Ag Decision Maker

File C4-11
November 2016
www.extension.iastate.edu/agdm

Planning Your Future Together

A key to the success of a two-generation business arrangement is a mutual understanding of where the business is going and what it will accomplish. If the parties have different ideas about the future of the business, the business arrangement may fail.

Many farm families have little idea of what they want to accomplish when the young person comes into the business. So they muddle through from day-to-day and year-to-year with little sense of direction of where they are going.

Where are you going?

Planning the future of a two-generation business arrangement is similar to planning a family trip. Plans for a family trip include short-term decisions such as *what you are going to do the first day* and *where you are going to stay the first night*. But long-term plans, including decisions such as *what is your final destination* and *how long it will take to get there*, also are needed.

When most farm families begin their journey of farming together, they usually have no long-range plans of *where they are going, how they will get there,* and *how much time it will take*. Instead, they focus on the initial problem of starting the young person in the business and leave the overall destination of the business arrangement to chance.

Are you all going together?

For a family trip to be successful, the family members must agree on where they are going and what they will do. When they arrive, however, each member usually has a different idea of what to see and do. If the desires of each member are not taken into account in planning the trip, the trip will not be successful.

For a two-generation business arrangement to be successful, the parties involved must agree on the future direction of the business. All parties involved must share a common vision of their future together in farming.

Your vision of the future

What are your goals and objectives for the future? Goals are broad and general statements of what you want to achieve. Objectives are precise and quantifiable measures of how you will achieve the goals. For example, the parent's goal may be to transfer ownership of the business to the younger person. Their objective may be to have 50 percent of the machinery ownership transferred within two years.

Goals

Most farm families have no formal goals. Rather they have vague, verbal ones that are not ranked by priority. Some farm families have written goals. But these are often not the ***real*** (personal and unwritten) goals of the family members.

You need to identify your goals both individually and collectively. Take some time to sit down and identify them. Write them down.

First identify your goals individually. Next, divide the family into three groups:

- the parents
- the farming children, and
- the off-farm children.

Within each of these groups, goals should be compared and examined.

Finally, the family should come together and share, compare, and re-evaluate their goals. See if there are any conflicting goals held by any of the parties. By communicating goals to each other, you can identify conflicts. If there are conflicts, try to reconcile them before proceeding.

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A listing of potential goals is given below. This is not a comprehensive list. You may have some that are not listed here.

Parents' (older party) goals

- Slow down, devote more time to travel and leisure.
- Turn over the business to the children.
- Maintain some involvement in the business.
- Protect against the breakup of the business.
- Treat all children equitably.
- Receive adequate retirement income.
- Retain sufficient business assets as security for unexpected retirement expenses.
- Minimize estate and income taxes.

Farming (younger party) child's goals

- Receive adequate income.
- Buy into the business.
- Participate in management.
- Gain control of the business over time.
- Increase the size or change the direction of the business.
- Incorporate new technology.
- Build personal equity.

Non-farm child's goals

- Inherit an equitable share of the parents' estate.
- Receive an equitable return on investment by remaining involved in the farm business.
- Participate in management if still involved in the business.
- Sell equity in the farm business to get money for other uses.

All family members' goals

- Maintain and improve the viability of the family business.
- Have and enjoy a pleasant family and home life.
- Have friends and enjoy good times with them.
- Do things that are new and exciting.
- Engage in community activities.
- Pursue a favorite hobby or sport.

See *AgDM File C6-42,* Setting Personal, Family and Business Goals for Business Success for more details and a worksheet on setting goals.

Objectives

Objectives are measurements to determine if you achieve your goals. First you need to decide if achieving each goal is worth the time and effort. If so, follow these rules for developing objectives for achieving each goal.

- Be specific and positive.
- Set dates for accomplishing each objective.
- List obstacles for achieving each objective.
- List ways to overcome each obstacle.
- List rewards for achieving each objective.

Making it fair

Another aspect of business planning is to consider how each family member will be treated. Parents are often concerned about the fair treatment of each child. However, people differ as to what they consider fair. Some feel that each child is entitled to an equal share of the family assets. Others believe that the farming child should receive special consideration. Only the parties involved can determine what is fair in a given situation.

Is equal equitable?

Equal is not always equitable. The equal division of business property among farming and non-farming children may not lead to the equitable division that was planned. For example, if the farming child helped build the business, he/she may be entitled to a larger share of the business assets.

How much compensation?

After the parents have defined what they mean by equitable, they face the problem of how to actually divide the assets. For example, if all children are to be treated equally, and one child is given a certain piece of property, how much compensation should be given to the other children? Or, if one child has the use of a certain asset, how do the parents compensate the other children?

One method is to value the asset (or value the annual use of the asset) as if it were an arms-length transaction with a non-family member. The difference between the arms-length value and the preferential value to a child will determine the amount of compensation to each of the other children.

For example, assume you have decided to treat the farming and non-farming children equally. However, you are renting the farm to the farming child at a preferential rental rate. The amount of compensation to each of the non-farming children is the difference between the preferential rental rate and the *going* market "arms-length" rental rate.

Find more information on farm and business transfers through the **Transition and Estate Planning** section of Ag Decision Maker.