


The *Succession* dilemma

- ❖ Next generation wants to take over the farm and keep it going, but may not be able to afford to buy it outright. Owns very little...
- ❖ How do we solve this dilemma?



The *Succession* dilemma Solution


- ❖ Start planning **now**
- ❖ Be willing to give and take
- ❖ Communicate (often!)
- ❖ Work with experts to help you get a “win/win” plan that is sustainable, affordable, and profitable
- ❖ Be patient



Succession Strategies

On the people side...


- ❖ Invest yourself into the next generation
- ❖ Train them, involve them, give them responsibility, and talk to them
- ❖ Create a management development plan for them



Succession Strategies

On the operations side...


- ❖ Position your business to be sustainable long-term
- ❖ Be forward-thinking, innovative and open to change
- ❖ Allow the next generation to have input and try things



Succession Strategies

On the financial side...

- ❖ Focus on profits, profits, profits (this is **key**)
- ❖ Have accurate and detailed records
- ❖ Understand how decisions affect profitability



Succession Strategies

On the personal side...


- ❖ Practice letting go
- ❖ Develop a growth mindset
- ❖ Diversify your interests
- ❖ Diversify your investments (start early)
- ❖ Learn how to deal with conflict constructively



Succession Strategies

On the legal and structural side...

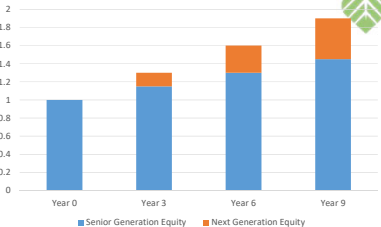
- ❖ Consider creative formats for business transfers
- ❖ LLC with profits interests
- ❖ Partnership redemption agreements




Succession Strategies Example

LLC with 50% Profits Interest

Assuming \$100K annual equity growth




Year	Senior Generation Equity	Next Generation Equity	Total Equity
Year 0	1.0	0.0	1.0
Year 3	1.25	0.15	1.4
Year 6	1.5	0.25	1.75
Year 9	1.75	0.25	2.0



Succession Strategies

On the legal and structural side...(continued)


- ❖ Consider creative formats for business transfers
- ❖ Corporate stock options
- ❖ Phantom stock plans
- ❖ Deferred compensation
- ❖ S-Corp 338(h)(10) sale



Succession Strategies

On the legal and structural side...(continued)


- ❖ Have a Buy/Sell Agreement
- ❖ Separate plans for the business and real estate
- ❖ Rental of real estate back to business provides income to senior generation



Succession Strategies

On the estate planning side...


- ❖ Integrate business, estate, and long-term care planning
- ❖ Preserve step-up in basis if possible, but protect assets
- ❖ Consider benefits and risks of trusts



Succession Strategies

On the estate side...(continued)

- ❖ Be fair, but not equal, with non-farm heirs
- ❖ Keep *noninvolved* heirs noninvolved
- ❖ Non-farm or non-essential assets go to non-farm heirs, or non-voting shares



Succession Strategies




On the estate side...(continued)

- ❖ Communicate (see a pattern here?)
- ❖ Your estate plan will be determined by your overall goals
 - ❖ What is most important to you?



Summary:

- There are ways to structure this to make it work:
 - Growing-in agreements, buy-ins, LLC with a profits interests, retiring partner, corporate arrangements, long-term leases on real estate, etc. etc.
- But the *most important piece* is the *people* involved, including *you*



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