

- Farm/Ranch Income may leave the area
KEY QUESTIONS

Is there a Successor?

- Farm/Ranch Income may leave the area

- Unintended Consequences:
  - Community
  - Businesses
  - Churches
  - Schools
KEY QUESTIONS

Is there a successor?

Will you pass on your farm assets as a business or a pie?
What to do with the Farm/Ranch?

First question to consider:

*Do you want to transfer the ranch/farm as a “viable business” or simply as a “group of assets”?*

A. Transfer Plan
B. Estate Plan
FARM

Business

Succession Plan  Financial Viability  Goals

Retirement Plan

Estate Plan

Assets

Estate Plan
Successful Farm Transitions

Goals

 Older Generation
 ✓ Retirement lifestyle (money needed)
 ✓ Residence
 ✓ Nonfarm heirs
   ➢ Fair vs Equal
   ➢ Contribution
   ➢ Compensation

 Younger Generation
 ✓ Lifestyle (money needed)
 ✓ Growth of business
 ✓ Attitude toward debt
 ✓ Ownership vs. renting
 ✓ Family time vs. work
Successful Farm Transitions

Communication

➢ Expectations, Expectations, Expectations
➢ Regular business meeting throughout transition period
➢ Talk about it, then write it down
➢ Share with non-farm family members
➢ Surprises cause problems
Hired Man or Partner

- 1990 Networth = $300,000/3 kids = $100,000
- 2008 Networth= $3,300,000/3 kids = $1,100,000
- Contribution/Compensation
- 50%/50% Partner and Founder
- $3,000,000 Partner & Founder $1,500,000 ea
- Partner’s share
  - $ 100,000 from 1990
  - $1,500,000 from growth and appreciation
  - $ 500,000 from Founder growth and appreciation
  - $2,100,000 total for Partner $600,000 each for siblings
Successful Farm Transitions: Financial Viability

- **Farm Efficiency**
  - Expenses
    - Purchases (shop around)
    - Bang for the buck
    - Quantity/early pay discounts
  - Income
    - Production, production, production
    - Marketing
    - Quality
Successful Farm Transitions: Financial Viability

- Farm Efficiency
  - Assets earning their “keep”
  - Investments paying their interest
  - New paint disease
Successful Farm Transitions: Financial Viability

- Farm Debt Structure
  - Long term vs. short term loans
  - Interest rate
  - Principal payments
Successful Farm Transitions: Financial Viability

- Family Living Cost
  - Retiring family
  - Farming family
  - Off-farm employment

- Farm/Ranch Size
Successful Farm Transitions

Business Succession Plan

Can you answer yes to these questions?

- Are the Parents ready for a partner?
- How committed is the child to farming?
- Is the business large enough?
- Do you have a Common Vision of your future together?
- Can you live and work together?
- Are the non-farming children supportive?
FARM

- Business
  - Succession Plan
  - Financial Viability
  - Retirement Plan

- Assets
  - Estate Plan

- Goals
  - Estate Plan
KEY QUESTIONS

Is there a successor?

Will you pass on your farm assets as a business or a pie?

How long will the transfer period be?
Business Succession Plan

TRANSFER PERIOD

Short Transfer Period

owner

successor

time
Business Succession Plan

TRANSFER PERIOD

Long Transfer Period

owner

successor

time
KEY QUESTIONS

Is there a successor?

Will you pass on your farm assets as a business or a pie?

How long will the transfer period be?

Super Farm vs Spin-off?
Business Succession Plan
TWO BASIC CHOICES

- Multi-Person Arrangement
- Spin-Off Arrangement
MULTI-PERSON APPROACH
SPIN-OFF APPROACH
Business Succession Plan
The Transfer Stages

Testing → Commitment → Established → Withdrawal
Business Succession Plan
The Transfer Process

- Ownership
- Management
- Divide Income
- Labor
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Successful Farm Transitions
Income/Labor Transition Plan

- How will income & labor be split?
  - Enterprise
  - Shares
  - Wage
  - Combination

- Timeline for split income and labor

- Job description
Successful Farm Transitions
Management Transition Plan

- How will management be split?
  - Enterprise
  - Whole farm
  - Farm activity (marketing)

- Timeline for management transition
  - Learning or testing phase
  - Completion date

- Parent/child relationship vs. business partner
Successful Farm Transitions
Ownership Transition Plan

- Gift
- Sales
- Inheritance/will
- Timeline
Successful Farm Transitions
Ownership Transition Plan

➢ Tax Consequences

➢ Business structure
  ✓ Sole proprietor
  ✓ Partnership
  ✓ Corporation
  ✓ Limited Liability Company
  ✓ Trust
Successful Farm Transitions
Ownership Transition Plan

Order of Asset Transfer

- Operating Inventory 1
- Breeding Livestock 2
- Machinery 3
- Buildings & Facilities 4
- Land 5
Successful Farm Transitions
Ownership Transition Plan

- Insurance
  - Life insurance
  - Disability insurance
  - Nursing home insurance
Successful Farm Transitions
Retirement Plan

- Timeline of farm involvement
- Where will money come from?
- Where will you live?
- How will you account for non-farm heirs?
- What will you do?
Successful Farm Transitions

Business Succession Plan

Can you answer yes to these questions?

- Are the Parents ready for a partner?
- How committed is the child to farming?
- Is the business large enough?
- Do you have a Common Vision of your future together?
- Can you live and work together?
- Are the non-farming children supportive?
Someday Son, This Will All Be Yours
KEYS TO SUCCESS

- Strengthen Family Relationships
- Improve Communication Skills
- Know all Expectations
- Recognize Individual Differences
- Management Participation = Learning
- Decision Making
- Encourage Diversionary Activities
KEYS TO SUCCESS (continued)

- Separate Housing is Required
- Fit the Agreement to the Situation
- Develop a Written Agreement
- Update the Business Arrangement
- Make it Work Attitude
## Time Management Matrix

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### Key
- **Important**
- **Not Important**
- **Urgent**
- **Not Urgent**
Resources

- Joe M. Hawbaker, Hawbaker Law Office
  - Phone: 402-558-3540
  - Email: mjbaker@radiks.net

- David Goeller, UNL Farm Transition Specialist
  - Phone: 402-472-0661
  - Email: dgoeller@unl.edu

- Nebraska Farm Hotline
  - Phone 800-464-0258
Resources

- **Don Hofstrand**
  - Iowa State University
  - Co-Director, Ag Marketing Resource Center
  - Phone: 641 423 0844

- **John Baker, Attorney at Law**
  - Iowa State University
  - Director of the Iowa Beginning Farmer Center
  - 800 447 1985

- **Roger A. McEowen, Attorney at Law**
  - Iowa State University
  - Associate Professor of Agricultural Law
  - Phone: 515 294 4076