

INAgLaw 2020
Estate and Succession Planning Program

Succession Trends for Farm Operations
without a Current Successor

Adam Kline
Bose McKinney & Evans, LLP

July 22, 2020

BOSE
MEANS BUSINESS™

BOSE
MCKINNEY
& EVANS LLP
ATTORNEYS AT LAW

1

Speaker Introduction

Adam Kline

- Agribusiness, Business Succession, and Real Estate Attorney at Bose McKinney & Evans LLP.
- Actively engaged with his 10,000-acre family farm in Hartford City, Indiana
- Principle at Heartland Harvest Farms and Heartland Harvest Processing
- **Contact info:**
akline@boselaw.com
(317) 684-5319
@adamjameskline (Twitter)



BOSE
MEANS BUSINESS™

BOSE
MCKINNEY
& EVANS LLP
ATTORNEYS AT LAW

2

Today's Topics







BOSE
MEANS BUSINESS™

BOSE
MCKINNEY
& EVANS LLP
ATTORNEYS AT LAW

3

Auction



Benefits

- Fast
- Competent Companies
- Carrying Costs

Drawbacks

- Business Continuity
- Immediate CG Tax Bill

BOSE MEANS BUSINESS™






4

Estate Planning with Off-Farm Heirs

- Scenario: Will / trust transfers all assets at death.
Typically goes to:
 - Surviving spouse, or
 - Off-farm children
- Commonly: A farmer gets in this position because:
 - They couldn't find an adequate successor
 - Didn't want to think about it
 - Ran out of time

BOSE MEANS BUSINESS™



5

Estate Planning with Off-Farm Heirs (continued)

- Issues Presented:
 - Barn full of (typically older) equipment
 - No capable sweat-labor
 - Possibility of in-fighting between heirs
- Strategies:
 - Sell equipment
 - Wrap up ongoing operations
 - Lease the land, grain storage, sheds
 - Livestock transition

*Farm managers are an option here.

BOSE MEANS BUSINESS™



6

Farm Merger: Basic Concepts

Merger: One farm absorbs the ongoing operations of another farm. Typically a retiring farmer looks to:

- Work with the successor farm for a number of years at reduced hours
- Retain and rent owned land, bins, sheds to successor farm
- Meet with landlords:
 - Advise of business combination due to retirement / Recommend the new farm
 - Assign or transfer farm leases
- Phase out equipment

BOSE
MARINNEY
& EVANS LLP
ATTORNEYS AT LAW

BOSE MEANS BUSINESS™

7

Farm Merger: Benefits

- Flexibility in phase out
- Retiring farmer potential income increase
- Business continues (as part of another farm)
- Tax benefits
- Economies of scale

BOSE
MARINNEY
& EVANS LLP
ATTORNEYS AT LAW

BOSE MEANS BUSINESS™

8

Farm Merger: Drawbacks

- Runway (years) required to accomplish the plan
- Time, effort and commitment required by both sides to be done right and for the right reasons.
- Farm direction is largely controlled by new operation

BOSE
MARINNEY
& EVANS LLP
ATTORNEYS AT LAW

BOSE MEANS BUSINESS™

9

Farm Merger: The Pre-Planning

1. Timing: Determine how many years you want to continue working and how involved
2. Revenue: Understand your farm's revenue streams
3. Valuation: Understand the items of value in your operation
4. Partners: Identify potential successor farms

BOSE MEANS BUSINESS™



10

Farm Merger: Process

1. Pre-Plan
2. Approach potential successor and negotiate transition
3. Document Expectations:
 - A. Obtain equipment appraisal
 - B. Negotiate farmland, bin, shed, livestock barn leases
 - C. Determine equipment lease, purchase, or disposition plan
 - D. Visit with landlords and communication succession plans.
 - E. Formalize employment expectations (roles, responsibilities, term, pay, etc.)
 - F. Begin winddown of retiring farmer operational entity.

BOSE MEANS BUSINESS™



11

Farm Acquisition: Basic Concepts



Acquisition: A new farmer purchases the ongoing operations of a farm and operates as its own.

Common Concepts:

- Rather than an ongoing operation absorb the retiring farmer, the existing farm operations continue as-is with a new owner.
- Most common for a beginning farmer. Because of this, many retiring farmers remain in a mentoring capacity.
- Typically the buyout occurs over time, relying on the profits of the farm operations to largely fund the transition.
- Formality of transaction remains (purchase agreements and collateral)

BOSE MEANS BUSINESS™



12

Farm Acquisition: Benefits

- Continued farm operations
- Minimal waste of infrastructure and equipment
- Flexibility in phase out
- Tax benefits
 - Longer buyout term so less annual recapture



BOSE
MORINNEY
& EVANS LLP
ATTORNEYS AT LAW

BOSE MEANS BUSINESS™

13

Farm Acquisition: Drawbacks

- Runway (years) required to accomplish the plan
- Doesn't work for all farms because of cash flow issues
- Seller financing risks
- Insufficient planning and documenting expectations
- Gradual loss of autonomy and decision-making



BOSE
MORINNEY
& EVANS LLP
ATTORNEYS AT LAW

BOSE MEANS BUSINESS™

14

Farm Acquisition: The Pre-Planning

1. Timing: Determine how many years you want to continue working and how involved
2. Revenue: Understand your farm's revenue streams
3. Valuation: Understand the items of value in your operation
4. Partners: Identify potential successor farms

BOSE
MORINNEY
& EVANS LLP
ATTORNEYS AT LAW

BOSE MEANS BUSINESS™

15

Farm Acquisition: Process

1. Pre-Plan
2. Evaluate holistic farm operation cash flow
3. Obtain Appraisal
4. Approach potential successor and negotiate transition
5. Document Expectations (following slide)



BOSE MEANS BUSINESS™

BOSE
MORINNEY
& EVANS LLP
ATTORNEYS AT LAW

16

Farm Acquisition: Process (Continued)

Document Expectations: Prepare and negotiate -

- A. Recommend formalizing farm business entities
- B. Evaluating an appropriate insurance policy
- C. Purchase Agreement
- D. Farmland Leases (retiring farmer retains the land)
- E. Livestock facility leases (if applicable)
- F. Grain / shed facility leases between owner and farm business
- G. Visit with landlords and communicate succession plans.
- H. Formalize employment expectations (roles, responsibilities, term, pay, etc.)

BOSE MEANS BUSINESS™

BOSE
MORINNEY
& EVANS LLP
ATTORNEYS AT LAW

17

Questions?



BOSE MEANS BUSINESS™

BOSE
MORINNEY
& EVANS LLP
ATTORNEYS AT LAW

18