

Illinois Farm Bureau 2018 Farm Income & Innovations Conference

KEEPING YOUR FARM IN THE FAMILY FOR FUTURE GENERATIONS

Mapping Out a Business Succession Plan for the Transfer of Farm Ownership and the Transition of Management Control to the Next Generation of Family Farm Producers

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When transferring ownership of a family farming operation to the next generation (especially if this farm has been in the same family for several generations), this entire succession process itself can result in a lot of emotional stress as well as potential conflict among the family members involved. The question becomes whether the family itself (specifically the parents) has put in place a farm business ownership succession plan to protect their farm estate and to ensure that their family farming legacy continues for the next generation.

Most families have an estate plan and/or a family will, but very few actually have a farm business succession plan. A successful succession plan spells out the process for the farm to remain in family if something unexpected happened to the farm and/or even to a farm family member, does everyone in the entire family already know as well as understand what happens next. **Very simply, if something unexpectedly happened today (such as a family death, sudden illness, farming accident, divorce within the family, etc.), does everyone in the family clearly understand what would happen tomorrow?** Planning for ownership succession plan is vital to keeping a farm in the family for the next farming generation and that a family farming legacy continues into the future. How do we make sure the family name on the farm mail box never changes?

Farm families fully realize the importance and need for having a farm succession plan to protect as well as continue their family farming legacy, but these families quite often fail to ever put a plan in place for the next generation. Too many times personal obstacles as well as the fears of succession planning become road blocks which prevent a farm family from developing and implementing a succession plan for their farm.

Some farm producers will never admit to the fact that someday they will die and no longer have their farm. The fear of no longer being in control can be overwhelming. What if the next generation screws it up and loses my farm. Or worse yet would sell my farm. Or a non-family member gets part of my farm or part of my estate. Who takes care of me in my later years if I turn over the farm now? Maybe I just better keep everything to myself. **Thus a very common mistake by some parents can result: hanging on to “too much” for “too long”.**

Succession planning is difficult for many farm families because it takes them out of their “comfort zone”. It requires the family to begin open and honest conversations within the entire family. No more secrets and/or hidden agendas. More importantly, succession planning means making life changing decisions (putting the farm into a Family Trust or a LLC). Bottom line, decisions have to be made and actions taken to accomplish a farm succession plan for the next generation.

Always remember that it is never too early for a family to begin this succession planning process. Just do not make the mistake of waiting until it is actually too late and now nothing can be done. That mistake happens all too often. This can result in the farming operation being sold to pay estate taxes and/or being divided up into separate parcels to settle legal disputes between the family siblings since lawyers have now become involved in the situation and communications within the family has ceased. Can the farm business itself afford these legal costs and still survive for another generation? Many times not; thus ending a family farming legacy.

Farm succession is very time consuming (there are no short cuts or easy answers) and quickly becomes quite complicated (especially with the tax implications involved). Not to mention that succession planning can be emotionally draining as well as a stressful situation for many individuals to be confronted with when passing on their farm estate. **The solution is to start planning now!**

Unfortunately, there are **many family issues** which can confront families when working through this transition between generations without disrupting the farm business operation due to legal disputes or personal conflicts between siblings. These ownership succession issues must eventually be discussed by all family members involved and then resolved to everyone's agreement for a successful transfer of business ownership as well as passing on management control to the next family generation.

The failure by family members themselves to communicate effectively as well as their inability to resolve any issues of potential conflict quickly leads to misunderstandings and disagreements within the family. **That's when the family fighting and personal bickering really starts.** Legal problems and disputes soon arise, often bringing lawyers into the family situation. This usually results in a lot of bitterness and resentment with some family members no longer speaking to each other. This puts an end to a family legacy with the farm itself being sold and/or the farming operation dissolved. The next generation in the family loses the opportunity to gain ownership as well as the chance to carry forward the family farming operation into the future. Thus sadly ending a family farming legacy.

Understanding the Impact of Ownership Succession to a Family

Remember that the father wears two hats in a family farming operation (Boss Hat and Dad Hat). When wearing the Boss Hat, Dad is in charge (authoritative power) and supervises the adult children as farm employees. When wearing the Dad Hat, now he listens and better understands their concerns. This presents a difficult task since Dad must know when (and how long) to be wearing which hat. The adult children in the family farm business must make this distinction between the Boss and Dad roles that a father plays in the farming operation.

Rather than trying to boss/supervise/control these adult farming children, Dad should try to mentor these adult farming children. Provide them the opportunity to learn and to gain experience making farm business decisions. This build confidence and management experience for these adult farming children and helps to insure their success for the next farming generation.

Another related issue is that fact that Mom many times outlives Dad. What if Dad dies unexpectedly or long before retirement? Will Mom operate the farming operation "as if Dad were still living" or would Mom start making the changes she always wanted but Dad would not allow. Mom might rent out the farmland to a neighbor or even sell the farm within a relatively short period of time. How does the farming son or daughter now fit into this situation? Would Mom turn over full control of the farming operation to them and now let them make all the management decisions.

Things really get complicated in the family if Mom remarries and now there is a new step-Dad to contend with. Also consider that Mom may actually wear the "Boss Hat" in the family and/or Mom may actually even own the farm operation. When that happens, expect very few changes in the farm business itself even if Dad would die unexpectedly.

Eleven Challenges to Farm Business Ownership Succession Planning

As a farm family (in particular Mom and Dad) undertakes and begins the process of mapping out a farm ownership succession plan for the next generation, there are eleven (11) immediate challenges which could limit their success or even result in a failed attempt to pass on their farm to the next generation. Thus putting an end to a family farming legacy and ruining the dreams/hopes of some family members.

FIRST CHALLENGE: The issue of "who is actually family" and thus entitled to someday owning the family farm. This quickly becomes quite emotional among all the members of the family. Who are considered the "real family members" in the farming business? This is an issue that most families never want to openly discuss or even admit to. But when it comes down to money, wealth, property, and especially land ownership, who fits this title of "family"?

Who is entitled to someday owning this farm or business operation? Are only the “blood related” family members included in financial business decisions, have management authority, or even the chance for ownership? Are the in-laws even treated as “family” in the farming operation and allowed to have a voice in business matters?

Some families adopt the strategy that the less the in-laws know about our personal family business and financial affairs, the better we are for it. But that can be a huge mistake. If the in-laws are kept in the dark about the farm and are entirely excluded from family discussions and business decisions, relationships of trust between family members quickly fail. This then leads to suspicions and a definite lack of respect for other family members. Once this element of doubt is created (i.e. what else have you done without telling me), honest communications within the entire family will cease and barriers are quickly formed. Once family members refuse to communicate with others, a family business breakup and/or a farm sale is just waiting to happen next.

SECOND CHALLENGE: Are there favorite adult children in the family? Have some adult farming children already been chosen to take over the farm? Consequently, the most sensitive issue of the non-farming children comes into play when passing on ownership of the family farm or business. This issue is hard to discuss because parents often have “certain favorites” among their children. But to avoid the problems of sibling jealousy and resulting grudges, parents must block out their personal feelings of favoritism and devise an estate plan in a **fair and equitable manner** to all children (sons/daughters or farming child/non-farming child makes no difference within a family). Parents love their children. That is never an issue within a family. The issue is simply fairness. That is the challenge that parents must address for their adult children.

Farm family operations are the most difficult to handle in terms of fairness among all the children since some children worked harder than others and may have contributed more to the parents’ farming operation (as well as their farm estate). Also remember that some children care more about the family farming operation (and will focus on its continued success) while other adult children are only interested how much money they might inherit from the parents’ final estate.

THIRD CHALLENGE: Parents usually have a difficult time giving up or sharing control with the next generation. Some parents actually raise (or expect) their adult children to be followers. Children are often expected to do what the parents always want. “Work hard and do things our way” might be the standard rule in some families. Now parents cannot understand why their adult children have no drive or ambition.

What is the behavior expected by the parents for the adult children working in the farming business? Do the parents want these children to be just puppets or independent thinking adults with their own ideas? Is it the parents’ dream for the children to return back home to the family farm or is it the children’s dream to farm with Mom and Dad? Children should never feel obligated to return back to the family farming operation when their career interests and dreams might lie elsewhere.

FOURTH CHALLENGE: When will this transfer of ownership and sharing of management actually happen? Who will end up owning the farming operation when the parents retire? Or will the parents still retain total ownership (as well as control) even after retirement while the farming children keep doing all the work? Which children will have the chance to gain a share of the actual ownership? When will this happen or do the parents plan to retain total ownership until their death?

What entitlements do the farming children actually have in the farm business? Have previous promises by the parents already been made to any of the children? Will these promises be honored by the parents or have the parents changed their mind without telling anyone? And once gain everything remains a bunch of secrets by the parents as to their plans for the next generation.

FIFTH CHALLENGE: What should be a fair selling price for a family farm? What is sweat equity worth by the adult farming children who worked helping their parents build their farming operation? If the parents decide to sell their farm (or part of the farm) to any of their children (particularly the adult children farming with them who have invested a lot of sweat equity), what is a “fair selling price” for this family farm property.

Here lies a real problem with many farm families. The largest share of the parents' financial investment for retirement is tied up in their farming operation. If the parents decide to sell their farm for "the highest market dollar", could a farming son/daughter ever afford to pay that high of a purchasing price. Not to mention trying to pay off the amount of debt that would be required to buy out the family farming operation from the other siblings.

Yet on the other side of this issue, the parents cannot afford to just give their farm operation away or sell at the lowest bargain price. Parents can expect to live a longer retirement and will need a secure financial future for their personal care for the many years ahead. Working out a fair selling debt price for the farm that provides the parents with a secure financial retirement but at a price that the children buying the farm can afford as a feasible financial investment is certainly no easy matter. One solution to consider is for the parents to help a farming son/daughter from the very start to acquire assets so that someday they have the net worth necessary to financially take over the farming operation.

SIXTH CHALLENGE: What if the parents are not willing to discuss the "real life what if issues" that are often involved with succession planning? Most families fail to address these issues since it is so much easier to pretend that this could never happen in our family.

No one wants to talk about the empty chair at the family table. But it will happen someday. To avoid potential misunderstandings as well as possible conflicts, these issues have to be resolved in order for a farm succession plan to be carried out. These issues are difficult to discuss as well as emotional to work through. **Remember that "what if" usually happens when you least expect it. So expect the unexpected and have a plan ready for when it does happen.** Get things discussed and put things in writing so everyone remembers. Stop making the assumption that these issues will find their own solution. Time seldom solves a problem.

A successful farm business succession plan for a family must accomplish one key objective. If something unexpected happened today to the farm business and/or within the family, does everyone in the family already know and understand what happens tomorrow for the farming business operation to survive and a family farming legacy to continue for the next generation. **That is the secret to having a successful farm business ownership plan in place for the next generation of family farm producers. The question is whether the farm family members themselves are willing to put forth the effort (both time and commitment) to achieve this accomplishment.**

SEVENTH CHALLENGE: What if the parents themselves cannot agree on their succession plan? This many times happens especially when the parents each have different favorites among their children. Mom and Dad are the starting point to this planning process. This is their farm, their family, and their estate. They worked their whole life to build and accomplish this. Now what are they going to do with it? **If the parents fail to reach agreement with each other and are unable to work through this succession process together, nothing will ever happen.** No farm ownership succession plan will ever be put in place.

Unfortunately, some parents will even pretend/ignore that these issues even exist in their family or take the approach that after I die I will not be there when the kids start to fight it out. So why care and worry now? Thus the parents often do nothing to put a plan of ownership succession in place.

EIGHTH CHALLENGE: Some adult children in the family may already feel that they are entitled. It is important for these adult children to understand that their parents actually owe them nothing. Parents do not owe their children a farm or even an inheritance. That is truly a gift of love and generosity by the parents if they decide to pass on their farm and/or their wealth to their children. These adult children must always respect the decisions being made by their parents even if they do not agree with those decisions. **This is the parents' estate, not the children's estate.** Parents have the right to divide up their estate according to their wishes. Hopefully this will be done in a fair and equitable manner for all the children in the family.

NINTH CHALLENGE: Greed has now become a factor in some farm families especially with the huge increase in farmland values in recent years. A generation ago the non-farming children who left the farm took the approach my brother/sister can have the farm, all the endless work, and all the debts and worry. Now they have taken on a new attitude. Know what this farm is now worth? Do you realize what we could sell this farm for? How much am I getting? **Be careful of the curse of “family wealth”.** This is one reason why many times lawyers become involved in settling a farm estate. **Wealth can eventually destroy family relationships and thus put an end to a family farming legacy.** There are too many sad examples of this situation in rural communities. This usually results in family members (especially siblings) no longer speaking to each other as well as carrying with them grudges/bitterness that can last a lifetime. Love can turn into hate within a family and family relationships are now destroyed.

TENTH CHALLENGE: Family members are simply not able to communicate together as a family. The family fails to have open and honest discussions with each other and with all the family members being involved. This results in misunderstandings, family conflicts, bitterness and resentment. Nothing positive is accomplished by that. Parents must sit down with all their adult children and begin these conversations. That is the starting point. And most importantly, each of the adult children must have the opportunity to express their feelings and reactions in an open and honest family conversation while everyone listens and understands to what is being shared.

ELEVENTH CHALLENGE: Do the parents actually have a VISION for the future of their farm and their family farming legacy? Parents must have a clear vision for the future of their farm and then be willing to share their hopes and dreams with their children (especially those who returned back to the family farm). Is there a plan in place to protect and preserve these hopes and dreams? Is the family willing to make that commitment to put a succession plan in place for the next generation and to continue their family farming legacy?

Parents are now living much longer lives. Many parents are now living into their 80's and 90's. If they are not willing to share ownership and/or not willing to give up management control of their farm or business, how does the next generation (their adult children) ever have an opportunity to take over? Does this limit their ability to build their own net worth? Some of these farming children could be in their 70's before they ever have a chance to own part of the family farm. Would their years of sweat equity ever be fully recognized and rewarded? Worse yet, some parents may even outlive their farming children. Now what happens? **This all goes back to the initial issue of not be willing to give up or share management control.** Control offers a sense of having power. Things will be done my way or else. Some individuals can never force themselves to let go of the controlling power that farm ownership provides. **Again the mistake of hanging on to too much for too long.**

Starting the Process for Farm Ownership Succession Planning

Parents have many questions regarding farm succession planning. Where do we start? How does this process even begin? How can our farm family succession plan be accomplished? Who carries out our plans and our wishes after our death?

Always remember that the parents themselves are the starting point. They must begin by discussing their hopes and dreams together. What is the ultimate goal they wish to accomplish in their lives? Keeping their farm in the family for the next generation? Insuring that their children always remain together as a loving and caring family (especially after their death)? Continuing a family farming legacy for their adult farming children? For their grandchildren?

Parents have to put their feelings/hopes/dreams into words. Start writing it down on paper. Draft out a plan. No matter how simple or brief, get something in writing to start this process. Once a plan is drafted, it can always be revised/updated/expanded. But you have to have something to start with. With nothing in writing, how can a succession plan ever be accomplished? Consequently, there is a lot of talking but never any results to show for it. This happens a lot in many farm family situations.

Now for the most important step in farm ownership succession planning. The parents need to put together a farm ownership management succession team to guide them through this succession planning process and to accomplish a plan for the next generation.

Farm families will need to have four representatives on their succession planning team: (1) their accountant or CPA; (2) their attorney; (3) their farm loan officer; and (4) their financial/estate planning specialist. These four representatives have the expertise and a wealth of experience to assist the family in developing and implementing their farm succession plan for the next generation. They can answer the questions and point out various options for the family members to consider before making any final decision.

Farm families need to take full advantage of having their own farm ownership succession management team. The benefits as well as the peace of mind of developing (and more importantly implementing) an ownership succession plan for passing on a family farm to the next generation far outweigh the time commitment involved as well as the costs/fees that will be incurred. **Continuing a family farming legacy and preserving a farming heritage for the next generation is priceless.**

Ironically, most parents actually avoid discussing these family issues and/or tackling these challenges of farm succession planning. There are just too many personal emotions involved. Some parents may ignore these issues entirely and just assume that their children will work it out later by themselves. Or even pretend that these issues do not exist. This only results in a lot of bitterness and potential feuding which can split a family apart for future generations, thus ending a family farming legacy that previous generations worked so hard to build and to accomplish. Consequently, the planning process never even starts and nothing gets accomplished.

It is important to have a strategic plan for ownership succession in place for the success of this next generation of farm producers. But there are some rather sticky as well as emotional issues to discuss among all family members involved. Always remember that avoiding these issues of business ownership succession within a family now could result in disastrous consequences later (especially for the next farming generation).

Summary and Some Final Thoughts to Consider

Parents must have a clear vision for the future of their family farm and business operation for the next generation. This vision becomes the blue print for developing and implementing their family ownership succession plan. Once this succession plan is drafted, it must be communicated and explained to all the adult children in the entire family so there are no misunderstandings as to the parents' wishes and hopes for the next generation. Most importantly, these adult children must ultimately respect the decisions which their parents have made. It is the parents' estate, not the children's estate. Too many times children have this personal feeling of entitlement (I deserve this. You owe this to me). That only causes tensions between the parents and their adult children.

Always remember that farms can actually be replaced but farm families cannot be replaced. No farm or farm business is ever worth the cost of losing a family (tearing a family apart and destroying relationships between family members). But this happens many times when attempting to pass on the farm to the next farming generation. Farm families are important. They represent our heritage and farming culture. Keep these issues in perspective. **And remember what is most important: FAMILY.**

A successful family business succession plan requires the entire family to communicate their feelings and expectations with each other. Keep in mind that openness and honesty build trust and respect in a family. Secrets only cause conflict and quickly destroy family relationships. Never underestimate the power of effective communications when continuing a family business legacy for the next generation and building stronger family relationships for the future.