

Getting Started on a Farm Succession Plan

Saving Special Places

April 7, 2018



Why Plan?

- ✓ Helps many farms continue to be productive agricultural businesses beyond the life of the current owners
- ✓ Enables farm families to make important transition decisions through succession, business, estate, and retirement planning.
- ✓ Results in a gradual and carefully planned shift to new owners (whether to a family heir or a non-related person).



Why is succession an issue?

- 10% of our farmland will change hands in the next 5 years; 70% in the next 20 years.
- 25% of US farmers will retire: what does that mean?
- 90% of farm owners do not have an exit strategy or don't know how to develop one.
- “If older farmers can't easily exit, their land can't become available to entering farmers.”



Farm Transfer/Succession Planning



Farm Transfer/Succession Planning... Maybe Later

Can we
afford to?

Is this something
that you can do?

Whose
job is it?

Nobody can
replace me!

I'm too
busy now!



Things we put off until later

- ✓ Who is going to take over?
- ✓ Dealing with the emotional reckoning
- ✓ Taking care of the necessary personal business paperwork



Types of Plans

1. The “**No Plan**” Plan

2. The “**Gonna Do Something Someday**” Plan

Key features:

- Provide gov’t w/tax revenues
- Allow state to decide
- Keep attorneys busy
- Legacy of disharmony
- Farm sold for “highest & best” use

3. The “**Start and Keep At It**” Plan



The Farm Transfer Process

Passing a farm from one generation or owner to another.

A Farm Transfer Plan consists of an *action plan*, a *timeline* and the *documents* needed to accomplish the transfer.



Advisors You May Need

Communication, values
clarification,
goals setting issues

Coach

Mentor

Instructor/trainer

Educator

Facilitator

Mediator

Farm business &
land use issues

Farm business consultant

Lender

Accountant

Financial adviser

Land-use planner

Conservation/land trust

Legal, financial &
asset management issues

Lawyer

Tax attorney

Insurance agent

Financial planner

Retirement planner

Estate planner



Communications

- **Who needs to be involved?**
- **What is your communication style?**
- **Family meetings**
- **Advisor meetings**
- **Documents, drafts and decisions**
- **Facilitator?**



Communication Styles



Challenges for Farm Families

- Different stages and expectations
- Equal v. equitable; perceptions of “fair”
- No identified successor (< 1/3 have one)
- Lack of support and advisors: TEAM
- Costs (real/perceived)
- The “soft issues”



Start – but where?

- **Step 1 - Take Stock**

- Personal goals
- Family goals
- Business goals
- Vision



- ***Get clear on your desired outcomes;
the tools and techniques will follow.***

Where Do I Start?

- **Step 2 - Assess the situation**
 - **Business viability**
 - **Financial profile**
 - **Asset inventory**
 - **Decisions to date**
 - **Advisors and documents**



Where Do I Start?

- **Step Three: Considerations**
 - **Timeline**
 - **Age and health**
 - **Business transitions & enterprise development**
 - **Farming & non-farming heirs**
 - **Housing**
 - **Conservation & stewardship**
- ***NOTE: Plans can change***



Land For Good Toolbox



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Toolbox for Farm Transfer Planning

Plan a farm transfer

-  [Passing It On](#), article in *Journal of Northeast Agriculture Farming Magazine* (Sept. 2013)
-  [The Farm Transfer Process](#) diagram
-  [Where Do I Start? Transferring the Farm](#) guide
-  [Farm Succession and Transfer: Strategies for the Junior Generation](#) guidebook
-  [Successful Farm Transfer Planning for Farmers Without an Identified Successor](#) guidebook
-  [Your Farm, Your Legacy](#) program flyer

Find advisors

-  [Farm Transfer Network of New England](#) website

Research and policy

Farm Seekers

[Farm Transfer Planning](#)

Landowners

Educators and
Advisors

Communities

Submit

If you're a farmer ...

How many years of farming experience do you have?

☐ < 1 year or not yet farming

☐ 1 - 3 years

☐ 4 - 7 years

☐ 8 - 10 years



Stay connected!

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Thank You

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Methods of Asset Transfer & Business Ownership

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Extension

Considerations

- Tax consequences, including property basis
- Financial resources of next generation
- Timeliness of farm transfer
- How involved transferring farmer wants to be in operating of the farm



Asset Sales

- Outright or direct sale on some or all of equipment, livestock, real estate
- Federal and possible state income tax (ordinary and capital gains rates) paid by seller
- Sale arrangements, i.e., installment sale
 - Taxation, interest income to seller



Gifts

- Farm owner can gift farm assets
- Tax considerations
 - \$15,000 for single filers annually, \$30,000 using spouse ability, tax free
 - Reported, paid by the donor
- Property Basis
 - Same as donor's basis
- Reduces the estate of the donor



Acquire through Estate

- Upon death of farm owner
- Estate subject to federal taxation
 - Net Estates up to \$11 million for single filers, \$22 for married couple
- Property basis
 - Market value at time of inheritance
- Important! Long-term healthcare costs can jeopardize farm assets



BUSINESS OWNERSHIP



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Common Business Ownership Structures for Farms

- Sole Proprietorship
- Partnership
- Limited Liability Company (LLC)



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Considerations

- Number of owners and sources of capital
- Decision-making and management arrangements
- Personal liability of owners
- Sharing of profits and taxes
- Ease of ownership transfer
- Procedures for termination



Common Business Structures for Farms

- Sole Proprietorship
- Partnership
- Limited Liability Company (LLC)



Transferring Asset Ownership

- Transfer Working Assets first
 - Equipment
 - Inventory & Supplies
 - Breeding livestock
- Real Estate is Transferred Later
 - Buildings, Structures
 - Land





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Conservation Tools



Planning for a Farm Transfer

Photos and examples taken from.....

Bodwell Dairy Farm Kensington, NH



Photos courtesy of Jerry Monkman, Sandy Chaisson & SELT



Using a Conservation Easement as a Transfer Tool

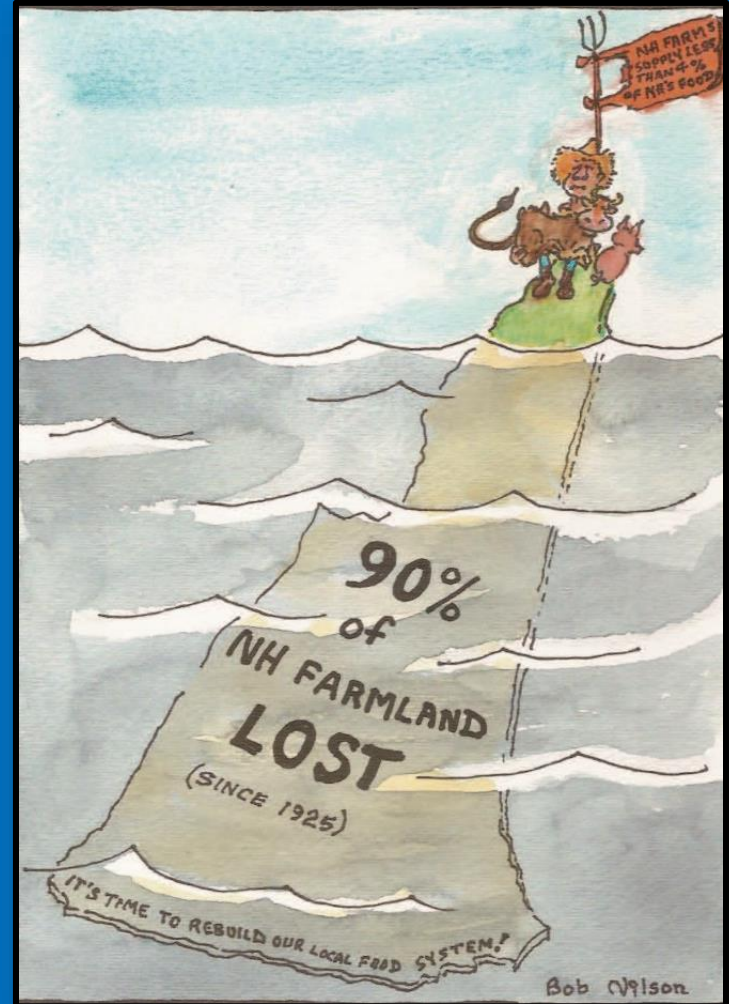
Conservation Easements

- CE's tailored to each property to protect specific values and landowner objectives
- CE's can be donated or sold, but selling may come with certain restrictions
 - Public access, hunting, ag/forestry management
- Protecting farmland is high priority. Others include:
 - Recreational land
 - Water supply land such as reservoirs, aquifers, etc
 - Wildlife habitat
 - Scenic or historic land



Conservation Easements

- CE's are monitored annually to ensure conservation values are protected (stewardship fund)
- CE's take time (months to years)
- Benefits of CE's include:
 - Permanent protection of your farm
 - One time infusion of capital for transfer purposes
 - Potential estate, income, or property tax savings

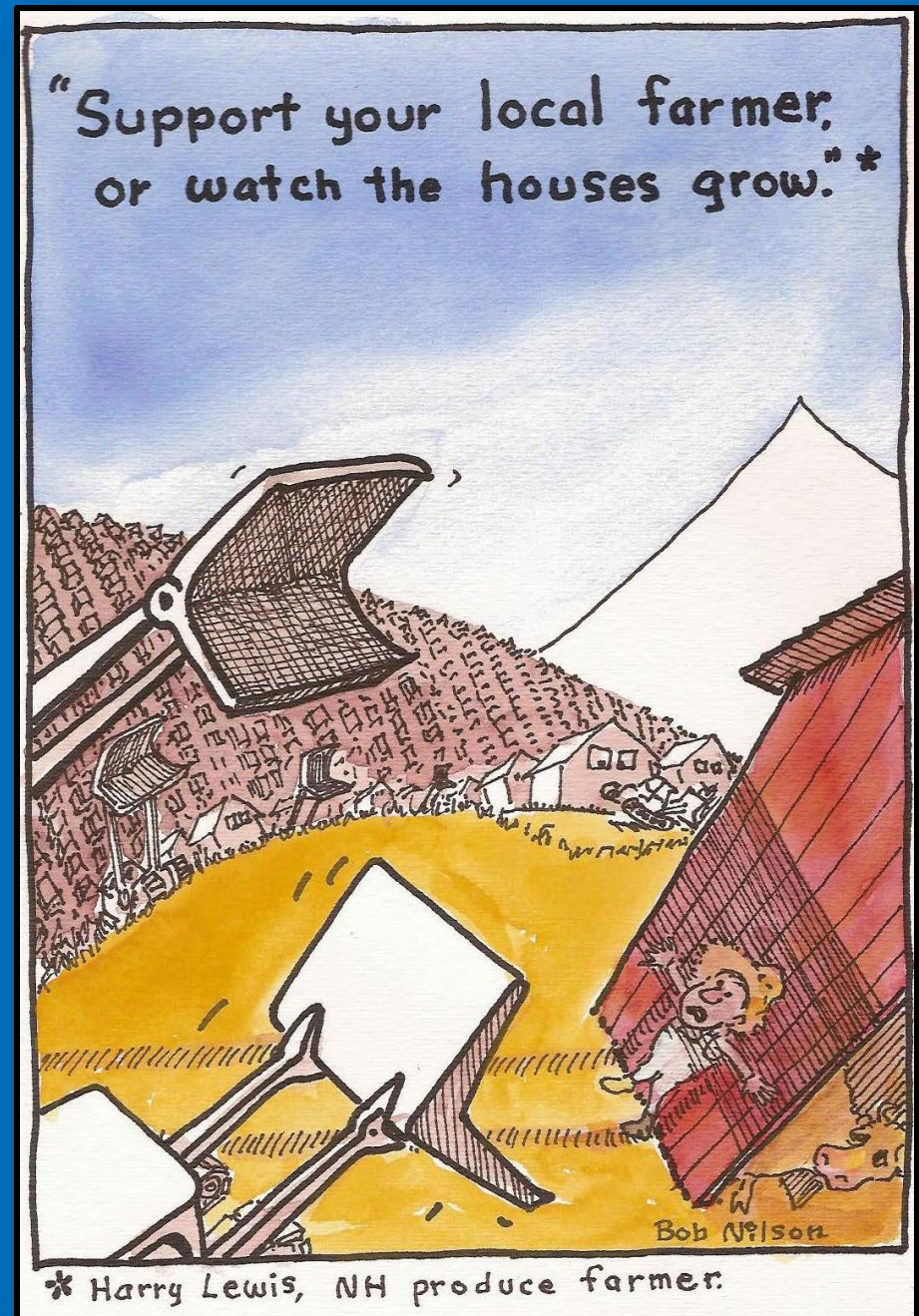


A photograph of a middle-aged man with a friendly expression, wearing a light-colored baseball cap with a logo and a dark blue button-down work shirt. He is leaning on a wooden structure, possibly a fence or part of a barn. The background is a rustic barn interior with wooden beams, a bright light source from a window, and a cow visible in the lower right. The text 'The Conservation Easement Process' is overlaid in large, bold, yellow letters on the right side of the image.

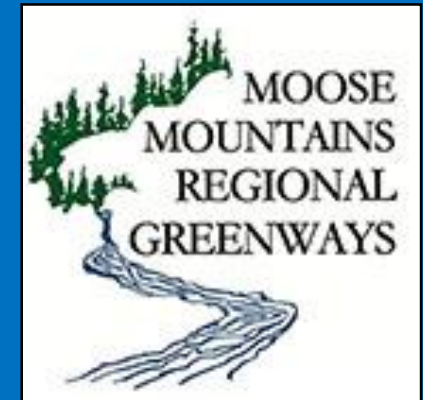
The Conservation Easement Process

The Process

- **Contact your local land trust**
- **Discuss your options:**
 - **Donation or sale?**
 - **Easement holder?**
 - **Timeframe?**
 - **Expenses?**
- **Agree on a plan**
- **Fundraising & grants**
- **“Due diligence”**
- **Consult tax advisor/attorney**
- **Close the CE!**



Contact Your Local Land Trust



Discussing Your Options

- **Donation or sale?**
 - May depend on fundraising opportunities
- **Easement holder?**
 - If not land trust, Town, State, Federal
- **Timeframe?**
 - 3 months to 3 years, depending on situation
- **Expenses?**
 - Varies widely based on project



Landowner Considerations

- **Understand Easement Language**
 - Land Trust “Model” Easement
 - Grant Requirements
 - Reserved Rights?
- **Purchase & Sales Agreement**
 - Timelines
 - Bargain sale or donation*
- **Tax Incentives & Implications**
 - Contact tax advisor/accountant
- **Exclude Certain Areas?**
 - Determine early
- **Talk to other farmers with CE's!**



Conservation Easement Values

- **CE Sale:**

- **Full property value** “Before” **\$500,000**
- **Restricted value** “After” **\$200,000**
- **Conservation Easement Value:** **\$300,000**

- **CE Bargain Sale:**

- **Conservation Easement Value:** **\$300,000**
- **Purchase Price (Bargain Sale):** **\$100,000**
- **Donated Value (eligible for tax incentives)** **\$200,000***

- **Tax Benefits available for Donation or Bargain Sale***

- **Can deduct 50-100% AGI for up to 15 years**

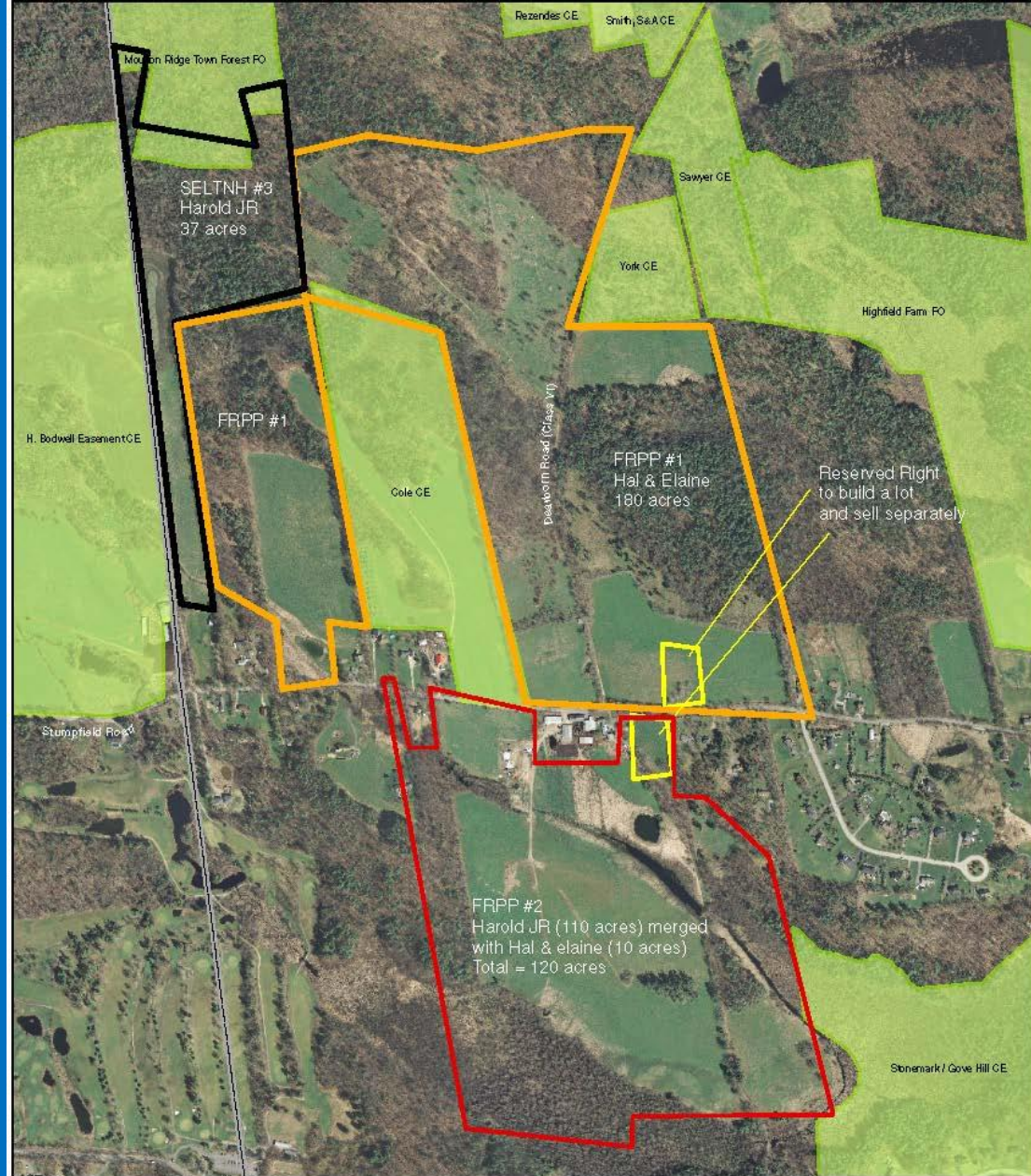
“Due Diligence”

- **Appraisal**
 - Important early step
- **Purchase & Sales Agreement**
 - Binding agreement to move forward
- **Title Review**
 - Mortgage, Subordination, Partial Release?
- **Environmental Site Assessment**
 - To ensure no major hazards exist
- **Boundary Survey**
 - Not always necessary



Project Size

- Multiple Landowners?
- Multiple Tracts?
- Consider Ownership Structure
- Staging
 - Break into manageable parts
 - Consider eligibility for grants, timing, etc
 - Consult land trust!




3 conservation easements (2 Farm & Ranchland, 1 SELTNH)
Each easement area can be conveyed or sold independantly from the others and houses
Easement #1 merges 2 parcels owned by Hal & Elaine into 1
Easement #2 merges ownership of Harold JR & Hal & Elaine into 1 larger lot
Reserved Right for 1 or 2 house lots shown in yellow







Fundraising & Grants

Fundraising

- Public and private grants
- Foundations
- Private donations
- Community fundraising
- “It takes a village”
 - ...region
 - ...state
 - ...nation.

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of NEW HAMPSHIRE



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Bodwell Farm, Kensington

Got milk? The Bodwell Farm sure does! With its happy cows and lush pastures, this farm maintains a window into New England's agrarian past. Now one of only six commercial dairies remaining in all of Rockingham County, the Bodwell Farm provides a critical link to the local food network of the Seacoast region. Since 1928, six generations of the Bodwell family have worked this land. SELT is working with the Bodwell family to conserve the farm. To date, leadership grants have been provided by the [NH Land and Community Heritage Investment Program](#), [US Natural Resources Conservation Service's Agricultural Land Easement program](#), the [Russell Farm and Forest Conservation Foundation](#), and the [Lewis Family Conservation Foundation](#)!

With the assistance of SELT and donors like you, the surrounding community can be sure this farm will continue to grow something other than houses. [Click here to support this project with a special donation!](#)

This project is supported by funds from the sale of the Conservation License Plate (Moose Plate) through the NH State Conservation Committee Conservation Grant Program.








Photo by Jeremy Lougee

←

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Southeast Land Trust © 2015

Grants for Bodwell Farm

- Grant Allocations
- Eligible Expenses
- Matching Funds
 - 9 funding sources!
 - Private gifts?





But the best reward is.....
Protected Forever!

Questions?



Thanks!

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