



Agriculture and Natural Resources
Part of Cooperative Extension, UW-Extension
www.uwex.edu/ces/ag

NOTE to editor: This is one in a series of articles produced by University of Wisconsin-Extension agents and specialists to address farming through difficult times. More articles can be found on the Extension Responds website at:
www.uwex.edu/ces/ag/farmingindifficulttimes.html

March 2009

Contact: Phil Harris, 608-262-9490, peharris@wisc.edu

Joy Kirkpatrick, 608-263-3485, joy.kirkpatrick@ces.uwex.edu

Managing through Difficult Times: Farm Succession

Madison, Wis. – With margins in agriculture shrinking, 2009 may not seem like the year or the economic circumstances to consider transferring the farm to the next generation of farmers. However, depending on the goals of everyone involved and how far the farm transfer has progressed, there might be opportunities to consider in 2009 and 2010 regarding the transfer of assets to the next generation. In any case, changing circumstances should trigger a review of the plan and a discussion with the farming partners to review financial concerns, personal and business goals, and timelines for the process according to University of Wisconsin-Extension specialists.

The current economic conditions may warrant a review of the business's ability to meet the family living needs of the farming partners. If the farm's financial carrying capacity is reduced, the entering generation may need to keep the off-farm job or jobs longer than anticipated. On the other hand, because this economic crisis is widespread and affects more than just agriculture, the entering generation's off-farm job may disappear. This may provide an opportunity to incorporate much needed labor and management into the operation, giving the exiting generation fewer responsibilities and a chance to have time away from the business. Both situations call for a review of the numbers and clear, honest communication of the farm's financial situation and each partner's expectations.

If the succession plan calls for the incoming generation to purchase livestock or other assets from the current owners, there may be opportunities to minimize or eliminate taxes on those transfers in 2009 and 2010. For example, the exiting generation may be able to take advantage of the zero percent income tax rate on certain capital gains that are still available in 2009 and 2010 if the seller's taxable income is low enough. Low milk prices may reduce the exiting generation's taxable income to the point that part or all of the capital gain on the sale of

raised breeding or dairy livestock qualifies for the zero percent income tax rate. Accelerating sales of livestock into 2009 and/or 2010 could save some income taxes but should be done only if those sales are consistent with the farm succession plan.

A business owner may consider selling non-productive or underused assets to infuse capital into the operation and pay off some bills. The income tax impact of these sales can be minimized by selling assets with the highest income tax basis relative to the sale price. For example, land that was purchased or inherited when land values were high will trigger less capital gain than land that was purchased or inherited when the value of land was low. Machinery that was depreciated rapidly is likely to trigger more gain when it is sold than machinery that was depreciated more slowly.

Minimizing taxes should not be the only or even the most important goal driving a farm succession plan. A succession plan addresses the transfer of labor, management and assets of the farming business. A well-developed plan begins with each person involved developing his or her own vision and goals of the transfer and the farming business. These are used to develop the mission, vision, and goals of the business as it moves forward with all the farming partners involved. Once these steps are completed it becomes easier to choose the business structure and asset transfer methods, which leads to strategies to minimizing taxes. Above all, open, honest communication among the farming partners and with non-farming family members is the foundation for a solid farm succession plan.

Following are some resources about farm succession:

-- UW-Extension FARM Team Farm Succession Resources

<http://www.uwex.edu/ces/farmsuccession/>

-- *AgVentures* Business Arrangements and Farm Transfers

<http://www.cdp.wisc.edu/BusinessArrangements.htm>

-- Family Estate Planning in Wisconsin (B1442)

<http://learningstore.uwex.edu/pdf/B1442.PDF>

-- Who Will Get Grandpa's Farm – Communicating about Farm Transfer (Purdue University)

<http://www.ces.purdue.edu/farmtransfer/index.htm>

To access more information and/or tools to help analyze your situation, link to the Extension Responds web page at: www.uwex.edu/ces/ag/farmingindifficulttimes.html

For assistance in making these tough decisions, contact your UW-Extension county agent, your Farm Business and Production Management Instructor in the Technical College or the DATCP Farm Center at 1-800-942-2474.

###

File: risk management, farming in difficult times