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[To Order](#)College of Agricultural,
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Protecting the On-Farm Heirs

Transferring the Farm Series: #8

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The farm business can be a fragile structure. The high risk nature of farming coupled with huge start-up costs and narrow margins dictate the need for safeguards to protect the farming heirs.

Farming children can protect themselves by carrying life insurance on the parents, by carrying risk insurance on the assets, and by seeking continued education to upgrade farm management skills. However, the parents also have to play a key role in protecting the financial vulnerability of the farming children.

It is not enough to say "You'll be taken care of when we are gone." You need to take written action to make it happen. Farming heirs who are insecure as to their future in the business are unhappy, often indifferent, and easily alienated from farming.

How Parents Can Help Secure the Financial Future of Farming Heirs

Develop a Transfer Plan

Formulate a detailed written transfer plan with the help and input of all parties involved, especially spouses and in-laws. Discuss it, sign it, and work from it, so everyone knows what's ahead. Then execute it and transfer some assets soon so farming heirs can begin business and feel some pride of ownership.

Offer a Purchase Agreement

If you haven't made any commitments as to sale of assets, a purchase option may be useful. The purchase option gives the buyer the right, but not the obligation, to buy farm property at a later date. The agreement can involve land, buildings, livestock, or machinery. It should state price, terms of payment,

and date of execution. It is binding on the spouse and off-farm heirs, so it can give the farming heirs a definite and reasonable purchase price and terms for buying farm assets. It may prevent the farming children from having to buy out off-farm heirs in an unsatisfactory lump sum after your death.

Provide Protection in Your Will or Living Trust

When writing your will or living trust, make sensible provisions for your farming heirs in it. You might wish to establish provisions as to how, when, at what price, under what terms, etc., the farming heirs can buy out the others.

Example #1: Will the farm site and adjoining land and equipment to farming heirs, but pass on cash or non-farm assets to non-farm heirs.

Example #2: Enact a provision allowing your son to buy the land from your trust over a 15-year period at a stated interest rate with specified principal payments per year.

Example #3: Pass farm property to all children equally, but establish reasonable terms as to how your farming heirs might eventually buy out the others.

Obtain Adequate Life Insurance

As a parent you have several insurance options:

- Carry enough insurance on yourself to provide adequate dollars at your death to pay off the non-farm heirs, leaving farm assets to farming children.
- Gift some money to your farm heirs during your lifetime for them to use to purchase life insurance on you. This would provide money to help buy out off-farm heirs at your death.
- If you are in debt, a life insurance policy on yourself can provide money for debt repayments and for estate tax obligations. This can relieve heirs of having to liquidate vital farm assets to pay off those expenses.

Pass On Your Farming Know-How

A key to protecting your farming successors is to spend some quality time with them during the transition years. This time should be devoted to the transfer of management and farm operation skills. To help the younger generation:

- Show them how to do the physical things. Pass on your electrical, carpentry, and mechanical skills.
- Teach them to handle the management side. Share how you make decisions, who you listen to for advice, and how you make the best use of your resources. Pay particular attention to successes you've had in terms of financial matters.
- Pass on your wisdom. Share your "rules of thumb" and "things that went bad" and "what has always worked" philosophy.

The younger generation may not always be receptive to your ideas. However, whatever you can do to transfer your knowledge and know-how to your successor can give them a competitive edge on others. It can also help insure their success in running the farm business.

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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1. [Questions to Ask Before You Start Transferring the Farm Business](#) (FS-6302)
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3. [Major Tax Considerations When Transferring Assets](#) (FS-6304)
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