

Farm Succession Planning Frequently Asked Questions

1. **How much can I transfer to my children and grandchildren without paying tax?**

In 2009 (probably 2010 and beyond, depending upon Congress' action in 2010), each person can transfer \$3.5M (\$7M for Husband and Wife with minimal planning) free of Federal Estate Tax

Each person can transfer up to \$100,000 per child or grandchild (lineal descendant) free of Indiana Inheritance Tax

2. **What factors do I need to consider in planning for my farm's future?**

See the "Long Term Planning Goals" questionnaire for a detailed list of questions to consider.

3. **Should I discuss my farm and succession planning with my children?**

Absolutely! If you plan to leave your farm to your children, they should be included in the planning so you are both leaving them a legacy and NOT leaving them a headache. You may find that your children's goals are different from yours, and there may be factors they are facing which will affect your planning goals.

If your farm plan includes creating a Corporation or LLC, you should plan to have regular family meetings with all the owners to discuss business, provide financial reports, answer questions, and plan for the next year. Involving family members (even off-farm family members) early and often connects your children to your farm, and increases the likelihood of the farm continuing on to succeeding generations.

4. **How should I include key employees in succession planning?**

If you have a key employee that shows good leadership skills, can work independently, is experienced and knowledgeable in the farm operation, and has expressed a desire to own a farm, this employee may be a candidate to include in your succession planning. While you may not want to "give the farm away," you can plan for a gradual buy-out and transfer of ownership as you retire and the key employee assumes more responsibility, authority and ownership.

5. **How do I treat on-farm and off-farm children fairly?**

Realize that fair treatment does not necessarily mean equal treatment. If farm sustainability is a goal, on-farm children may have helped create that estate, often at below-market wages, despite working long hours in a high risk profession with the expectation of making up some of those earnings through inheritance or buy-out later. Non-farm children may have left the farm to pursue other goals. Farm children often share the goal of wanting the farm to stay in the family and may be responsible for caring for parents in their later years. Circumstances and goals change so parents should not presume that they know the feelings of either on-farm or non-farm children.

6. **How do I ensure that my estate has enough assets to pay taxes and preserve the farm?**

A diversified asset base will help insure that there are sufficient liquid assets to pay any taxes while protecting the farm. With advance planning, you can take advantage of discount valuation and special use valuation tools available in the tax code which can reduce or eliminate estate tax.

7. **What is Discount Valuation and Special Use Valuation?**

Discount Valuation – A qualified appraiser can apply a discount to the value of your business assets based upon three factors: Lack of Marketability, Minority (Lack of Control) Interest and Built-in Gains. Farm businesses are well-suited for application of Discount Valuation in estates, for all three reasons. Can reduce the taxable value of an estate by 15-35%.

Special Use Valuation – IRS Code Section 2032A permits valuation of real estate based upon its actual use, rather than its "highest and best" use (the typical standard for appraisals). Use of this technique comes with certain limitations - must not be sold and use of property must not be changed for 10 years after the estate is administered are the two most significant limitations. This can be applied particularly in "transitional areas," where farm ground borders on developed or urban areas.