# THE FUNDAMENTALS OF SUCCESSION PLANNING

# WHAT IS SUCCESSION PLANNING?

A process of decision making that:

- Protects the ongoing viability of the agricultural operation.
- Provides for the orderly transition of the agricultural operation to new ownership.
- Preserves family harmony.

# THE ESSENTIAL QUESTION

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

“If you don’t know where you’re going, you’ll probably end up somewhere else.”

- Yogi Berra

# ROADBLOCKS TO SUCCESS

- Procrastination
- Failure to Make Hard Decisions
- Failure to Communicate
- Failure to Implement Organizational Structure
- Failure to Prepare the Next Generation
- Failure to Plan for Liquidity in Retirement
- Failure to Plan for Death and/or Incapacity
- Failure to Plan for Long Term Care

# FUNDAMENTAL PILLERS OF SUCCESS

- Willingness to Make Hard Decisions
- Regular and Clear Communication
- Sound Organizational Structure
- A Prepared Next Generation
- A Viable Retirement Plan
- A Solid Estate Plan
- A Plan for Long-Term Care Needs
- A Plan for Transition

# FOUR PHASES OF SUCCESSION PLANNING

Phase 1: Determine where the farm is now

Phase 2: Determine where you want the farm to be in the future

Phase 3: Create a road map or game plan to get the farm there

Phase 4: Implement the plan

# FOUR PHASES OF IMPLEMENTATION

- The Testing Phase
- The Commitment Phase
- The Established Phase
- The Withdrawal Phase

# BUSINESS PLANNING

- Part of all four phases
- Entity choice can make a difference
- Primary factors driving the choice of entity decision...
  - Tax Considerations
  - Farm Program Limitations
  - Asset Protection
  - Flexibility
  - Cost to Form and Operate
- Integration with Estate Plan
- Ease of gifting while maintaining control
- Operating Agreement/Buy-Sell Agreement
- Corporate Transparency Act

# ESTATE PLANNING

- Estate Planning ≠ Succession Planning
- Backstop to make sure other succession planning works
- Part of all 4 Phases



# ESTATE PLANNING – ESTATE/GIFT TAXES

- $18,000/person annual exclusion
- Estate, Gift and GST Tax Exemption $13.61M per person
- Portable
- But . . . 2026 Sunset

# ESTATE PLANNING – ESTATE/GIFT TAXES

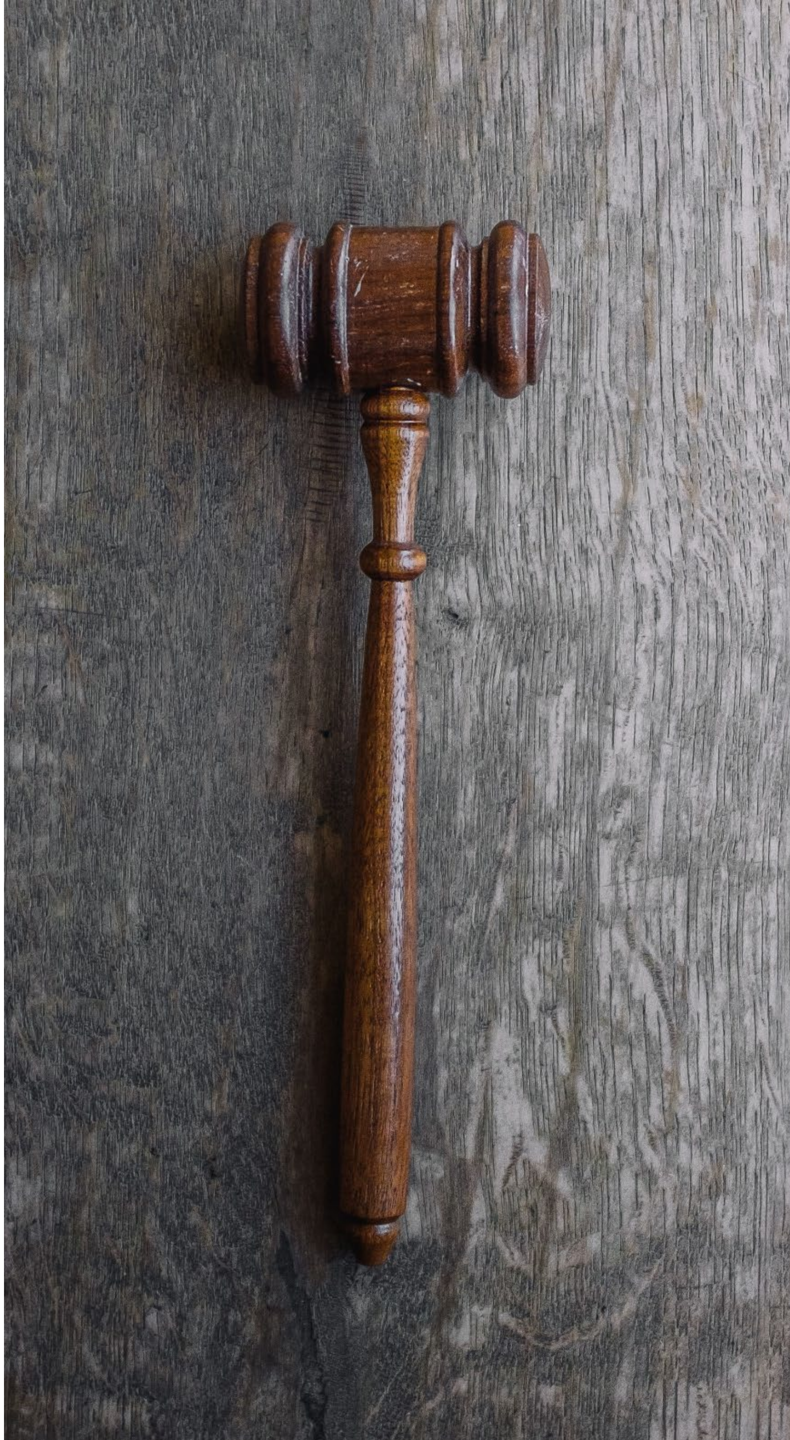
- Bill and Jill have a Taxable Estate with a value of $15M at the death of the surviving spouse.
- Under current law, with a combined exemption of $27.22M, no estate tax would be due.

# ESTATE PLANNING – ESTATE/GIFT TAXES

- However, if the death occurs in 2026 and the exemption has gone back to the levels provided in the 2010 law, the family now has a problem.
- Assuming inflation adjustments put the exemption at $7M per individual ($14M for a couple), there would be $1M subject to estate tax at 40% or $400,000 due and payable within nine months of the date of death.

# WILLS BASED PLAN

- Death instrument only
- Tells the court how you want your property distributed after you die and who you want in charge
- Court makes final determination
- Usually does not control disposition of all property
- Requires probate



# TRUST BASED PLAN

- An agreement that provides for the management of property at different stages of life and upon death.
- Revocable or Irrevocable
- Private document, not a public record
- Avoid probate
- Protect minor children
- Planning for blended families
- Special needs planning
- Asset protection planning
- Estate tax planning
- Protect against windfall

# TRANSFER STRATEGIES – BEQUESTS AT DEATH

- Maintain control
- Full step-up in tax basis
- Limits the successor options
- Assets stay in estate – subject to your debts liabilities

# TRANSFER STRATEGIES – LIFETIME GIFTING

- Must be coordinated with other planning
- Tax consequences
  - Not income to the recipient
  - Gift tax implications
  - No step-up in basis
- May cause Medicaid ineligibility
- Loss of control – when you give it away, you give it away!
- Irrevocable Trusts

# TRANSFER STRATEGIES - SALE

- Sale
- Lease with Option
- Tax Considerations
- Forgiveness of Debt

# LIFE INSURANCE

- Used to solve many problems – such as
  - Buyout of other owners;
  - Estate equalization;
  - Long term care; and
  - Estate taxes.
- Often involves permanent policies not term.
- Consider:
  - The need,
  - The alternative to meeting the need, and
  - The most economical way to meet the need.

# THE NURSING HOME PROBLEM

- Average cost of a nursing home in Idaho is $6K to $8K per month.
- What is your plan to pay for long term care?
  - Self pay
  - Insurance
  - Family
  - Medicaid

# KEYS TO MAKING IT WORK

- Know where you are.
- Know where you want to go.
- Create a road map.
- Implement the plan.

"We all have dreams, in order to make dreams come into reality, it takes an awful lot of determination, dedication, self-discipline and effort."

- Jesse Owens