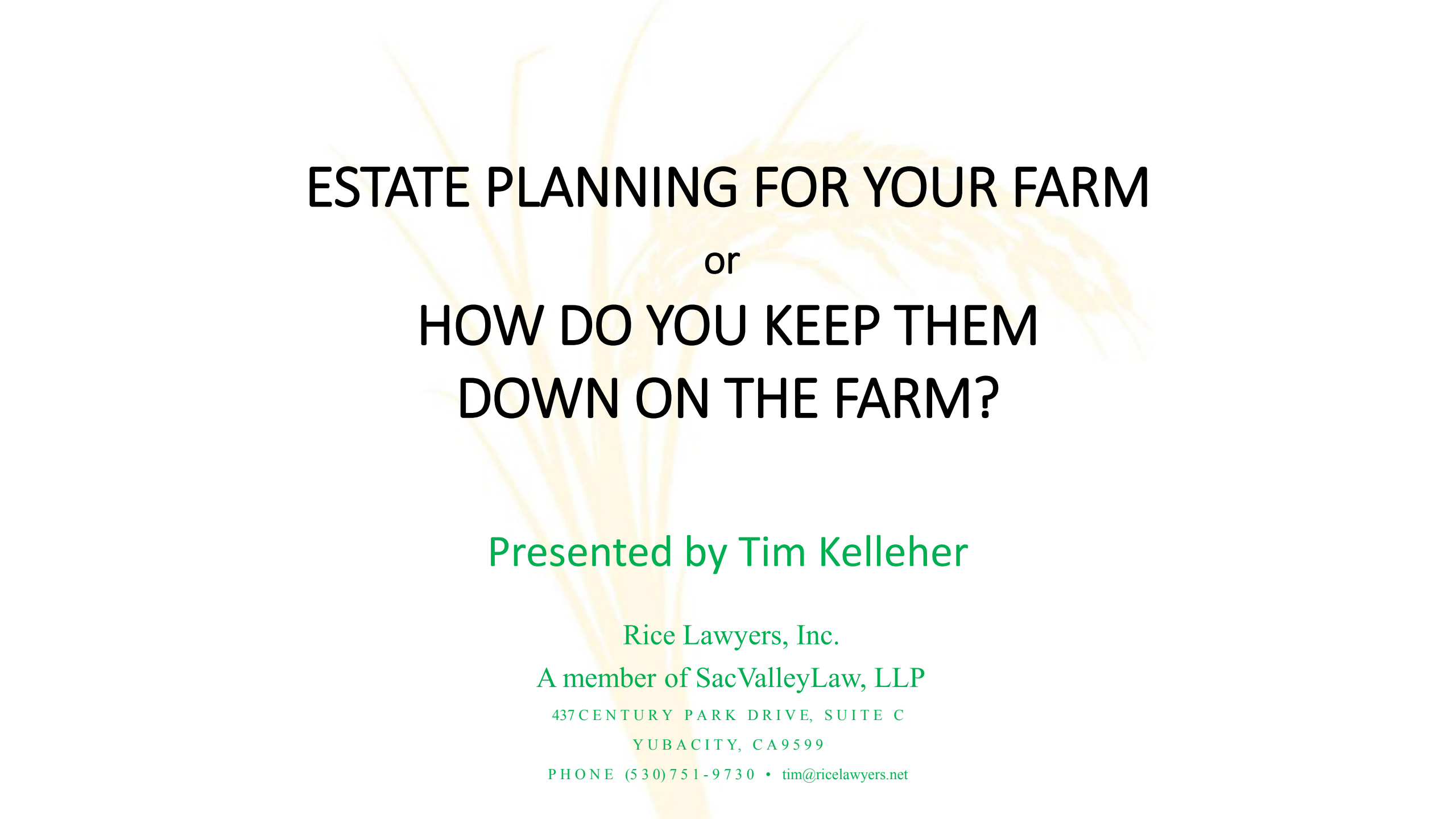


Estate Planning for Your Farm

9:00 – 10:00 a.m.





ESTATE PLANNING FOR YOUR FARM
or
HOW DO YOU KEEP THEM
DOWN ON THE FARM?

Presented by Tim Kelleher

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If your plane goes down on your trip back home, is there someone who will:

- i. Know your farm's financial situation?
- ii. Know your 2019 planting and marketing intentions, what if any leases need to be renewed, will the LL renew if you're not here?
- iii. Know what's in your farm bins or where your unsold crops are stored?
- iv. Know who holds your farm's pesticide permits, how to take care of water signups?
- v. Know if your assets are owned outright or in a trust?
- vi. Know who inherits what and if there will be any estate tax owed?
- vii. If there's disagreement among your heirs as to who gets what, do you have a procedure in place to settle any disagreements? Will there be costly legal battles where all lose except the attorneys?

These questions highlight but a few of the reasons why you need a succession plan.

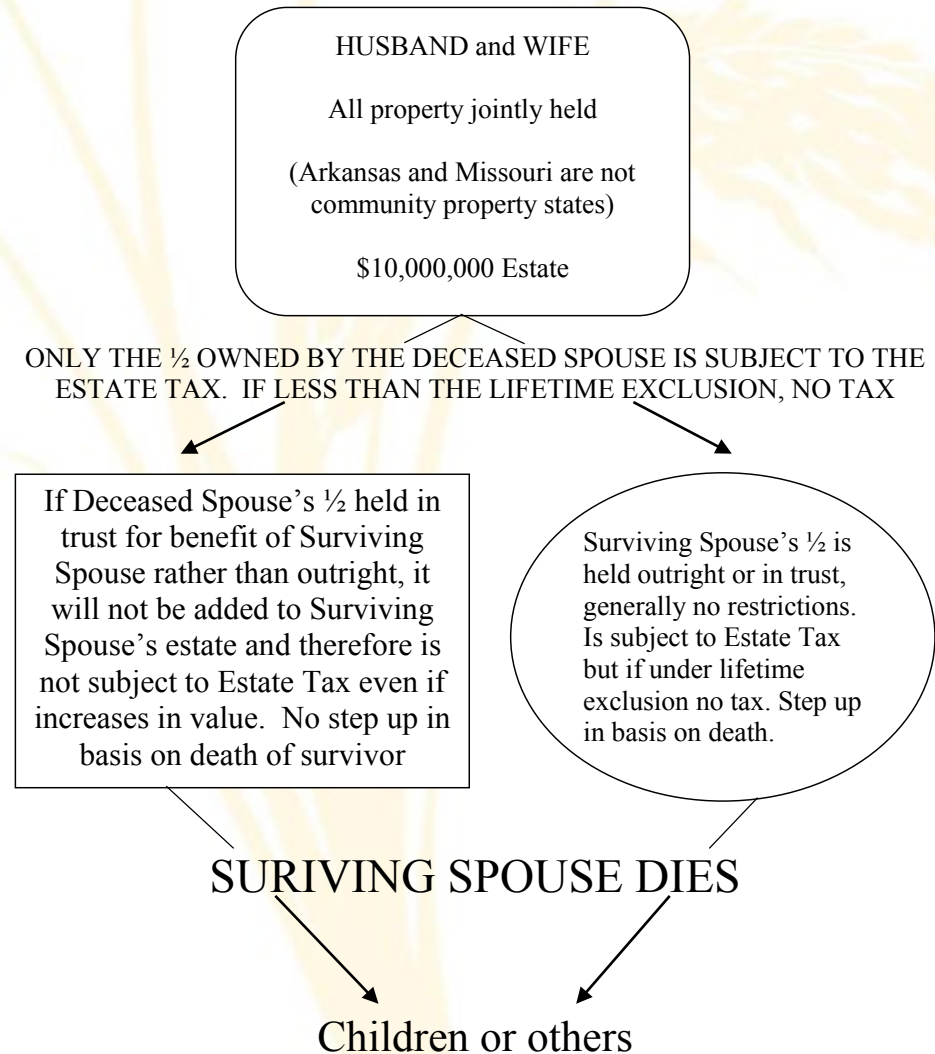
The Ever Changing “Permanent” Estate Tax”

Year	Exclusion	Highest Rate
2004	\$1,500,000	48%
2006	\$2,000,000	46%
2010		NO ESTATE TAX
2011	\$5,000,000	35%
2013	\$5,250,000	40%
2018	\$11,180,000	40%
2019	\$10,000,000 1/	40%
2026	The Tax Cuts and Jobs Act of 2017 expires ???	

1/ Indexed for inflation - \$11,400,000.

Rev.Proc.18-57, Section 3. 2019 Adjusted Items, subsection .41

The Marital Deduction



Other Issues

1. “Portability”: the ability to add the first spouse’s unused lifetime exemption to the surviving spouse’s exemption.
2. Basis “Step-up”. Heirs take as their income tax basis the value of the property in the deceased’s estate.
3. Reducing Asset Value.
 - i. Special Use Valuation (IRC §6166)
 - ii. Minority interest discount
 - iii. Closely held business discount
 - iv. If no estate tax, don’t want to claim.

Other Issues (cont'd.)

4. Lifetime Gifts – Anyone can gift in 2018 \$15,000 to any person and it won't count against the lifetime exemption.
5. California – Change of ownership and possible reassessment for property tax purposes.



Developing an Estate Plan

“Must Knows” Before Devising a Plan

- i. Know your family members’ goals, skills, aptitude and work ethic.
- ii. Know how many family members the farm can support.
- iii. If growth is required, is it realistic?
- iv. Recognize the possibility of friction among family members.
- v. Know how to minimize or eliminate estate taxes.
- vi. Understand that FAIR DOES NOT MEAN EQUAL.

Plan Basics

- i. We're not making more land; it is a unique asset. Its annual return is low, but it has a long history of appreciation matching inflation. It forms the nucleus of most farming operations. Ownership can be easily divided, but care must be taken to not allow a minority interest to cause the land to be sold or removed from the farm operation.
- ii. The farm operation requires "hands on" managers that have to see that their financial success is dependent on the farm's success.

Common Situations

- i. The farm supports Mom and Dad, but unless they are willing to accept less income, cannot also support another family member.
- ii. The farm can support another family member, but there are more than one who want to farm.
- iii. The farm can support another family member, but none want to continue farming now but you want to leave the possibility that in the future one may change their mind and come back to the farm.
- iv. None of the family children want to be farmers, but some want the current farm operation to continue and possibly even grow while one or more just want money.

Possible Solutions

- i. Recognize and deal with family dynamics.
- ii. Separate the land as an economic unit that can be owned by multiple persons that do not farm but lease it to those who do, even if non-family members.
- iii. Form an entity or entities that can include several family members with different roles.

Recommended Reading – Transferring Business Management, Michael Langemeier of the Center for Commercial Agriculture; Purdue University. Published in *farmdocdaily* (7):64

Tools to Implement a Plan

- i. Trusts
- ii. General Partnership
- iii. LLC
- iv. LP
- v. Corporation
- vi. Buy-Sell Agreements

FAIR DOES NOT MEAN EQUAL



Questions?

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