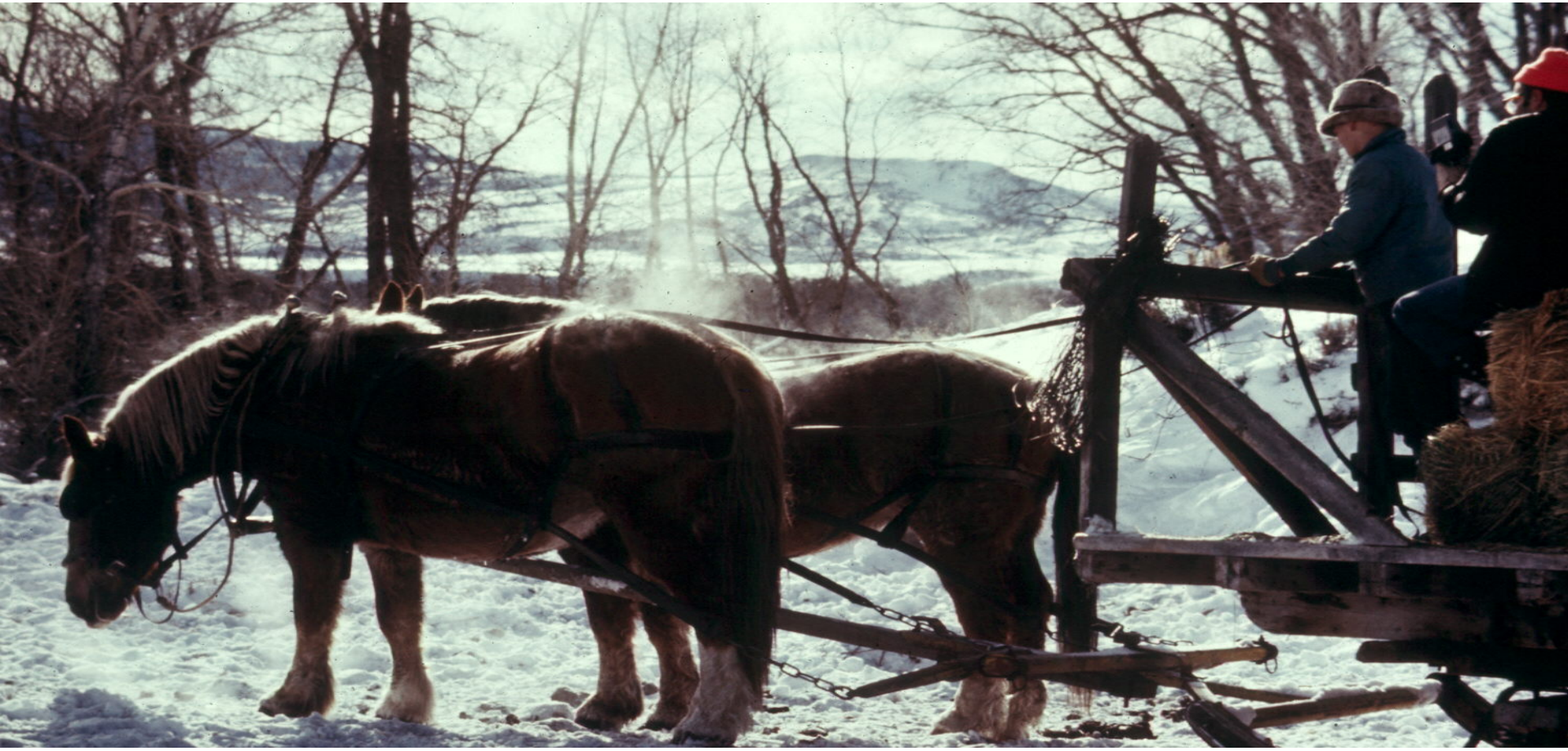
Your Farm or Ranch:
Estate? Succession? Legacy?



University of Nebraska – Lincoln
Webinar – 2021 August 19

Colorado State University Extension

❖ Dispos

❖ Te ds y.

Legacy

Captures all facets of a person's life.

Family traditions

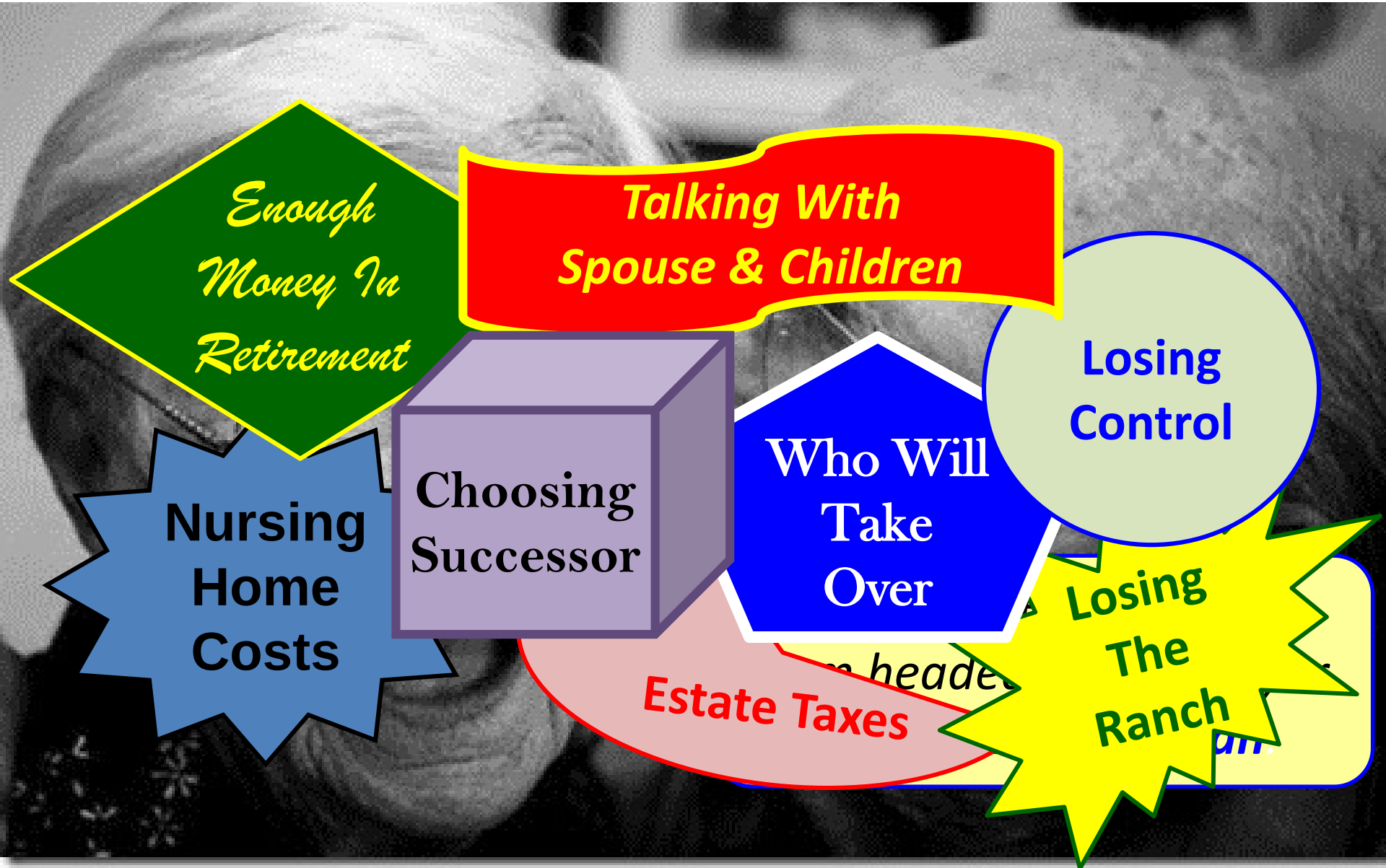
Non-Financial = 10X More Important Than Financial

Accomplishments

Impacts

❖ Sm ship, an n.

Common Fears

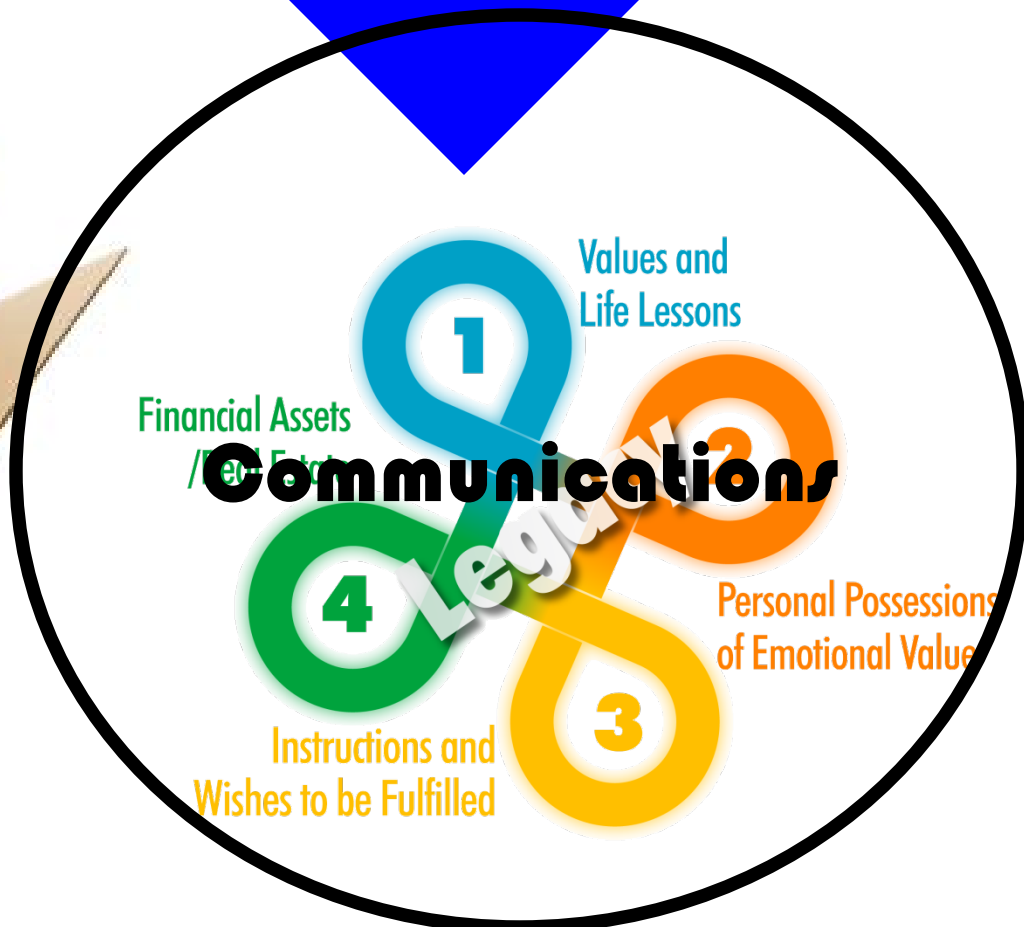


Who Are You?

- Pedigree
- Personality
- Family
- Values & Beliefs
- Personal Stuff
- Community Service
- Religion/Faith
- Traditions
- Farm/Business Wealth
- Everything Else Making Up YOU

Who Are You?

Lasting Legacy



Family Communications

Talking WITH your family

What does each person want to have:

- ⇨ *…happen to the farm/ranch*
- ⇨ *…of your business assets*
- ⇨ *…of your personal assets*
- ⇨ *…for you*

~ openness ~
~ honesty ~
~ listening ~

Conversation Confusion

Conversation Confusion

Location – where does the conversation take place?

Problem

Family system overlays the business conversation

Alternative

Neutral, business setting

Effective Communication

Family Counci

- All family
- Listen to ct the family

Family Busine

- Active fa
- Dedicate issues

Announcement

Agenda

Assignments

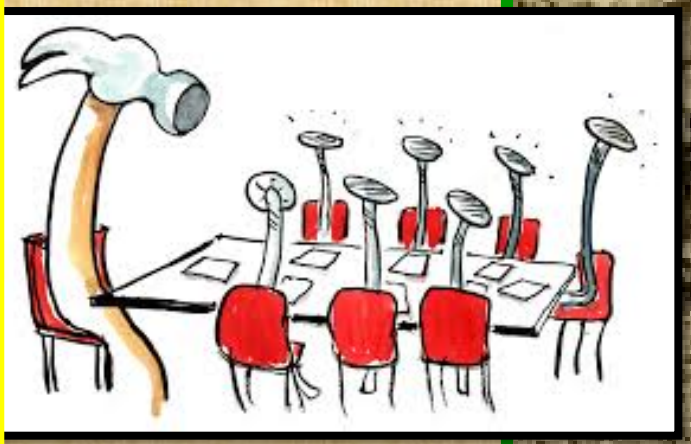
Setting

Roles of Participants

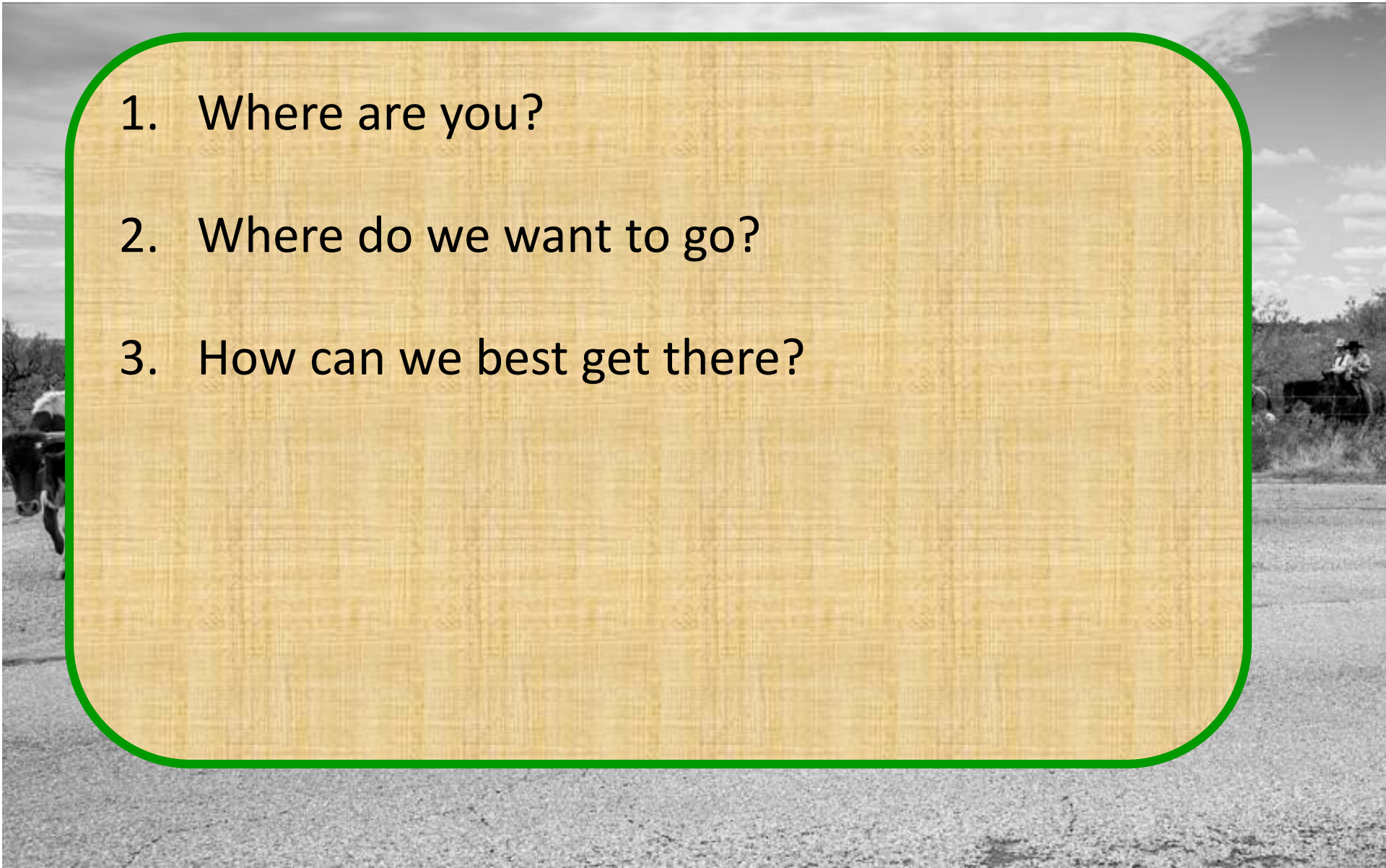
Facilitator

Publish Minutes

Follow-up



Estate Planning



1. Where are you?
2. Where do we want to go?
3. How can we best get there?

Q1: Where Are You, Personally?

- Family – spouse, children, special needs dependents
- Legal docs – will, advance directives, powers of attorney
- Non-farm assets/liabilities – investments, pensions, personal property, retirement accounts, debts
- Insurance – life, assisted living, other
- Personal possessions of emotional value
- Gifting plans

Location & Access

Q1: Where Are You, Business?

- Financial – net worth, cash flow, profitability
- Documents – titles, easements, leases, insurance policies, tax returns + depreciation schedule, appraisal
- Accounts – bank, investment, brokerage, charge
- Legal structure and ownership

Be transparent

Location & Access

Q2: Where Do You (and your family) Want to Go?

- What do <u>you</u> want, what does <u>your family</u> want
- Ultimate goal for land, for the business(s)
- Spouse – which dies first, financial needs of surviving spouse, re-marriage
- Children – desires to farm/ranch or own land, family needs,
- Citizenship
- Timeline

What do you want for a house?

Q3: How Can You Best Get There?

- Competent Team (attorney, accountant, financial advisor, facilitator, coach, insurance agent, lender, other)
- Family communications
- Do the necessary work
- Be honest…
  with yourself, your family, your advisors
- Implement the plan

Let the "pros" build <u>your</u> house.

Points to Consider

Tax Code

	CURRENT (2021)	FUTURE (current law expires 12/31/25)	FUTURE (possible legislation)
Estate tax credit	$11.7 mill	$3.5 million	$1 million? $3.5 million?
Lifetime Gifting Exemption			ion?
Annual Gifting			
Portability	Yes	Yes	Yes?
Basis ➢ At death ➢ Before death	 Step-up Same	 Step-up Same	Capital gains on assets transferred ?

Will change, but how?

Ownership vs Management Succession

Ownership & Management

=

One and the Same

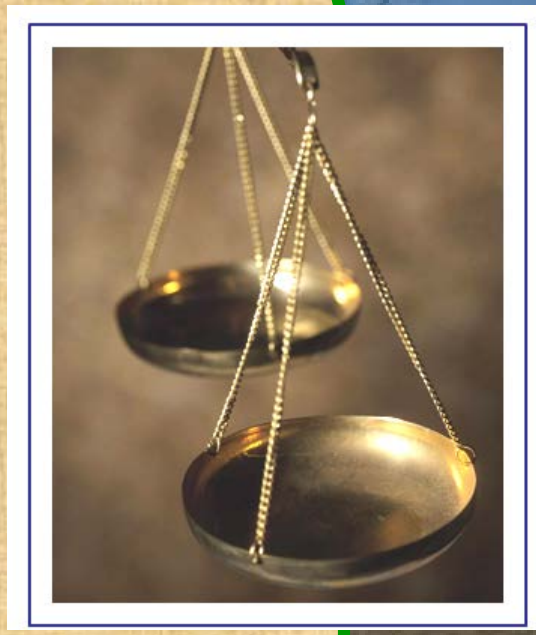
Who wants to farm?

Who wants to own a farm?

What is Fair?

Equal

- All persons are treated the same
- This could mean equal number of items, dollar value, or emotional value



Equitable

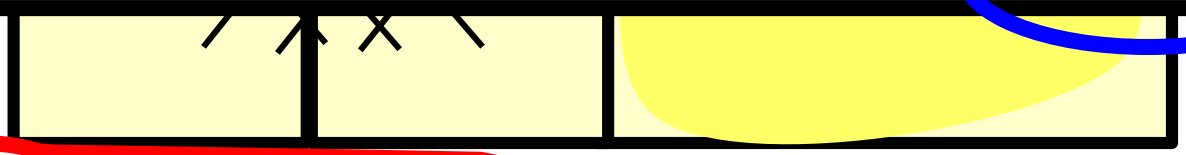
- Takes into account differences
- These differences could be age, gender, needs, care giving role, and other distinctive differences

Rental Income	
- Ag Land	$ 6,000
- Hunting & Fishing Rights	$ 2,000
- Wind Tower	$ 4,000
To	$12,000
“	
	$1,500
	$1,000
	$1,500
- Other	$ 500
Total Expenses	$4,500
Profit	$7,500
Distribution to Individual Owners	$2,500

Farmer/Rancher Heir

Gross Rents: $6,000 + $2,000 = $8,000

Net Rent: $8,000 - $2,500 = $5,500



Estate? Succession? Legacy?

If you don't have a plan…
the law provides one for you

Letting Your Heirs Worry About It

- Default under the law tends to be sale
- Sale is especially imminent if:
  - Parties don't agree
  - Property is not easily divisible

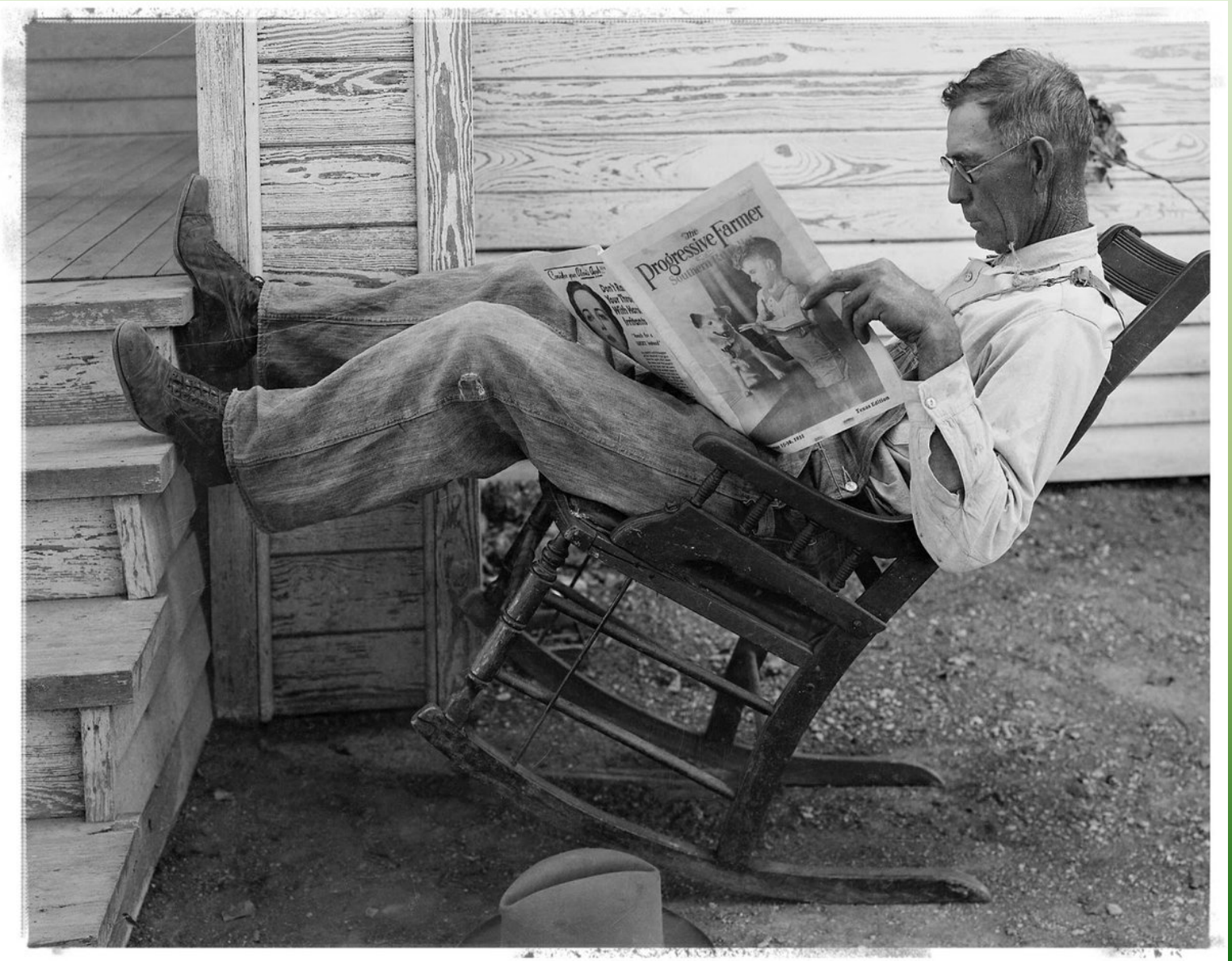
Your Successor

Proactively agree to a successor

- Don't assume who will be your successor
- Mentor/coach you successor
  - Expl
  - e

Transfer knowledge in order for success

What does your retirement look like?



Long Term Care

Pay for it, if you need it

Long-Term Care Insurance

- Colorado & Nebraska have partnership plan that match and protect assets which enable dollar for dollar protections to maintain assets
- Not all plans meet the criteria of a partnership plan—ask!

Qualify for Medicaid – "safety net"

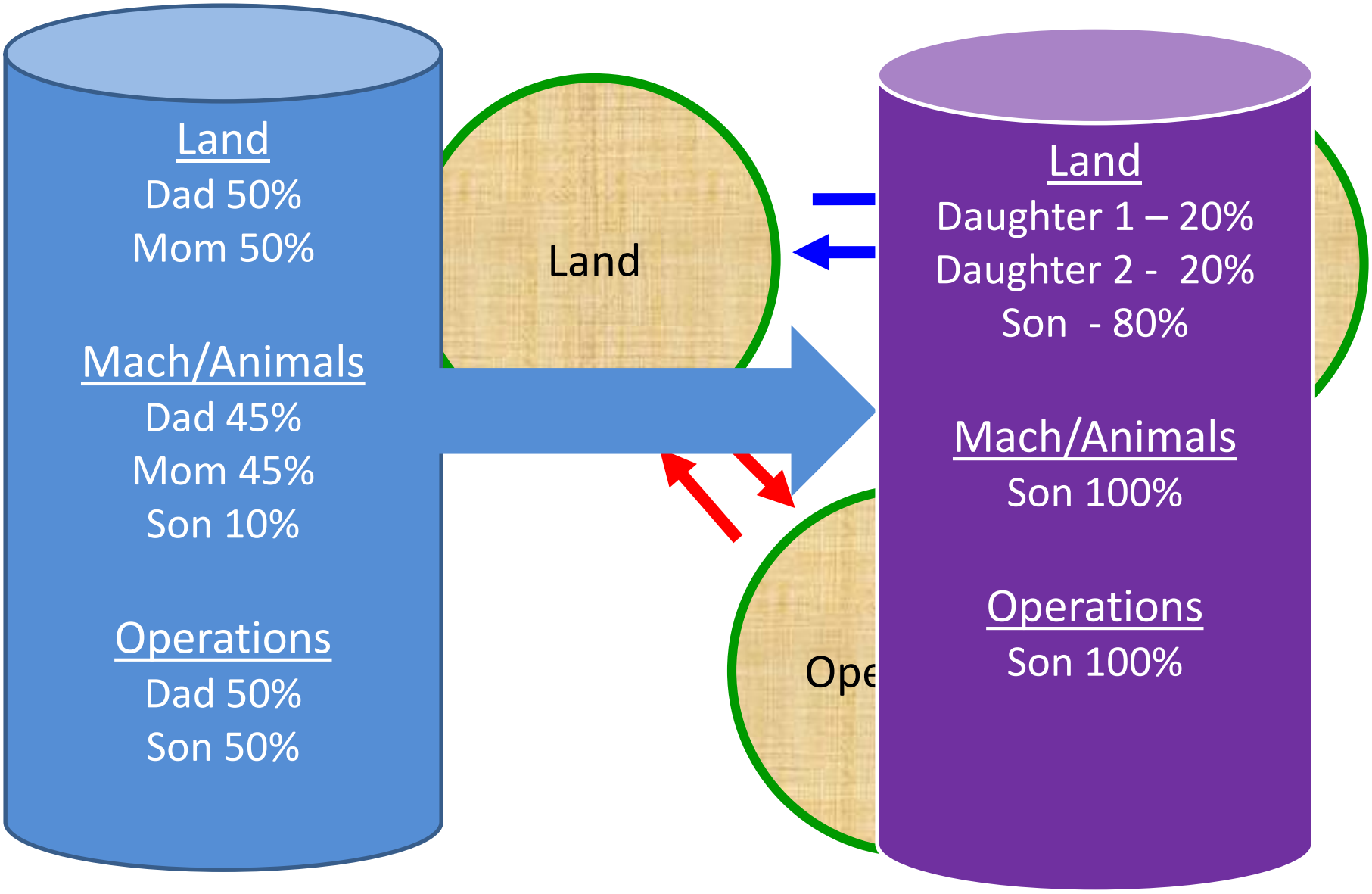
- **Transfers for less than "fair market value" within 60 months of Medicaid application ("Look Back" period) are consider[illegible] [illegible]alties assessed**

$8,000 per month
$100,000 per year

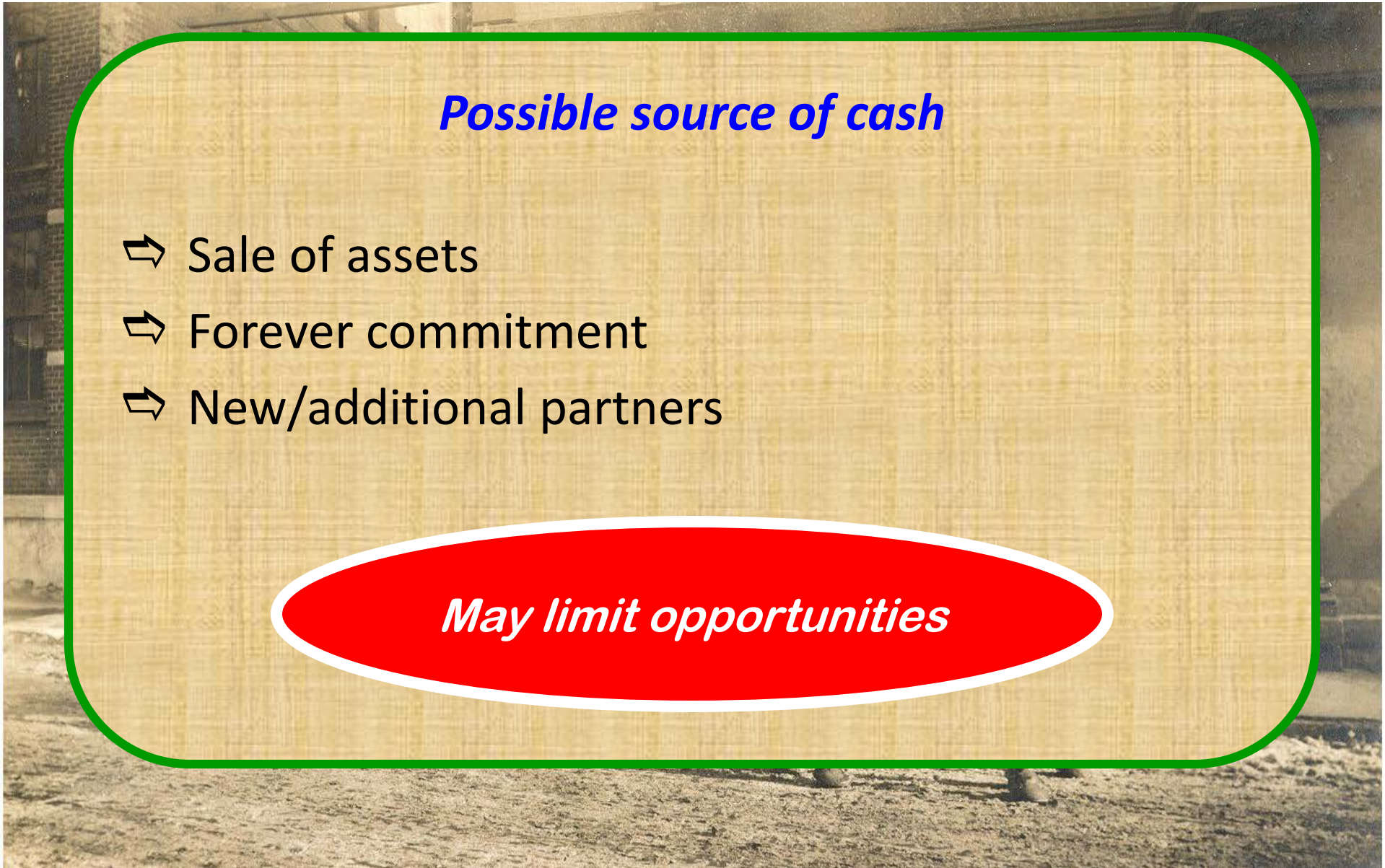
Timing of Transfers

1. Before Death
   - Older generation has more control of process.
   - Younger generation gains control of assets.
   - Taxes?
   - No step-up in basis
2. After Death
   - Sudden transfer of assets and management
   - Estate taxes?
   - Step-up in basis for assets

Multiple Entities



Conservation Easements



Possible source of cash

- Sale of assets
- Forever commitment
- New/additional partners

May limit opportunities

Gifts of Life Insurance

Heir buys life insurance policy on life of "Donor"

- Donor gifts amount of premium (< $15,000).
- Heir gains access tax-free access to proceeds from life insurance.
- Heir can borrow against cash portion of policy.
- Provides protection from creditors, divorce, and bankruptcy.

Life-time Trusts & Leases

Life-time Trust

- Asset owned by trust for specified, beneficial use
- Revocable, generally
- Example: *Mom transfers ownership of her house to trust and continues to live there until her death or other specified time.*

Life-time Leases

- Asset leased until death or other specified time
- Example*: Dad transfers ownership of pasture to successor; leases pasture for 10 cows and 1 bull (option is to lease particular pasture) until his death or specified event.*

Colorado State University Extension

Leave a Lasting Legacy,
NOT Just an Inheritance

Jeff Tranel

Ag. and Business Management Economist
Colorado State University
jtranel@colostate.edu