

Transitioning Your Farm to the Next Generation

Alex Hitt

Peregrine Farm

Graham, NC

Farmer Emeritus in Training

www.peregrinefarm.net



Some statistics

- ▶ Average age of farmers is 58
 - ▶ Vegetable producers are younger and include more women and minorities.
- ▶ 40%+ of farm land is rented
- ▶ 40-70% of farm land will change hands in the next 20 years
 - ▶ 10% in the next 5 years
- ▶ Less than one third of family-owned businesses continue to the next generation and half of those to the third
- ▶ 60% of people don't have an estate plan but 60% of people 53-71 do
- ▶ 29% of farms have a succession plan
 - ▶ 65% with a plan have identified a successor
 - ▶ 81% of those successors are family members
 - ▶ Only 40% of those are currently involved in the farm business

So why do you want to transfer the farm?

- ▶ Age?
- ▶ Health?
- ▶ Legacy?
- ▶ Save the farmland?
- ▶ Keep it in the family?
- ▶ Maybe it's just time?
- ▶ Why not just sell and get out?



Who is going to take care of things when you are old?



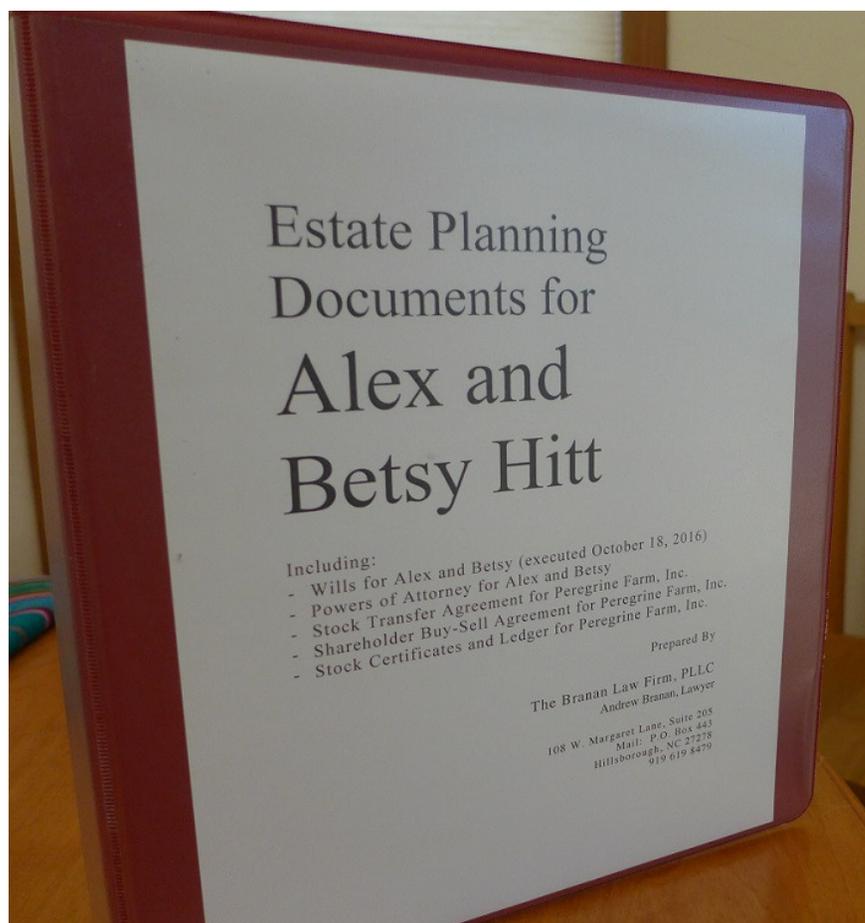
It's Complicated

- ▶ Lots of moving parts
- ▶ It takes a team
 - ▶ Financial Planner, Lawyer, Accountant, Extension Farm Tax Specialist, Appraiser, Surveyor
- ▶ This is Estate Planning and Business Planning all in one
- ▶ There are costs associated with all of this
- ▶ Keep it as simple as possible
- ▶ One size does not fit all

Our fairly simple situation

- ▶ Small sized business
- ▶ Modest assets
- ▶ No kids
- ▶ No debt
- ▶ Adequate retirement savings
- ▶ We want to stay on the farm
- ▶ Corporate structure to make transfer of assets easier

The “Death Book”



It's More Psychological and Personal than Legal if you want to have a successful transfer

- ▶ It's about the people involved not the assets
- ▶ The old farmers have to be ready to let go
- ▶ The new farmers have to want to learn from the old
- ▶ It takes time to build the relationship between the new and old farmers
- ▶ A family member might be easier?
- ▶ Communication and transparency
- ▶ This is a partnership, learn to listen, respect the other persons experience and years of experience

There is the financial and asset side too

- ▶ Can you afford to retire or live on reduced income?
- ▶ Are you going to have to sell the farm to retire?
- ▶ What happens if you get sick?
- ▶ “Don’t be cheap” but they do have to earn it, want it, treasure it, they have to have realistic income expectations
- ▶ Gifting limits \$14,000 per person each year
- ▶ There can be tax consequences

Go Slow

- ▶ Start earlier than you think
- ▶ Lay out a time line with goals to work towards
- ▶ Make sure everyone is on the same page with the same goals or understanding of each individuals personal goals
- ▶ The MOU
- ▶ Questions will continue to come up



Some of the Questions we had

- ▶ Can this tiny farm support 3 people?
- ▶ Do we really need two legal entities- one for the business and one for the land and fixed assets?
- ▶ What is the best mechanism for Jennie becoming a partner/getting shares. Straight out through sweat equity, she has to put some money in (skin in the game), tied to some kind of gross income/profit goals?
- ▶ What is the mechanism for us to get shares back in case the whole thing fails?
- ▶ Percentage of ownership? Phase in overtime? Levels (different classes of stock)?
- ▶ Should we carve out house separate from the farm?
- ▶ Conservation easement? Worth pursuing for some reason maybe included in the above questions?
- ▶ How do we put her feet to the fire?

To the Older farmers

- ▶ Their adventure will be different than yours
- ▶ They have to have their feet to the fire and the fear of losing it all
- ▶ You have to let go
- ▶ They have to make mistakes
- ▶ They will have different work habits than you and because you are passing them a “turnkey” operation they certainly will not have to work as hard as you did to build it.





Add on/give up duties slowly

- ▶ Helps not to overwhelm the new leader and so they can master them.
- ▶ It will also help the old leader(s) in the letting go process if they know things are under control.
 - ▶ 2012-2015- lead crew person, put orders together, increased business financial understanding, helped build her own house
 - ▶ 2016- take over restaurant accounts, worked together to develop the crop plan
 - ▶ 2017- developed the crop plan, lead on hiring seasonal staff, daily management of the crew and all field operations, all irrigation and greenhouse duties, cut summer flowers
 - ▶ 2018- order all vegetable seeds



To the Young farmers

- ▶ Can you commit to 20 or 30 years?
 - ▶ To the daily, eternal duties?
- ▶ Are you really willing to learn from the older, more experienced farmers?
- ▶ What scares you?
- ▶ Are you an entrepreneur?



Plan B

- ▶ You have to be realistic, things happen
- ▶ Work to protect all parties



Resources

- ▶ Univ. of Minnesota Transferring the Farm Series

- ▶ <https://www.cffm.umn.edu/publications/pubs/farmmgttopics/transferringthefarmseries.pdf>

- ▶ Planning the Future of Your Farm

A Workbook on Farm Succession

http://pubs.ext.vt.edu/content/dam/pubs_ext_vt_edu/446/446-610/446-610_pdf.pdf