

When discussing business succession planning, there is often not a lot of discussion about family farms, though there should be. A family farm bears many hallmarks of a closely held business. The farm is tied to the family and represents the significant portion of the family's capital, resources, and income. There are a limited number of owners and operators. And, most tellingly, farmers are concerned with how to transition into their retirement and what will become of the farm.

The same issues that trail a small business owner follow after the family farm owner, such as whom to pass the farm onto in the next generation. For the farming couple, the appropriate child to inherit and manage the farm may be more apparent. The child was raised on the farm, and has worked on it for years, trained in the day-to-day tasks of managing the land and livestock. As a result, finding a successor and training them is usually not as difficult as it is for a closely-held business.

There are, though, complications for farmers. Sometimes there are no children interested in farming. They are almost certainly interested in the land and their inheritance, just not the farming. It is an increasingly common problem for farm families today as children leave small rural communities for urban living. This is obviously a disappointment as owners usually hope the farm will continue to stay in the family. At this point, the farming parents have to start considering other alternatives for the farm.

Another issue for the family farmer is the conflict of wanting to pass the family farm onto the child interested in farming, but also wanting to treat each child equally. This is very similar to a family business where there are children active in the business but also other children not active who nonetheless have their own expectations. Life insurance is an at-hand solution to this problem. The proceeds of insurance on the life of the farming parents can be used to equalize the other children's inheritance, balancing the bequest of the farm to another child. Another more sophisticated mechanism involves creating LLCs to hold the farm and equipment (truly making the farm a business). When the time comes, the managing interests can be passed onto the farming child while the remaining, non-managing interests can be passed onto the other children equally. The farming child will control the farm and take a salary as compensation for his or her work, but profit from the farm can be shared amongst all the children. It might not ease all tension between parents and children, or between siblings, but it will be a fair succession and should help dispel some of the discord.

Even with all of these options, the family farmer needs to plan early if he or she wants to make use of them. The earlier farmers plan, the better chance they have for the outcome with the farm to be the one they want, and not the one with which they are stuck.



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