

Can Everyone be Treated Equally?

The average age of Kansas farmers according to the last census of agriculture is 58. As the value of agricultural real estate and other assets increase it makes succession and estate planning more important than ever.

Estate planning, succession planning and bringing another generation into the operation ownership are critical for keeping the farm legacy intact. The pattern follows several life cycle phases. The beginning is the introduction phase, followed by the growth phase, maturity phase and finally the declining phase or divesting phase. Older operators with their businesses in the mature phase are more adverse to risk than they were earlier in their carriers. Without taking risks the business does not grow.

However, with a successor on board the risk adverse senior generation is more likely to accept continued risks and grow the operation, which adds to the net worth of the retiring generation during what would have been the declining phase.

Ideally operators should bring the next generation into the business ownership and management during the growth phase or early maturity stage where the enthusiasm and willingness to accept risk often sparks new growth.

This situation of growth in Dad and Mom's estate in many cases is the direct result of a successor providing expertise towards the farm.

Families should consider accounting for the involvement of potential heirs in the operation and the value they provided to the parents financial growth.

An example:

Jimmy returned to the operation to work full time 20 years ago. His two siblings each found careers elsewhere. At that time 20 years ago the farm was worth \$300,000. Split three ways that would have been \$100k to Jimmy and each of his two sisters. In the years since then the ranch assets have increased and are now worth \$3,300,000. Does this mean each sibling receives \$1.1 Million?

It is suggested that the estate plan be tailored to compensate Jimmy for his contribution to the farms growth. In this case the parents decided Jimmy was responsible for 50% of the growth in the past 20 years with the parents responsible for the other half.

In calculating their plan first they considered what the net worth was when Jimmy came into the business (\$100,000) plus 50% of the \$3 million in growth over the past 20 years (\$1,500,000) and then 1/3rd of the other half of the 20 year growth in the parent's estate (\$500,000)

Jimmy ends up with \$2,100,000 of the total estate or 70% of the value allowing him to have adequate equity to buy out his sisters should they desire to sell at some point.

Other tools available to compensate off farm heirs include life insurance, shared land ownership with long term lease agreements and long term buyout options.

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