Practical Farmers of Iowa

Presents

FARM TRANSFER
Workshops

By

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Next Generation Ag Advocates
An Introduction to Who We Are

Managing

YOUR FARM

By Betsy Fronen, Executive Editor

like they are, and I get offed another 1,000 acres, I
am not sure I would want to
The future of the family
farm is at stake in 2018, says
Schartt. “We have to build
operations at the scale needed
to make a comfortable living,
otherwise why would kids
come back in this tough
environment?”

2 Don’t expect the process
to be easy.
“IT used to be simple,” says
Muehler. “If you wanted to
rent your farm, you went
to the neighbor and shook
his hand. It’s not possible to
do that anymore. Next Gen
Ag does the profiling for all
the producers that are out
there for a particular piece
of ground.”
Farmland is in Demand

Farmland has increased in popularity and more and more institutional funds, pension funds and other buying groups want to own some of it.

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Dirt – “they’re not making any more of it”

Between 1992 and 2012 almost 31 million acres of agricultural land was lost to development.

This is equivalent to losing all of the state of Illinois or Iowa’s cropland acres.

American Soil

'American Soil' is Increasingly Foreign Owned

“Nearly 30 million acres of U.S. farmland are held by foreign investors. That number has doubled in the past two decades”
Transition in Production Agriculture

Recent Example

- 47 bids from 5 states (130 counties)
- 230 mile radius
- 3 ½ hour trip by car (1-way)
- Winning bid 85 miles or 3 counties away

Consolidation in Rural America

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Consolidation in Agriculture

Syngenta Legacy Brands Family Tree

Consolidation in Agriculture

Seed & Chem Industry

Livestock Industry


THE BIG 6 (2016)

Consolidation in Agriculture

Concentration Among Four Companies

Higher than 40% = Non-competitive!
Livestock Industry

Row Crop Industry
Transition in Production Agriculture
Transitioning Responsibly

Currently Estimated:
• 86,000 farms in Iowa
• 800+ farmers per county
• 72,000 farms in Illinois
• 700+ farmers per county

Do we really need to go 85 miles away to find a qualified producer?

Do you truly know every producer within a 5 or 10 mile radius of your farm?

Future of Agriculture

• Why do farmers farm?
• Why do landowners own land?
• Why would you ever stop?
• What happens then?
  • Estate Shrinkage…
  • Farm Business Succession…
### The Transition Problem

<table>
<thead>
<tr>
<th>Iowa</th>
<th>Illinois</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Number of acres in Iowa:</strong></td>
<td><strong>Number of acres in Illinois:</strong></td>
</tr>
<tr>
<td>• 31,500,000 acres</td>
<td>• 27,000,000 acres</td>
</tr>
<tr>
<td><strong>The average price/acre is:</strong></td>
<td><strong>The average price/acre is:</strong></td>
</tr>
<tr>
<td><strong>The value of Agriculture in Iowa is:</strong></td>
<td><strong>The value of Agriculture in Illinois is:</strong></td>
</tr>
<tr>
<td>• $228,816,000,000 (land in 2018 @ $7,264/a)</td>
<td>• $221,400,000,000 (land in 2018 @ $8,200/a)</td>
</tr>
<tr>
<td>• $274,554,000,000 (land in 2013 @ $8,716/a)</td>
<td>• $248,400,000,000 (land in 2013 @ $9,200/a)</td>
</tr>
</tbody>
</table>

### The Age group who owns the land:


### Perfect Storm in Farm Transition

1. **Age of Land Owner**
   - * Is the oldest in history: 60% over age 65 and 35% over the age 75
2. **All-time high land values**
   - * Iowa’s state average is $7,264/acre  * Illinois’s state average is $8,200/acre
3. **Cash Flow to acquire land is outside of long term profitability**
   - * Subsidization and Economies-of-Scale required to compete
4. **Farm is a legacy asset** - Philosopher Rene Descartes  "I farm therefore I am”
5. **Control**
   - * Difficult to surrender--required to transfer
6. **Advice from specialists**
   - * Limited by location, experience and incentive
7. **Low interest rates will change in the future**
8. **Longevity of land owner**
   - * “Sandwich generation” may lose ownership opportunity
9. **Family dynamics**
   - * Fair vs. Equal
   - * Performance based pay vs. Inheritance based pay
10. **Deferral Mentality**
    - * Susceptible to emotional decision-making…Greed, Hope, Fear

### SOURCE:
- Iowa State University Extension and National Agricultural Statistics Service (2003-2018)
Perfect Storm in Farm Transition

A new element but perhaps the most important:

11.) Transition of land to be operated by those outside the family

* 68% of farmers do not have children who farm
* 51% of farmers have not identified a successor, but hope to find one

Iowa & Illinois Farmer Today:

“The real macro-economic issue in farm transition may not be transition within the family, but a transition plan for families who do not have a farm heir to transition to.”

-Steve Bohr, Farm Transition Specialist

Article: Perfect Storm Looms in Agriculture Again – April 2019

Source: 2017 ISU Tenure Study & USDA

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Next Generation Ag Advocates

Century Match Program

“For decades it has been easy for a retiring farmer or landowner to find an operator for their farm. However, the pool of farmers that operate the land is now smaller while the group that owns it is growing larger and transitioning at a more rapid pace.”

Glen Moeller – Retired farmer and Iowa Landowner

Connecting the next generation of Landowners to the next generation of Producers

Landowners
I’m looking for a new potential tenant for my farm due to retirement or other transition in the future.

I am a Landowner!

Producers
I am a beginning farmer or an existing farmer interested in expanding my operation.

I am a Producer!

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Find A Farmer connects landowners and land seekers to help preserve family farms.

Are you a beginning farmer looking for farmland to start or expand your operation? Are you a landowner interested in selling or leasing your land to someone who shares your vision for the future? FindAFarmer.net was created by Practical Farmers of Iowa to help maintain family farms and vibrant rural communities by facilitating the transfer of land from one generation to the next.

Our beginning farmer network has consistently cited land access as a main barrier to starting their own operation. Considering the aging population of landowners across Iowa and the Midwest, this Find A Farmer land-matching tool has great potential to help with the coming land transition.

The website allows for a comfortable place to start anonymous conversations with land-seekers or landowners that meet your interests, criteria, and location. Search for users in a particular area that fit your specifications and send them a message to begin the discussion.

Did we mention Find A Farmer is FREE and available for anyone with internet access? No membership is required.

FindAFarmer.net

1. Matching & Mentoring Programs
2. Leasing Program
3. Advisory Program
4. Strategies Across Families

1. Succession Planning
2. Estate Planning
3. Family Reviews
4. Strategies Within Families

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the Next Generation of Landowners

25% of land is owned by owners 55 to 64 years old
26% of land is owned by owners 65 to 74 years old
34% of land is owned by owners 75 years or older

85% is owned by those age 55 and older

the Next Generation of Producers

68% of farmers have no children who currently farm
51% of farmers have not identified a successor
For each farmer under the age 35…there are 6 over age 65

“Iowa’s future depends on finding more young farmers” – Craig Hill, President Iowa Farm Bureau

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Mentoring Program

“This perhaps is the closest opportunity we can give young & aspiring farmers that resembles the opportunities our grandfathers had before us.”

Steve Bohr – Farmer and Farm Transition Specialist

“How can we get our foot in the door to purchase or lease farmland?” – Young Producers

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Perfect Storm in Farm Transition
Farm Leasing

A new element but perhaps the most important:

11.) Transition of land to be operated by those outside the family

- 80% of U.S. farmland will be owned & controlled by those that don’t operate it themselves
- 53% of Iowa farms are rented (16 million acres)
  - In some counties, upwards of 70% of farms are rented
- 43% of Illinois farms are rented as of 2012 (12 million acres)
- 34% of Iowa land is owned by those with no farm experience (10 million acres)

“This will put a greater emphasis on landlord/tenant relationships. Solid long-term rental relationships are going to be an important factor for the survival for the next generation of producers.”

-Steve Bohr, Farm Transition Specialist

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Source: USDA & ISU Tenure Study

Farm Leasing
Recent Example

• Option to rent 744 acres at $285/acre for 3 years

Whopper Cash Rent Opportunity?

FARM LAND AUCTION: FLOYD COUNTY, IOWA, SALE INCLUDES WHOPPER CASH-RENT OPPORTUNITY
SUCCESSFUL BIDDER OF 80-ACRE TRACT GETS FIRST DIBS ON 744-ACRE CASH-RENT OPPORTUNITY.

By Bill Spiegel
9/30/2019

Every farmland auction is unique, and the sale of a tract in Floyd County, Iowa, on September 17 was one of the more unique actions I’ve ever seen. The buyer of this property also had the opportunity to cash-rent more than 740 acres for three years.

More on that in a moment.

Up for sale was 80 acres of good-quality land, 3 miles northwest of Marble Rock in northeast Iowa. The tract has 74.7 acres of cropland, mostly Sand and Waukee loam soil with a Corn Suitability Rating of
Farm Leasing
Observations from the Industry

1. “The most common method of establishing cash rent is to set a rate similar to what other people are charging in the area.” - ISU Farmland Leasing Booklet July 2019

2. 3 approaches in establishing the terms of a rental agreement:
   a) Feasible: What’s my tenant able to pay?
   b) Equitable: What’s fair to the both of us?
   c) Market Value: What are the neighbors willing to pay?

   An increase in rent auctions & online venues for renting land.

3. Most land rents are negotiated well ahead of when the crop is harvested.

4. “Fair Income” has changed as it relates to land ownership & land value trends.

5. Farmland leasing trends do not correlate well with an increased focus on Conservation.

   “Coffee Shop Talk”
   “Profitable”
   “Sustainable”
   “Subsidization”
   “Consolidation”
   “Timing Issue”
   “What is Fair?”
   “Incentivize”

Farm Leasing
Recent Example

• 250-acre farm in east-central Iowa
• Landowner saw an Internet company advertising on Facebook & billboards in area
• Company offered to lease the farm from landowner and guaranteed $321/acre for 3 years all paid upfront within 7 days
• Company promised renter would come from no more than 50 miles away

Landowner’s Question: “How are they able to do this?”
# Farm Leasing

## Spring 2019 Example - Corn

<table>
<thead>
<tr>
<th></th>
<th>May 2019</th>
<th>2 weeks later</th>
<th>August 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2019 Current Price</strong></td>
<td>$3.60</td>
<td>$4.00</td>
<td>$3.40</td>
</tr>
<tr>
<td><strong>2018 Yields</strong></td>
<td>x 210</td>
<td>x 210</td>
<td>x 210</td>
</tr>
<tr>
<td><strong>Gross Revenue</strong></td>
<td>$755</td>
<td>$840</td>
<td>$715</td>
</tr>
<tr>
<td><strong>Less Crop Expenses &amp; Non-land costs</strong></td>
<td>($445)</td>
<td>($455)</td>
<td>($445)</td>
</tr>
<tr>
<td><strong>Less Operator Return for Time &amp; Labor</strong></td>
<td>($50)</td>
<td>($50)</td>
<td>($50)</td>
</tr>
<tr>
<td><strong>Break-Even (Before Rent)</strong></td>
<td>$260</td>
<td>$335</td>
<td>$220 $321?</td>
</tr>
</tbody>
</table>

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![Emotions Timeline](chart.png)

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The market will always move to favor one party to the lease or the other.

Source: Next Gen Ag

Cycles in Agriculture have not changed, but farm leasing trends have…

Chart Source: Unknown
Crop Share Arrangements
Low in #'s, but still have a place

- Tax reasons
  - Active Participation required for C-Corp to sub-chapter S-Corp
  - Retirement Transition Tool
- Iowa Beginning Farmer Programs
  - 5% State Income Tax Credit for Cash Rent
  - 15% State Income Tax Credit for Crop Share & Flex Lease Payments
- Modified Crop Share Arrangements
  - % of crop equivalent to typical land rent
  - % of crop equivalent to custom hire fees

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Fair Income

50% say holding onto the land for long term, family, or sentimental reasons as their reason for owning land.

Less than 7% plan to sell to someone outside the family

There's a growing disconnect between farm profit margins and what people will pay for ground

Source: 2017 ISU Tenure Study, USDA & Illinois FarmDoc

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Land Stewardship

Most conservation practices are long term, not year to year
Landowner-Producer relationships

What’s Important to You?

Landowners:

What are your expectations in a prospective tenant?

1. Stewardship & Care for the Land
2. Receive a Fair Income
3. All the Little Things…

Producers:

What are you looking for in working with a landowner?

1. A long-term relationship
2. They care for the land
3. Understanding of fair lease terms

A farm lease is the foundation of every landowner-producer relationship

Does your lease truly incentivize the factors that are important to you?

Farm Leasing

Our Approach

<table>
<thead>
<tr>
<th></th>
<th>Corn</th>
<th>Soybeans</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020 Projected Price</td>
<td>$3.75</td>
<td>$9.00</td>
</tr>
<tr>
<td>Average Yields (APH)</td>
<td>x 195</td>
<td>x 60</td>
</tr>
<tr>
<td>Gross Revenue</td>
<td>$730</td>
<td>$540</td>
</tr>
<tr>
<td>Less Crop Expenses &amp; Non-land costs</td>
<td>($450)</td>
<td>($270)</td>
</tr>
<tr>
<td>Less Operator Return for Time &amp; Labor</td>
<td>($50)</td>
<td>($50)</td>
</tr>
<tr>
<td>Break-Even (Before Rent)</td>
<td>$230</td>
<td>$220</td>
</tr>
</tbody>
</table>

Let’s use a more “flexible” lease structure with all the same advantages of a fixed cash rent lease, plus more…
the Flexible Cash Rent Lease

What % of cash rent leases in Iowa are now flexible leases?

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Landowner's Rent with a Flexible Lease

Average Calendar Year Price

<table>
<thead>
<tr>
<th>Actual Yield</th>
<th>$2.50</th>
<th>$3.00</th>
<th>$3.50</th>
<th>$4.00</th>
<th>$4.50</th>
<th>$5.00</th>
<th>$5.50</th>
</tr>
</thead>
<tbody>
<tr>
<td>260</td>
<td>$225</td>
<td>$251</td>
<td>$294</td>
<td>$337</td>
<td>$380</td>
<td>$423</td>
<td>$466</td>
</tr>
<tr>
<td>240</td>
<td>$225</td>
<td>$232</td>
<td>$271</td>
<td>$311</td>
<td>$350</td>
<td>$390</td>
<td>$430</td>
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<tr>
<td>220</td>
<td>$225</td>
<td>$225</td>
<td>$248</td>
<td>$284</td>
<td>$321</td>
<td>$357</td>
<td>$393</td>
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<td>200</td>
<td>$225</td>
<td>$225</td>
<td>$225</td>
<td>$258</td>
<td>$291</td>
<td>$324</td>
<td>$357</td>
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<tr>
<td>185</td>
<td>$225</td>
<td>$225</td>
<td>$225</td>
<td>$238</td>
<td>$269</td>
<td>$299</td>
<td>$330</td>
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<tr>
<td>170</td>
<td>$225</td>
<td>$225</td>
<td>$225</td>
<td>$225</td>
<td>$246</td>
<td>$275</td>
<td>$303</td>
</tr>
</tbody>
</table>

Assumptions: $225/acre Base Rent + 33% Share in Profits over $700/acre B/E Revenue

Source: 2017 ISU Tenure Study & Illinois Lease Trends Report
## Fixed Rent vs Flex Rents

### Corn

<table>
<thead>
<tr>
<th>Year</th>
<th>Fixed Rent</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>225</td>
</tr>
<tr>
<td>2010</td>
<td>240</td>
</tr>
<tr>
<td>2011</td>
<td>300</td>
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<tr>
<td>2012</td>
<td>350</td>
</tr>
<tr>
<td>2013</td>
<td>400</td>
</tr>
<tr>
<td>2014</td>
<td>400</td>
</tr>
<tr>
<td>2015</td>
<td>375</td>
</tr>
<tr>
<td>2016</td>
<td>325</td>
</tr>
<tr>
<td>2017</td>
<td>300</td>
</tr>
<tr>
<td>2018</td>
<td>300</td>
</tr>
</tbody>
</table>

**10 Yr Avg**: 321

### Flex Lease

<table>
<thead>
<tr>
<th>Base Rent</th>
<th>Bonus</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>200</td>
<td>0</td>
<td>200</td>
</tr>
<tr>
<td>200</td>
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<td>200</td>
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<td>250</td>
<td>68</td>
<td>318</td>
</tr>
<tr>
<td><strong>262</strong></td>
<td></td>
<td><strong>335</strong></td>
</tr>
</tbody>
</table>

### Soybeans

<table>
<thead>
<tr>
<th>Year</th>
<th>Fixed Rent</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>225</td>
</tr>
<tr>
<td>2010</td>
<td>240</td>
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<tr>
<td>2011</td>
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<td>2015</td>
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<td>2016</td>
<td>325</td>
</tr>
<tr>
<td>2017</td>
<td>300</td>
</tr>
<tr>
<td>2018</td>
<td>300</td>
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</table>

**10 Yr Avg**: 321

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<table>
<thead>
<tr>
<th>Base Rent</th>
<th>Bonus</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>200</td>
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<td>200</td>
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<td>250</td>
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<td>335</td>
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<tr>
<td><strong>262</strong></td>
<td></td>
<td><strong>352</strong></td>
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</tbody>
</table>
Fixed Rent vs Flex

www.nextgenag.us

Corn Prices

$3.00
$3.50
$4.00
$4.50
$5.00
$5.50
$6.00
$6.50
$7.00


Fixed Rent

“Feasible”

“Equitable”

&

“Sustainable”

Flex Rent

www.nextgenag.us

Source: Next Gen Ag

the Flexible Cash Rent Lease

Next Generation Ag Advocates

Producer's Profit with a Flexible Lease

Actual Selling Price

<table>
<thead>
<tr>
<th>$2.50</th>
<th>$3.00</th>
<th>$3.50</th>
<th>$4.00</th>
<th>$4.50</th>
<th>$5.00</th>
<th>$5.50</th>
</tr>
</thead>
<tbody>
<tr>
<td>260</td>
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<td>$54</td>
<td>$141</td>
<td>$228</td>
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<td>$402</td>
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<tr>
<td>240</td>
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<td>$255</td>
<td>$335</td>
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<td>$0</td>
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<td>$134</td>
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<td>185</td>
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<td>$0</td>
<td>$27</td>
<td>$89</td>
<td>$151</td>
</tr>
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<td>170</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$44</td>
<td>$101</td>
</tr>
</tbody>
</table>

Assumptions: $225 Base Rent + Share 33% of Profits over $700 B/E Revenue

www.nextgenag.us

Source: Next Gen Ag
the Flexible Cash Rent Lease
with a base rent

- Modern day alternative to the traditional crop share & cash rent leases, but with added benefits:
  - There is still a guaranteed level of income as with a traditional cash lease
  - The upside is left open for the landowner to share in profits when the tenant experiences a profitable year (more flexible)
    - Landowner will capture greater returns in strong yield & price environments
  - There is still no production or price risk for the landowner
  - Meets all the landowner's goals (land stewardship, fair income, all the little things)
  - Producers regard this as a more mutually fair arrangement
    - Assuming the “base” rent is set at a fair level
    - Meets the producer's #1 goal (supports a longer-term relationship)
  - Once established, much easier to maintain & establish what’s fair year to year
  - It turns into a more enjoyable landlord-tenant relationship

Transitioning the Family Farm…
& the Family Farm Business
to the Next Generation

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www.farmestate.com
Establishing Goals

What are the priorities for you and your family farm?

___ Family Unity
___ Keep Farm Together
___ Treat Everyone Equal

Which one would you pick as #1?

5 W’s of Business Succession

1.) Identify Ownership and Decision-Makers (Who)
   * Some assets need to be owned by operators/decision-makers
   * Business heirs should own operating assets
   * Other assets could be owned by anyone
     * Land could be owned by all heirs—Lease and purchase options

2.) Identify and Divide Assets (What—Management, Leadership, Ownership, Labor)
   * Short and Intermediate-term assets
   * Machinery, Grain and Livestock (Corporation, LLC or Individual)
   * Long-term assets
     * Real Estate (Individual, LLC or Corporation)

3.) Identify Timeframe (Where and When)
   * Consciously decide where and when the transfer should occur
     * At Death (Wills or Trusts)
     * Living (Sale contracts, Gifting, Corporation or LLC agreements)
       * Leadership opportunity—Replace yourself

4.) Communicate your plan (Why)
   * In a business meeting
   * In your estate planning documents
   * Rumors and conjecture

5.) Take Action (How)—Navigate through the perfect storm
**Estate & Farm Succession Planning Pieces**

**Farm Financial Strategies, Inc.**

*Keeping the farm in the family since 1993*

**Farm**—Continuation of Farm
**Financial**—Minimize Shrinkage
**Strategies**—Proactive Strategies

---

**Asset Ownership**

Ownership Determines Distribution—Distribution Determines Shrinkage

Goal: Coordinate distribution to minimize shrinkage

- Sole Ownership (Will or Intestate)
- Tenants in Common (Will or Intestate)
- Joint tenancy (To joint tenant)
- Intervivos trust (Distributed by trust)
- Corporation (Corporate agreement)
- Limited partnership/LLC (Agreement)
- Retirement accounts (Beneficiary)
- Life insurance (Beneficiary)
- Annuity (Beneficiary)
Ownership Issues:

• **Joint Tenancy vs. Tenants in Common**

• **Living (Revocable) Trust vs. Irrevocable Trusts**
  • Estate Administration Issues
  • Cost, Time Delay and Privacy

• **C-Corporation**
  • 2 Levels of Taxation—Difficult to Dissolve without Tax

• **S-Corporation**
  • Pass-through—One Level of Taxation
  • Some will convert from a C-Corporation to S-Corporation
    • Built-In Gains—holding period
    • Passive Income Rules

Ownership Issues:

• **IRA’s and Roth IRA’s**
  • Primary and Contingent Beneficiary
  • Per Stirpes vs. Per Capita
  • Stretch IRA

• **Life Insurance**
  • Income Tax-Free—Not Estate Tax-Free
    • Beneficiary—Primary and Contingent (Controls Liquidity)
      • Estate
      • Owner—Primary and Contingent (Controls Beneficiary)
      • Contract “Triangle”—Owner, Beneficiary and Insured
Basis “Step Up”

- Adjusted Basis at Death of Owner
  - Occurs because an estate is subject to Federal Estate Tax
  - Real Estate
    - Dirt
    - Fertility
    - Fence and Tile
    - Buildings and Improvements
  - Machinery, Grain and Livestock
  - Corporation Shares—Not assets inside of Corporation
  - May not always be to your advantage
    - Could get a basis step “down”
    - Incentive to sell assets (tax-free)
    - Encourages deferral mentality to hold assets until death

Basis Step-Up—600 acres valued at $7,000,000

- Land, 600 acres, $5,695,000.00
- Improved Buildings/Bins, $300,000.00
- Residence, $150,000.00
- Fertility, $600,000.00
- Fence, $5,000.00
- Well, $10,000.00
- Tile, $240,000.00
"Unified" Credit—2002-2019

<table>
<thead>
<tr>
<th>Year</th>
<th>Federal Estate Credit Equivalency</th>
<th>Credit At Death</th>
<th>EITHER OR</th>
<th>Credit While Alive (Gift)</th>
<th>Max. Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002-03</td>
<td>$345,800</td>
<td>$1,000,000</td>
<td></td>
<td>$1,000,000</td>
<td>50%</td>
</tr>
<tr>
<td>2004-05</td>
<td>$555,800</td>
<td>$1,500,000</td>
<td></td>
<td>$1,000,000</td>
<td>48%</td>
</tr>
<tr>
<td>2006-08</td>
<td>$780,800</td>
<td>$2,000,000</td>
<td></td>
<td>$1,000,000</td>
<td>46%</td>
</tr>
<tr>
<td>2009</td>
<td>$1,455,800</td>
<td>$3,500,000</td>
<td></td>
<td>$1,000,000</td>
<td>35%</td>
</tr>
<tr>
<td>2010</td>
<td>Unlimited</td>
<td>NA</td>
<td></td>
<td>$1,000,000</td>
<td>35%</td>
</tr>
<tr>
<td>2011</td>
<td>$1,730,800</td>
<td>$5,000,000</td>
<td></td>
<td>$5,000,000</td>
<td>35%</td>
</tr>
<tr>
<td>2012</td>
<td>$1,772,800</td>
<td>$5,120,000</td>
<td></td>
<td>$5,120,000</td>
<td>35%</td>
</tr>
</tbody>
</table>

**Scheduled to Sunset to $1,000,000 Exemption Equivalent**

<table>
<thead>
<tr>
<th>Year</th>
<th>Credit At Death</th>
<th>Credit While Alive (Gift)</th>
<th>Max. Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>$2,117,800</td>
<td>$5,430,000</td>
<td>40%</td>
</tr>
<tr>
<td>2016</td>
<td>$2,125,800</td>
<td>$5,450,000</td>
<td>40%</td>
</tr>
<tr>
<td>2017</td>
<td>$2,141,800</td>
<td>$5,490,000</td>
<td>40%</td>
</tr>
<tr>
<td>2018</td>
<td>$2,185,800</td>
<td>$5,600,000</td>
<td>40%</td>
</tr>
<tr>
<td>2018</td>
<td>$4,417,800</td>
<td>$11,180,000</td>
<td>40%</td>
</tr>
<tr>
<td>2019</td>
<td>$5,160,000</td>
<td>$11,400,000</td>
<td>40%</td>
</tr>
</tbody>
</table>

**Scheduled to Sunset to $5,000,000 in 2026 (Adjusted for Inflation)**

**Portability—Carry-Over Unused Credit (DSUE)**

**Advantages**—If fail to plan, may reactively get a 2nd tax exemption
- Simple

**Disadvantages**—What are the odds it could cost you tax?
- Does not inflate
- Loss of 2032A (Special Use) at 1st death
- 2nd Marriage--Could receive marital share (typically 1/3)
  - Lose 1st spouse carry-over if 2nd spouse dies
- Creditor Protection
- Law can change
- Lost opportunity to sprinkle (deflect) income after 1st death
- Push decisions onto surviving spouse (unnecessary stress)
- Lost opportunity for undivided discounts
- Requires timely 706 (additional cost and time delay)
### Estate Tax Strategies—2019

- **“Unified” Credit Property—Use Tax Credit**
- **Marital Deduction Property—File 706 for DSUE**
  - Deceased Spouse Unused Exclusion—Portability

<table>
<thead>
<tr>
<th>$22,800,000</th>
<th>$22,800,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>100% to Spouse</td>
<td>100% to Spouse</td>
</tr>
<tr>
<td>$22,800,000</td>
<td>$22,800,000</td>
</tr>
</tbody>
</table>

**Maximum Marital Deduction**

- Estate Tax (2nd Death) = $0
- Estate Tax (2nd Death) = $4,417,800
  - * If do not file for DSUE (Deceased Spouse Unused Exclusion)—Law changes—Remarriage/spouse dies

**Advantages**

- Tax (Inflation)
- 2032A
- Discounts
- Reduce Income

**Maximum Unified Credit**

- Probate
- 2nd Marriage
- NH
- Management

Income to spouse/family
Farm continuation options
Creditor protection to age ??

### Farm Succession Options...

#### 2 Types of Plans

**A)** Farm Assets to Farm Heir—Cash to Non-Farm Heirs
- Bank Loan
- Contract
- Life Insurance/Other Assets

**B)** Farm Assets to Multiple Heirs—Lease and Purchase Options
- Divide Land Base—Can you afford to divide your base?
  - What will your competition do?
  - Establish an entity with rules (operating agreement)
  - Avoid undivided interests in real estate
  - Partition Act
**Sale Contract**

260 Acre Family Farm

- **FMV**: $10,000/acre
- **Cost Basis**: $1,000/acre
- **$5,000/acre Sale Price**
- **$220/acre Pmt**
- **$5,000/acre Discount = Gift**
- **Capital Gain**: $5,000/acre

---

**Long-Term Capital Gains & Qualified Dividend Rates: Current vs Final GOP Tax Plan**

<table>
<thead>
<tr>
<th>Taxable Income (Married Filing Jointly)</th>
<th>Ordinary Income</th>
<th>Cap Gains/Qual Dividends</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0</td>
<td>12%</td>
<td>0%</td>
</tr>
<tr>
<td>$100,000</td>
<td>22%</td>
<td>15%</td>
</tr>
<tr>
<td>$200,000</td>
<td>24%</td>
<td>18.8%</td>
</tr>
<tr>
<td>$300,000</td>
<td>24%</td>
<td>18.8%</td>
</tr>
<tr>
<td>$400,000</td>
<td>32%</td>
<td>18.8%</td>
</tr>
<tr>
<td>$500,000</td>
<td>35%</td>
<td>23.8%</td>
</tr>
<tr>
<td>$600,000</td>
<td>35%</td>
<td>23.8%</td>
</tr>
<tr>
<td>$700,000</td>
<td>37%</td>
<td>23.8%</td>
</tr>
</tbody>
</table>

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**Special Use Valuation—2032A**

- Reduced valuation based on income producing ability
  - 5 year cash rent divided by applicable factor
  - Business interest must be 50% of decedent’s gross estate
  - **Value to qualified heir--50% of decedent’s gross estate**
  - **Deceased must own/operate 5 of 8 years prior to death**
  - Qualified Heir must own/operate 5 of 8 years after death
  - Qualified Heir can sell only to another Qualified Heir for 10 years
  - If Qualified Heir doesn’t comply…family pays back taxes
  - Creates necessity for a proactive written and funded strategy

- Example of $10,000/acre land
  - 5 year average cash rent of $250 (after property tax)
  - Applicable factor .0468 (AgriBank FCB)
  - $250/.0468 = $5,342/acre
  - Discount may not exceed $1,150,000 (2019)

**LLC or FLP (Entity)**

Keep land together as a unit if transfer to more than farm heirs?

- Centralized management
- Ability to gift
  - $15,000 annual AND/OR $11,400,000 lifetime exclusion
- Deflect pro-rata income after gift is made (future years)
- Discount—minority interest and lack of control/market
- Lease options for farm heirs—ISU Extension Average
- Purchase options for all heirs
  - “Put” option—20% discount, 20% down, 20 year contract
  - “Call” option—40% discount, 0% down, 40 year contract
- Train heirs to retain a long-term asset
- Super Majority Vote to change agreement--85%
- Retain purchasing power
- Shift income from Schedule F to Schedule E
# LLC and FLP—Gifting Strategies

## Cartwright Family Farms, LLC

<table>
<thead>
<tr>
<th>Assets/Liabilities</th>
<th>Value</th>
<th>541 acres</th>
<th>Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>232a Home Farm @ $8,500</td>
<td>$1,972,000.00</td>
<td>$13,525.00</td>
<td></td>
</tr>
<tr>
<td>152a West Farm @ $10,000</td>
<td>$1,500,000.00</td>
<td>$0.00</td>
<td></td>
</tr>
<tr>
<td>86a Smith Farm @ $8,500</td>
<td>$660,000.00</td>
<td>$0.00</td>
<td></td>
</tr>
<tr>
<td>71a South Farm @ $9,500</td>
<td>$674,500.00</td>
<td>$0.00</td>
<td></td>
</tr>
<tr>
<td>Asset</td>
<td>$0.00</td>
<td>$0.00</td>
<td></td>
</tr>
<tr>
<td>Debt</td>
<td>$0.00</td>
<td>$0.00</td>
<td></td>
</tr>
<tr>
<td>Debt</td>
<td>$0.00</td>
<td>$13,525.00</td>
<td></td>
</tr>
</tbody>
</table>

**Totals Assets/Liabilities for LLC**

- **Value**: $4,846,500.00
- **Income**: $100,000.00

## Ownership

<table>
<thead>
<tr>
<th>Ownership</th>
<th>Units</th>
<th>%</th>
<th>Value</th>
<th>Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ben</td>
<td>47.00</td>
<td>47.00%</td>
<td>$2,277,855.00</td>
<td>$47,000.00</td>
</tr>
<tr>
<td>Mother's Trust (Deceased—number 1, 2 and 3)</td>
<td>47.00</td>
<td>47.00%</td>
<td>$2,277,855.00</td>
<td>$47,000.00</td>
</tr>
<tr>
<td>Hoss</td>
<td>2.00</td>
<td>2.00%</td>
<td>$96,930.00</td>
<td>$2,000.00</td>
</tr>
<tr>
<td>Adam</td>
<td>2.00</td>
<td>2.00%</td>
<td>$96,930.00</td>
<td>$2,000.00</td>
</tr>
<tr>
<td>Little Joe</td>
<td>2.00</td>
<td>2.00%</td>
<td>$96,930.00</td>
<td>$2,000.00</td>
</tr>
</tbody>
</table>

**Total Shares for LLC**

- **Value**: $4,846,500.00
- **Income**: $100,000.00

---

**Estate Reduction Possibilities**

- Gift of 6% to 3 Children—$290,790
- Potential (30%) Estate Discount—$1,366,713

**Note**: This example is hypothetical only and do not represent any one particular scenario.