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## What Will Happen to the Farm?

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The following is an example of the problem facing farm families in the 90's. John and Mary Farmer have been farming since they inherited the home place back in 1965. John and Mary are the fourth generation to farm. They have three children, two girls and a boy. The son has been farming with his Dad for about ten years. John and Mary want to retire and turn the farm operation over to their son. Their son, Jack, has been working on the farm and receiving a salary, is married and has two small children. The two girls are married and live off the farm and have no inclinations to farm. How can John and Mary retire and allow their son to continue the family farming tradition?

To succeed in the 90's and into the next century, today's farmers must increasingly manage their farms more and more like the complex businesses they are. Tradition says that the son should be able to inherit the farm from his parents and be successful. But today's farming is big business. The net worth of most farms is usually very high and the gross farm income is very low. (It's not unusual for a net worth of \$1 million to generate just enough income to barely cover family living needs.)

John and Mary want to retire (mostly Mary). John has worked and managed the farm most of his life. He has taken some vacations (2 to 3 days) and worried about the farm all the time he was gone. He still wants to work on the farm as a "farm hand" (making just enough money to not affect his social security) and let Jack become the manager. He also wants to stay around to see that his lifetime investment is not "messed-up." A lot of farm owners have "plans" for their retirement - well, they could be called plans. The typical farmer thinks of some fishing or travel. Most farmers will not admit it, but in the back of their minds, they want to continue farming until they are "called to the next life."

Jack has been working on the farm all his life. He went to college for a couple of years, but came back to the farm saying that college was not for him. He loves farm work and his family enjoys living on the farm. Jack is almost 40 years old and has no equity in the farm. His father usually makes most of the major management decisions without consulting him. Jack wants to make some capital improvements, but Dad wants to "make do" with what they have. He also worries about what will happen to him and the farm if either or both of his parents were to die unexpectedly.

The fact is, no farmer, no matter how successful, no matter how brilliant, no matter how hard he works, can do his planning by himself. Long range planning is a crucial factor in continuing a farm operation. There are many people who can help, people who make it their business to solve problems like those the farmer faces.

- There are bankers who understand farming and actually want the farmer to succeed.
- There are accountants who have seen the insides of hundreds of farming businesses, and know the

tax implications of long range planning and which management system works the best.

- There are attorneys who have the skills to solve management and transition problems.
- There are financial planners who specialize in helping to bring all the experts' advice together into one package.
- There are extension specialists with Virginia Cooperative Extension who can help with budgets, cash flow projections and bias-free analysis of farm situations.

Where do the farmer's go from here? First, the problems are:

- how to allow John and Mary to retire
- how to recognize Jack's contribution to the farm and allow him to become the farm manager
- how to be fair to off-farm children
- how to minimize taxes (income and estate)
- how to keep the farm operating profitably during the transition

Second, what are some possible solutions to the problems?

1. How to allow John and Mary to retire

- purchase and/or lease farm to Jack
- incorporate
- develop a "gifting program"
- develop or revise estate plan

2. How to recognize Jack's contribution to the farm and allow him to become the farm manager.

- make gifts of farm assets to Jack and his family
- allow Jack certain considerations for his contribution

3. How to be fair to off-farm children

- consider life insurance
- develop a "gifting program" of non-farm assets
- incorporate

4. How to minimize taxes (income and estate)

- develop or revise estate plan
- change ownership of life insurance policies
- create trusts

5. How to keep the farm operating profitably during the transition

- incorporate
- reduce John's management decisions over time
- allow Jack to make management decisions

These are just a few of the many possible solutions to the problems. By solving one problem, another

problem may be created. The only mistake made by most farmers is not getting started solving problems. The cows will always need milking. The livestock will always need to be fed. The equipment will always need to be fixed. Planning ahead can always be put off until tomorrow and tomorrow never comes.

**THE TIME TO START PLANNING IS NOW!!**

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