

## **Example: No Children want to continue the Farm**

*This couple are both 63 years old. They still farm, however, with a younger neighbor helping. The neighbor has contributed to farming operations since he was 15 and is now 32 with his own family. The farm consists of ground they own of \$4.5MM, machinery of \$1.1MM and buildings and storage of \$300,000. The machinery is in an LLC, and the land is in a separate LLC. Both entities carry no debt. The farm-owner wants to farm his owned and rental ground for at least 10 more years and would eventually like to transition the farming of all this ground to the neighbor. The young neighbor would like to be able to transition to ownership of the farm, as well.*

*There were numerous issues that had to be dealt with to make a successful transfer of the farm to the neighbor, and the major points covered are summarized below:*

- 1. The neighbor is not related, so he will not inherit any ground from the current owners. The only way to transfer the farm operation to the neighbor would ultimately require a purchase from the farm-owner's estate.**
- 2. The neighbor has no significant capital base. Their family has a quarter they own but will be split between their three children. He owns a tractor, tillage and planting equipment, and has some rental farms and custom work he does. The total cost of his own equipment was \$156,000 that he is paying down loans for.**
  - The young farmer's income consists of pay from helping the farm-owner annually and income generated from his own rental ground and custom work.
- 3. The total current value of the assets the neighbor would need to acquire is \$5.9MM for the land machinery and bins and buildings because the farm owner's children will inherit their assets. The cost of acquisition would be very large.**
- 4. The young neighbor has been very valuable helping the owner operate the farm. The farmer would like to consider how to recognize the contribution he has made over the last few years and will continue to make in the future as he decides how to transition the farm to the neighbor.**
- 5. The farm owners had not done any review of their own financial situation, so they did not have a good plan for how and when they could retire. This has an impact on the young farmer's plans because his income will go up as he takes over the farming of the ground now managed by the senior generation. And he needs to know when and how he will get control of the land.**

### **ACTIONS TAKEN:**

- Farm-owners reviewed income needs and income sources pre-and post-retirement.
- After reviewing that information, the farmer-owner determined he would like to retire in 10 years. At that time, he would rent the ground he owns to the young neighbor. He would also transition the ground he rents to him.
- Over the next 10 years, the farm-owner would begin selling the equipment LLC to the neighbor. The transition would begin slowly and accelerate once the neighbor takes over farming and generates more income to fund the purchase.

- They targeted completion of the transition of the equipment LLC within 15 years, if possible.
- The farm-owner will finance the sale.
- The neighbor will buy an insurance policy to assure the purchase is completed if the current owners die.
- The farm family decided to “discount” the sale value of the farm by 15% to recognize the value they have gotten from the relationship with the neighbor.
- The farm owners set up a buy-sell agreement between the farm LLC and the neighbor to give him the right to acquire the farm property when they die.
- The neighbor created a plan to fund the purchase of the farm LLC that was discussed and agreed upon with the farm owners.

This is just one example of how a family farm can be transferred successfully. There is no single way to do it and requires you to consider many factors including the makeup of your assets, the family relationships now and in the future and the cost of each alternative to name a few.

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