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College of Agricultural,
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Developing a Written Transfer Plan

Transferring the Farm Series: #10

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Developing a written transfer plan is an important part of a successful farm transfer. It forces discussion between involved individuals. It clears up questions and misunderstandings. It provides a road map to follow even though you may have to make a few detours. It provides all parties with an early commitment to follow through all phases of the transfer process.

Who Should Be Involved?

If the transfer is between two families, it is important that both entering and exiting parties and their spouses be involved in developing the plan. Informed contributing spouses are more supportive than uninvolved spouses.

Key contributors to the development of your transfer plan will be your tax accountants. They will make sure your plan makes good tax sense. Others you might wish to involve are your farm management association consultant, extension educator or vo-ag instructor, and insurance or financial planner.

When your plan is nearly developed, you will lastly want to seek your attorney's opinion on it and ask him/her to do the final drafting and required legal work.

It is a good idea also to inform or involve the non-farm heirs as to the details of the plan. Point out to them that you are taking a business-like and systematic approach to transferring the business. Let them know that their rights as heirs are being protected.

What Should Be Included in the Plan?

Include as many specific details as possible. Details make the plan more useful and reduce future

questions. Here are some items to cover:

- How will the land be rented? What are rental rates and payment dates? How will rental rates be determined in the future?
- How will the machinery be transferred? Gift, sale, lease with piecemeal buyout, or exchange of labor for machine use? Who will pay the insurance, fuel, major and minor repairs? When will the machinery be transferred?
- How will livestock be transferred? Lump sum sale, gradual sale, shared income for a few years, or livestock share lease with a buyout?
- How will buildings and the house be handled? Use rent-free? What rental rate? Included with land rent? What arrangements are made for transfer? Sale, gift, tax-free exchange? Who will pay for insurance, real estate taxes, repairs, utilities? Does the plan make maximum use of the Minnesota Homestead Credit?
- Are arrangements made to guarantee the security of the entering farmerlife insurance on parents, option to buy assets later, parents' living trust or will that binds other heirs to sale terms?
- Will land be sold? If so, when and how will price and terms be determined?
- Have adequate and acceptable housing arrangements been made for the long run? Is everyone happy with these arrangements?
- If parents will be working for children or children working for the parents, what is the method and rate of compensation? How much will parents be expected or want to work on the farm after retirement?
- If families will be working together through several transition years, who will be responsible for what segments of the business? Who will be responsible for and manage the livestock, crops, machinery, marketing, farm records, and employees? How will work be divided? Are hours and vacation times agreeable to all?
- What are the arrangements for transfer of management and who is responsible for overall decision making? In other words, who has the final word and when does that right transfer to the next generation?
- How will the debt be handled? Does the entering farmer assume the existing debt, borrow elsewhere, and pay off old debt? How will this impact the existing farmer's tax situation?

When Should the Plan Be Set Up?

The sooner a plan is set up, the more confident and content the participants are likely to feel. Once you decide to transfer the farm, the planning process should begin. The plan should provide for the complete transfer of the business, so it may have to cover 10 years or more.

Get It in Writing!

Putting it in writing is a must. If it is not written, details are easily forgotten and often misconstrued as time goes by. After a first writing, all parties should review the plan and check it out with their advisors and tax planner. As soon as the document has agreement from everyone involved, a final transfer plan can be drawn. All involved parties should read and sign the final agreement.

Caution: *This publication is offered as educational information. It does not offer legal advice. If you have questions on this information, contact an attorney.*

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3. [Major Tax Considerations When Transferring Assets](#) (FS-6304)
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 [Previous Page](#)



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