



When you think
about transitioning
an operation
between
generations, what is
your biggest financial
concern?

Text 308-631-1869



Farm Transition: Beginning Conversations About Finances

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Have a question? Text 308-631-1869



Some definitions

- **“Owners”** – People, typically grandparents or parents, who own farm/ranch entities or assets and are looking to pass these assets to another person.
- **“Heirs”** – People, typically children or grandchildren, who expect to inherit farm/ranch entities or assets
 - Can be “on-farm/ranch” or “off-farm/ranch”
- **“Sunset Years”** – Final years of a person's life. May include retirement, or simply slowing down.



Who is on your financial team?

- Lawyer
- Tax Accountant
- Banker
- Certified Financial Planner



Questions about finances...

Owner

Ideally, what would you like to happen to your farm or ranch at your death?



Questions about your personal financial situation

Owner

2. How much \$ do you currently draw from the farm or ranch?
3. What are your honest plans for asset division?
 - a. Do you expect this to happen while you are alive or at death?
4. What are your honest plans for your sunset years? Is your spouse on the same page?
5. Are you ready/willing/able to share the financials of the business?
6. Are you ready/willing/able to communicate your financial needs during the transition and into your sunset years?
7. How and how much do you believe the business can compensate heirs?

Questions about your sunset years

Owner

Sit down with a Certified Financial Planner (CFP)[®]

7. When do you plan to retire/slow down?
8. How much do you have saved/what are the sources of income for your sunset years?
 - a. Social security, retirement accounts, savings/investments, rental income, etc.
9. How long do you expect to live?
10. How much \$ per year do you need to live?
 - a. Typically, 70-80% of current expenditures.
 - b. Develop a budget
11. What is your withdrawal strategy?
 - a. Different assets have different rules, tax implications, etc.
 - b. Rule of thumb: retirement withdraws = 3-5% of capital balance
12. What are you plans for long-term care?
 - a. Are you insurable?
 - b. Are you ready/willing/able to give up asset control at least 5-years in advance?

Questions about your sunset years

Owner

13. Is renting the land your retirement/slowing down plan?

Consider how different rental agreements impact Social Security benefits and/or income taxes.

- a. Renting farmland, whether for cash or under a crop-sharing plan, can be counted as income for Social Security purposes if you have an active role in the production or management of the crop or livestock. These activities are called “material participation.” [K-State Article](#) , [Rincker Law Article](#)
- b. Proper rental agreements may require a full “Advisory Team” meetings/input

Questions about your financial situation

OFF-Farm/Ranch Heir

1. How do you expect to be involved in the farming/ranching operation?
 - a. When will that involvement begin?
2. How does this fit with your off-farm/ranch lifestyle?
3. Do you expect to receive compensation for this involvement? What type of compensation?
 - a. House, utilities, beef, salary/wage, insurance, retirement plans, grain/calves, shares of the entity, % of land ownership, etc.
4. Do you expect to receive assets from the owner(s)?

Questions about your personal financial situation

On-Farm/Ranch Heir

1. What is your current financial situation?
 - a. What assets/debt do you already have?

2. How \$ much do you need to live a “reasonable” lifestyle?
 - a. Do you have any other sources of income that contribute to your household?
 - b. Is your spouse on the same page?

3. Do you expect to receive compensation for this involvement? What type of compensation?
 - a. House, utilities, beef, salary/wage, insurance, retirement plans, grain/calves, shares of the entity, % of land ownership, etc.

4. What skills/talents/abilities do you have that will benefit the financial well-being of the operation?
 - a. What tasks can you take on to increase revenue or decrease costs?
 - b. Are you going to rent additional land?
 - c. What “side hustles” or new enterprises can you add that don’t conflict with the current operation of the farm or ranch?

5. Are you ready/willing/able to communicate your financial needs?

6. How will you build wealth?
 - a. Especially if you are expected to buyout siblings/cousins/other family?

Buying Out Family Members

On-Farm/Ranch Heir

- You are going to need cash down or equity
 - Equity: debt-free ownership of the asset OR difference in asset value and purchase price
 - Land loans require 20-30% down or equity
- **Life insurance backed buy-sell agreements** can provide you cash upon the death of an owner.
 - Challenges: Estimating the amount of death benefit needed to purchase the owners share, owner must be insurable, must pay insurance premiums consistently, premiums can be costly



Owner/ Heir Meetings

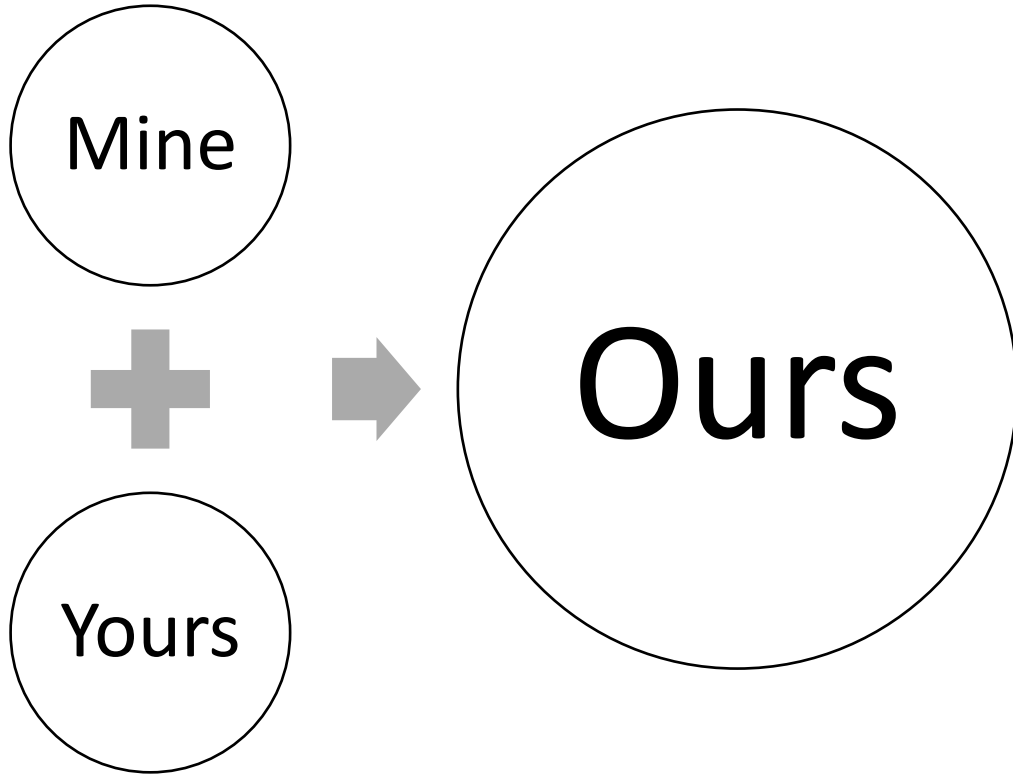
Conversations

Owners & Heirs

1. What are your biggest concerns/fears?
2. Who are your service providers (banker, tax account, etc.)?
3. Who is “doing the books”? What does “doing the books” mean?
4. How often would you like to see financial documents?
5. What is your attitude toward debt? Does it align with others in the business?
6. How are you going to handle management decisions, specifically purchases/sales?
 - a. Regular business meetings
 - b. Approval system
 - c. Methods of payment (credit cards, checking account signature authority)
 - d. Plan for replacements and/or expansion

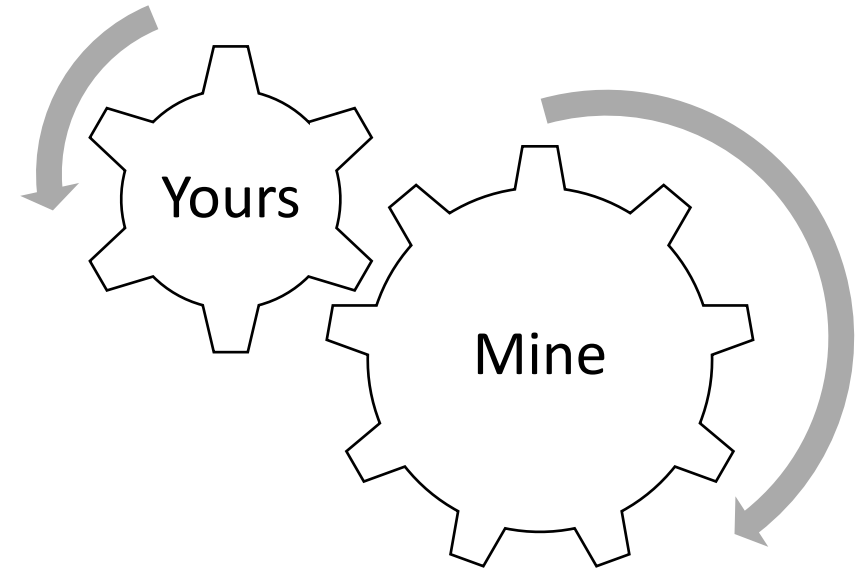
How/when will our finances be tied together?

Owners & Heirs



Is there a single bank account that handles it all?

When an heir joins the operation, are they expected to contribute \$? How will withdraws from "ours" accounts be handled?



Or does everybody write a check/receives their own check?

TIP: If you are trading labor for use of equipment, set a \$/hour rate for each task, clock-in and clock-out, and swap checks.

A white calculator is positioned on a financial document, with a pen resting on it. The document contains various tables and text, including the number '155,395.80' and the word 'EXTENSION'.

Financial Documents

General Records

- Bank, Credit Card, Investment Statements
- Farm/ranch checkbook

- “Books”
 - Software programs
 - Hand-written Ledgers
 - Excel Spreadsheets

Financial Statements

- **Balance Sheet** – list of assets and liabilities
- **Cash Flow Budget** – projects cash inflows and outflows
- **Income statement** – profitability of the business

Balance Sheet

- A snapshot of your business's financial position at a point in time. Typically prepared every year on January 1.
- Listing of everything your business owns (assets) and owes (liabilities).
- Required when applying for a loan. Will also need asset list for attorney.

Balance Sheet

	<i>Assets</i>	<i>Liabilities</i>
<i>Current</i>		
<i>Intermediate</i>		
<i>Long-term</i>		

Assets = Liabilities + Net Worth

Balance Sheet Webinar

- <https://go.unl.edu/z48u>



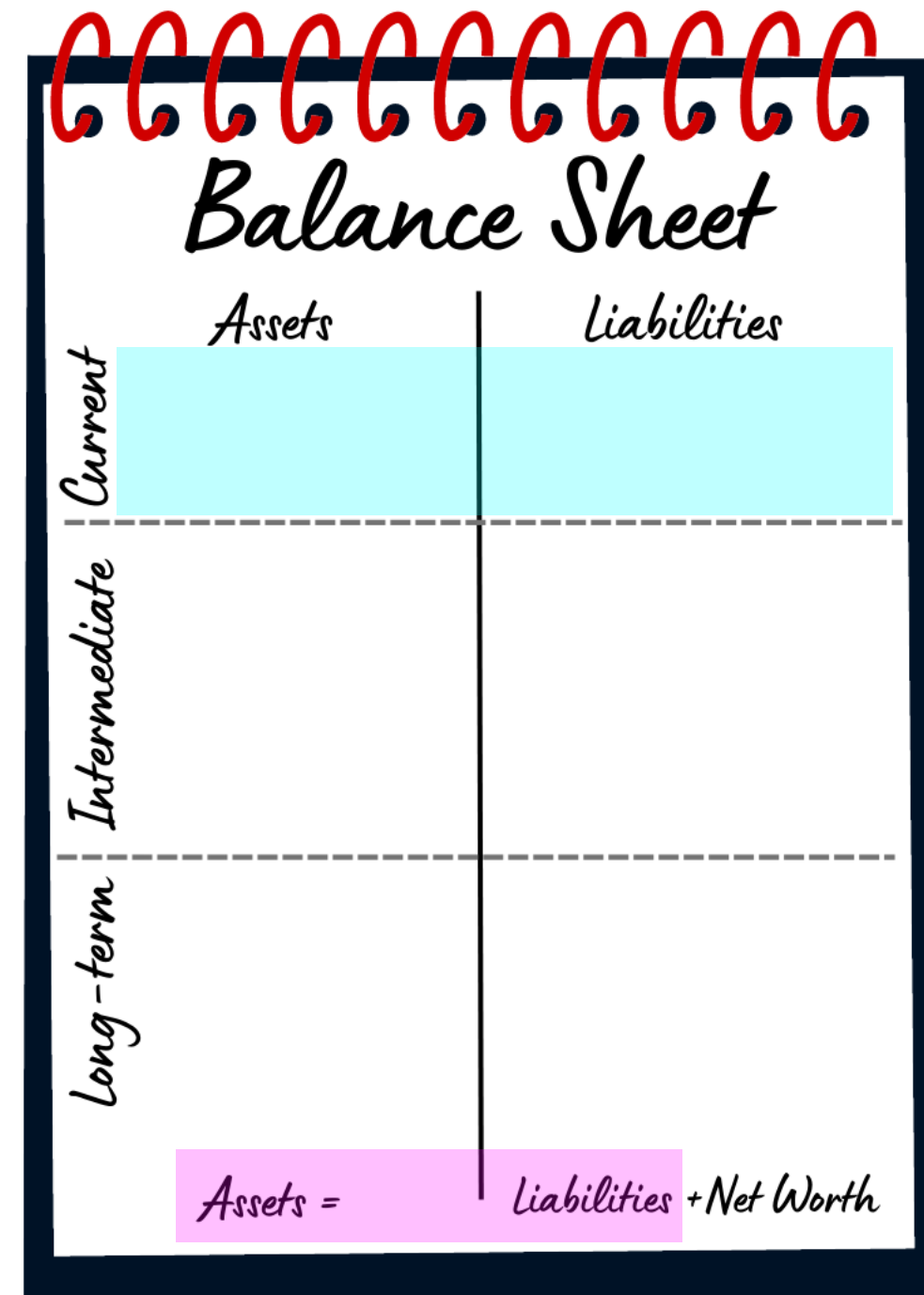
Balance Sheet

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Assets = Liabilities + Net Worth

Balance Sheet

- Can the business cash flow in the near term? Do we have enough “current” assets to meet our debt obligations?
 - Relationship between Current Assets and Current Liabilities
 - Working Capital
 - Current Ratio
- In the long-run, what amount of the business is encumbered by debt?
 - Relationship between Total Assets and Total Liabilities
 - Net Worth
 - Debt/Asset Ratio



While you are developing a balance sheet:

- Are there listed beneficiaries, Payable on Death or Transferable on Death?
 - Accounts: Bank, Retirement, Investments, Titled Vehicles, etc.
 - Assets with a listed beneficiary transfer outside of the probate process
 - Are your beneficiary designations consistent with your estate plan?
- How is everything owned? Don't make assumptions – look it up.
 - Type of ownership matters: Sole ownership, Tenancy in Common, Joint Tenancy with Rights of Survivorship, Partial Ownership
 - <https://go.unl.edu/ownership>
 - Is the type of ownership consistent with your estate plan?



While you are developing a balance sheet:

- Where are the important documents?
 - Titles, bank statements, loans, lease agreements, legal fillings
- Also consider keys, safe combinations, and passwords.

Do not be the only person with the who knows where things are.

Cash Flow Budget

- **Spending plan**
 - Annual, quarterly, or monthly
- Estimate monthly income and expenses
 - **Income** - grain sales, livestock sales, custom hire....
 - The bank will usually provide commodity prices (\$X/bu.)
 - **Expenses** - rent, seed, chemical, insurance, repair, feed, veterinarian bills, labor....

JAN FEB MAR APR MAY JUN JUL AUG SEP OCT NOV DEC

Beginning Cash Balance

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Income

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Expenses

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Ending Cash Balance

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Cash Flow Budget

- Where are is the business spending money?
- Does the business need an operating loan or line of credit?
- When considering leases or purchases, can the business afford additional payments?
- Can the business afford to compensate owners or heirs?
 - Reduced grain/calves
 - Salary/wages

The balance sheet
and cash flow
budget DO NOT
show profitability!

Income Statement

- Measures profitability
- Can be created with a beginning and ending balance sheet and Schedule F

- Uses of Net Farm Income
 - Pay income taxes
 - Family living withdrawals
 - Source of investment dollars
 - Pay principle portion of debt

A close-up photograph of a chessboard. In the foreground, a black king piece stands prominently on a dark square. To its right, a white pawn is also visible. In the background, several other chess pieces, including a black knight and a white knight, are out of focus. The lighting is soft, highlighting the textures of the pieces.

Final Thoughts....

*If someone in the
operation dies
today... everyone
knows what to do
tomorrow.*

- Ron Hanson

Final thoughts...

- Stress test your plan: put all your family members names in a hat – draw out a name. If that person dies:
 - Does your plan work the way you think it should?
 - Does everyone know what to do?
- Your parents owe you nothing.
- It's not real if its not in writing!
- At the end of the day, someone is going to pay taxes.

Events/Workshops/Webinars

- **Center for Ag Profitability**
 - Past webinars <https://cap.unl.edu/webinars>
 - Succession Resources: <https://cap.unl.edu/succession>
- **Know Your Numbers, Know Your Options**
 - Financial Management Course
 - <https://wia.unl.edu/know>
- **Returning to the Farm Workshop**
 - December 8-9, 2023
 - More information coming soon!