

EB 2022-04

# BUSINESS TRANSFER GUIDE

## Junior Generation



PREPARED BY

**STEVE RICHARDS**  
AGRIBUSINESS EXTENSION ASSOCIATE



## **Business Transfer Guide**

### **Junior Generation**

It is the policy of Cornell University actively to support equality of educational and employment opportunity. No person shall be denied admission to any educational program or activity or be denied employment on the basis of any legally prohibited discrimination involving, but not limited to, such factors as race, color, creed, religion, national or ethnic origin, sex, age or handicap. The University is committed to the maintenance of affirmative action programs which will assure the continuation of such equality of opportunity.

Publication Price per Copy: Please contact NY FarmNet for current pricing.

For additional copies, contact:

NY FarmNet Program

Charles H. Dyson School of Applied Economics & Management

Cornell University

350 Warren Hall, Ithaca, NY 14853-7801

1-800-547-3276

### **Acknowledgments**

The author wishes to thank Eleanor Jacobs, Stuart Smith, Wayne Knoblauch, Dan Galusha, Joan Petzen, Cathy Sheils, Dave Grusenmeyer, George Conneman, Jason Karszes and Gabriel Gurley for their valuable input into this document. However, any errors or omissions are solely the responsibility of the author.

©Copyright 2021. Steve Richards, NY FarmNet, Charles H. Dyson School of Applied Economics and Management, College of Agriculture and Life Sciences, Cornell University. All rights reserved.

Book designed by Stephanie Finnegan Design + Photo.



# CONTENTS

INTRODUCTION	
<b>YOUR BUSINESS TRANSFER GUIDE</b>	<b>2</b>
STEP 1	
<b>WHY DO YOU WANT TO FARM?</b>	<b>3</b>
STEP 2	
<b>DO YOU HAVE WHAT YOU NEED TO GET STARTED?</b>	<b>4</b>
STEP 3	
<b>EVALUATING BUSINESS OPPORTUNITIES</b>	<b>7</b>
STEP 4	
<b>COMMUNICATING WITH POTENTIAL PARTNERS</b>	<b>9</b>
STEP 5	
<b>CREATE A TEAM OF ADVISORS</b>	<b>11</b>
STEP 6	
<b>STRATEGIES FOR GETTING STARTED</b>	<b>13</b>
STEP 7	
<b>THE GETTING STARTED / TRANSFER PLAN</b>	<b>16</b>
STEP 8	
<b>PUTTING THE PLAN INTO ACTION</b>	<b>19</b>
APPENDIX	
<b>WORKSHEETS &amp; TESTS</b>	<b>20</b>



## INTRODUCTION YOUR BUSINESS TRANSFER GUIDE

### WHAT IS A BUSINESS TRANSFER?

For this workbook, business transfers can include one or more of these three scenarios:

- Transferring ownership of business assets
- Transferring control of business assets
- Transferring management decision making

### WHAT ABOUT PARTNERSHIPS?

Suppose you are considering working together with the senior generation for a while. In that case, you may be considering a partnership type of arrangement. There are many different ways of working together than just a general partnership. For more information on this topic, please request a copy of *Doing Business Together: A Joint Business Agreement Guide* from the South Carolina Center for Cooperative and Enterprise Development at Clemson University [clemson.edu/extension/agribusiness/scccd](http://clemson.edu/extension/agribusiness/scccd).

### USING THIS WORKBOOK

Often, farm transfer decisions can be complicated, but they don't have to be. This workbook takes you through the farm transfer process step-by-step at your own pace. The steps in this workbook are a guide, and you may use them in a different order if you wish.

### DISCUSSION POINTS

There will be many questions to answer and discuss along the way. This heading will alert you to stop and discuss an important point or fill out a worksheet.

#### Discussion Point

### DECISION POINTS

At each step in the transfer process, you will need to make a decision. These decisions will help you narrow down the options that fit your particular situation. *Before you move to the next step in the process, you need to answer these questions!*

#### Decision Point



STEP 1  
**WHY DO YOU  
WANT TO FARM?**

## REALITY CHECK

Farming can provide both a rewarding and challenging career. Talk with your family and discuss what you are willing to “put up with” if you decide on a career in farming. What do you like about a future in agriculture, and what are your concerns?

### Is farming the right career for me?

- Yes
- No
- Maybe

## EXPECTATIONS

If you have a family, your spouse and your children may have other questions about their future on the farm.

### What are your family’s expectations?

For instance: How much time off do you need?

---

What annual income do you need to support your lifestyle?

---

Create a budget that includes items such as groceries, entertainment, automobile fuel and repair, pets, vacation/travel, utilities, taxes, health insurance, retirement contributions, and non-farm investments.

Suppose you are going to work with the senior generation on the farm. In that case, you will need to discuss these expectations with them to see if they are realistic.

**Before continuing to the next step, make sure you have completed the following:**

- I have considered the realities of a career in farming.
- I have discussed these realities with my family (if applicable).
- I have talked over my career expectations with the senior generation.



## STEP 2

# DO YOU HAVE WHAT YOU NEED TO GET STARTED?

### THE THREE E'S

Getting started in farming is like applying for a job and a loan at the same time. A job application requires you to prove you have experience and education. Applying for a loan requires you to prove you can make the monthly payments.

Rate yourself on the Three Es: experience, equity, and education. A survey of bankers, Cooperative Extension educators, and farmers gives us an idea of how much of these a new farmer might need. Use the guidelines below for your personal “getting started” plan.

### EXPERIENCE

There is no substitute for real-life farming experience. Bankers and farmers agree that this is the most critical criterion, especially if this real-life experience includes management decision-making.

#### EXPERIENCE NEEDED

- To rent a farm: 5–7 years real-life experience, 0–3 management experience
- To work into a farm partnership: 7–10 years real-life experience, 0–5 management experience
- To buy a farm: 8+ years “how-to” experience, 3–10 years management experience

#### What experience do you have?

How-to experience

---

---

Management experience

---

---

#### What experience do you need?

How-to experience

---

---

Management experience

---

---

## EQUITY

Whether you are renting a farm, working your way into a farm, or buying a farm, you need money! How much money do you have in the bank? Or, thinking more broadly, do you own any land, equipment, or livestock?

The following estimates from bankers and farmers show how much they would need to either give a loan or let someone buy into their farm.

### EQUITY NEEDED

- To rent a farm: 5–10% down payment
- To work into a farm partnership: 0–10% down payment
- To buy a farm: 10–30% down payment

### How much equity do you have?

Total assets required \$ \_\_\_\_\_ A  
*estimate of farm's cost*

Total assets you own \$ \_\_\_\_\_ B

Total debt you have \$ \_\_\_\_\_ C

Amount of equity that you have currently

\$ \_\_\_\_\_ (B – C)

### How much more equity do you need?

Approximate equity still needed:

\$ \_\_\_\_\_ (A – B + C)

## EDUCATION

Education, surprisingly, was rated last among the criteria needed to get started in farming. This does not mean that education is unnecessary. Rather, it is not a limiting factor for most new farmers, as the majority have at least have a high school degree and some college study.

### What farm-related education and skills do you have?

---

---

---

---

### What farm-related education and skills do you still need?

---

---

---

---

## THE GETTING STARTED PLAN

How will you gain any experience, equity, or education that you still need to get started in farming? This is the basis of your “getting started” plan. Please read below for some ideas on how to gain experience, equity, and education.

### PRODUCTION AND MANAGEMENT EXPERIENCE

Working on a farm is one of the best ways to learn. Seek to understand all aspects of the farm operation: planning, production, marketing, employee management, and recordkeeping. If possible, become involved in making management decisions on the farm.

### GROWING YOUR EQUITY

Even if you are working on your family’s farm, you should strive to gain equity. Whether this is in the form of livestock, land, equipment, or cash, this will help you get started more quickly.

### EXPANDING YOUR EDUCATION

What opportunities exist in your area to gain additional education? This is called “professional development” in non-farming careers, and it is essential for growth. Professional development can come in many forms: visiting other farms, going to Cooperative Extension meetings, and reading trade websites and magazines. Pick something that excites you to continue learning.

Complete the education and skills portion of the Getting Started Timeline Worksheet on page 24.





## STEP 3 EVALUATING BUSINESS OPPORTUNITIES

At some point in your farming career, you may need to assess different farming opportunities. One of the most important considerations is the long-term financial feasibility of the farm.

### Perform a current business analysis.

Complete the Financial Dashboard worksheet on page 26 and discuss it with your family. The dashboard will help you determine if the business can support additional family members. The dashboard provides financial indications in each of the five areas of financial analysis. The first three metrics assess the liquidity of the operation – its ability to pay bills as they come due. The fourth metric assesses solvency—the overall risk bearing capacity of the business. The Core Equity Burn Rate estimates the number of years the business’s core equity (generally real estate) could finance operating losses. The next three metrics provide a snapshot of the business’s efficiency in managing debt, earnings, and assets. The ninth ratio measures profitability. The tenth ratio evaluates whether the earnings of the operation are sufficient for the owner demands on the business. The last ratio evaluates the debt repayment capacity of the business.

The “ratings” of vulnerable, resilient, and agile give management an idea of the financial strength of business. While looking at just one year is valuable, looking at a three-to-five year trend of ratios provided

better management information. Also remember that the business structure and owners age could also skew management’s view of the analysis.

Based on the current business analysis results, do you (and your family) believe that the current operation is viable?

Yes       No       Maybe

### Estimate future business potential.

Complete the Management Dashboard Worksheet on page 27 and discuss it with your family. Specific areas of attention should be revenue growth, cost control, and resource availability. Also, identify and discuss industry trends and if these trends represent risk or opportunity.

### WHAT CHANGES WILL BE MADE ON THE FARM TO INCREASE ITS VIABILITY?

It may be hard to accept, but the business *will* change in the future. Discuss what changes need to be made. If you wish to make drastic changes in your business, you may need to draft a new business plan.

What changes need to be made on the farm to increase its viability?

Profitability

---

---

---

Management Practices

---

---

---

Financial Position

---

---

---

Revenue Growth

---

---

---

Family Expenses

---

---

---

Cost Control

---

---

---

Family Savings

---

---

---

Resource Availability

---

---

---



STEP 4  
**COMMUNICATING WITH  
POTENTIAL PARTNERS**

Communication skills are essential, especially if you will be working with somebody else. You may be working on a family farm, working for another farmer, or starting a farm with a business partner. This chapter discusses situations involving another party as a business partner.

**WHO WILL BE THE “SENIOR GENERATION”  
OR YOUR FUTURE BUSINESS PARTNER(S)?**

This may be incredibly easy or hard to answer, depending upon your situation. You may decide to work with your parents or an unrelated party. Choosing the right business partner is just as important as any other decision you make regarding your future. If you plan to farm alone, you can skip this step.

Current Business Partners

---

---

Future Business Partners

---

---

**HOW WELL DO YOU (OR WILL YOU) WORK  
WITH SOMEONE ELSE?**

Finding out how you work with other people is essential. A partnership quiz at the end of this workbook will help you and your potential business partners discuss the issues involved in a business partnership.

**Tip:** Don't assume that the senior generation or your business partners know your intentions for the farm. Ideas change, people change, and businesses change. The only way to keep in touch with reality is to communicate well and communicate often. Set a monthly meeting date in a neutral location with planned starting and ending times.

**Complete the Partnership Quiz on page 29 with your future business partner(s).**

**WORKING TOWARD A COMMON GOAL**

Complete the Goal Setting Worksheet at the end of this workbook with your existing and potential business partners. A good idea is to have each business partner fill out the Goal Setting worksheet and then discuss.

**Complete the Goal Setting Worksheet on page 20.**

## HOW WILL THE SENIOR GENERATION HELP YOU ACQUIRE EXPERIENCE AND EDUCATION?

This would be an excellent time to meet with your future business partners and have them review your “getting started” plan. If you are working on the family farm, discuss how the senior generation can help you get the necessary experience and education to achieve your goals.

## WHEN ARE YOU GOING TO RECEIVE MANAGEMENT RESPONSIBILITY?

Honing management skills takes time. Set a timeline for acquiring management responsibility. Review the dates on your “Getting Started” plan with the senior generation and decide on a timetable to transfer management decisions. This can be done gradually, one responsibility at a time.

**Complete the management experience portion of the Getting Started Timeline Worksheet on page 24.**

## WHEN ARE YOU GOING TO GROW YOUR EQUITY?

Gaining equity in a farm can take many forms: gradual ownership of livestock, equipment, land, or sharing business ownership. Decide upon a timeline of equity growth that is acceptable to all business partners.

**Complete the farm asset equity portion of the Getting Started Timeline Worksheet on page 24.**

## Checklist to complete before moving on to the next section:

- I have identified my business partner(s).
- I have completed the partnership quiz (if applicable).
- I have scheduled regular meeting times (if applicable).
- I have completed the Goal Setting Worksheet.
- I have completed the management experience portion of the Getting Started Timeline Worksheet.
- I have completed the education/skills portion of the Getting Started Timeline Worksheet.
- I have completed the farm asset equity portion of the Getting Started Timeline Worksheet.



## STEP 5 CREATE A TEAM OF ADVISORS

### WHICH PROFESSIONAL SERVICE PROVIDERS DO I NEED ON MY TEAM?

A common mistake is not seeking advice from others. Often, the excitement of getting started leads to an “agree to anything” approach. A good team of advisors can help you and work through the process. Below is a list of who should be consulted when pulling together a transfer/getting started plan. Please realize that you will not need to meet with these people every week. Nor will you have to meet with all these people at the same time. However, your professional team needs to be able to collaborate with one another to double-check each other’s work and create a transfer plan that works for all parties.

**Family members:** Everyone who is affected by the business transfer

**Accountant:** To help with tax issues involved in the business transfer

**Business management specialist:** To help with financial projections

**Farm transfer facilitator:** Helps with navigating the process

**Attorney/Lawyer:** To create and review the necessary legal agreements

**Optional:** Farm production specialists, lenders, and other service providers, etc.

### HOW DO I FIND A GOOD SERVICE PROVIDER?

Here are some tips for finding a good service provider.

1. Compile a list of names. List all the people you can find in each area of expertise. Ask around—your family, other service providers, and neighbors. Keep in mind that a friend or a family member may not be the best choice to help you with this process, as they may be too close to the situation.
2. Check the person out. Find out who has used that person’s services and call them for references. Treat it like a job interview.

## HOW DO I GET THE MOST FROM PROFESSIONAL SERVICE PROVIDERS?

Here are two good pieces of advice for keeping your service providers on task:

1. Keep in contact. Making sure that your service provider gives you the attention that you need. Stay in regular touch with your transfer team—don't wait for team members to call you.
2. Ask the right questions. Do your homework so that you ask the most direct, concise question possible. Don't be afraid to get clarification on items that you do not understand. Be hesitant to get all of your advice from one service provider.
3. Change service providers if you need to. Although you may have time and money invested in a particular person, don't be afraid to replace them. The future of your business depends on getting the contracts and agreements done right.

## DO BOTH PARTIES NEED AN ATTORNEY?

If you are going to farm with your family, you may not need a separate attorney. This depends on how simple the transfer process is and how much trust you have in the senior generation. It is generally a good idea to have a separate attorney "on your side" to look over the documents and contracts.

### Which of these people will be on your team?

- Business members: \_\_\_\_\_
- Lender: \_\_\_\_\_
- Accountant: \_\_\_\_\_
- Management Specialist: \_\_\_\_\_
- Farm Transfer Facilitator: \_\_\_\_\_
- Financial Planner: \_\_\_\_\_
- Lawyer: \_\_\_\_\_
- Other: \_\_\_\_\_

## STEP 6

# STRATEGIES FOR GETTING STARTED



People usually get started in farming through one of the following methods: gifting or inheritance, renting, buying, working into ownership through a partnership, or a combination of these methods.

STRATEGY	EXAMPLES	ADVANTAGES	DISADVANTAGES
<b>Inheriting or being gifted a farm</b>	Farm left in a will at death or gifted to you during life.	It is easy to inherit or be gifted something. Inheritance usually means an influx of equity.	“Inheriting” debt and other problems. The senior generation may change their minds. A possibility of estate taxes.
<b>Buying a farm</b>	Getting a loan from a bank, FSA, or Farm Credit. Owner financing.	Provides income to the senior generation. The pleasure of ownership.	A high amount of equity, experience, and education are needed. Debt payments could cause cash flow problems in the future.
<b>Renting farm property</b>	Renting all assets Renting land & buildings Renting equipment	Easy to get started and easy to change. In many cases, it is more economical than buying.	Problems with the landlord. Rental property can be sold, and you would have to move.
<b>Work into ownership</b> <b>Work into partnership</b> <b>Share leasing</b>	Gaining equity in livestock, equipment, or a percent of the business.	It can be flexible and provides income to the senior generation while providing equity to the junior generation.	Working with business partners can be a challenge. Contracts can be broken
<b>Combination of methods</b>	Gaining equity in a partnership then buying out the other owners. Buying some, inheriting some, renting some.	May capture the advantages of all the previous methods.	This can be more difficult to set up and may require multiple contracts and legal agreements.

## INHERITING OR BEING GIFTED A FARM

You should critically evaluate what it is you are inheriting or being gifted. Are you taking on a lot of debt with your inherited farm? Pay close attention to Step 4: Evaluating Farm Opportunities. If the senior generation promised the farm as an inheritance, they could always change their minds and wills.

**Will gifting or inheritance be a part of your Getting Started Plan?**

## BUYING A FARM

Today, with high input prices (such as land, equipment, and livestock), it is a lot harder to start farming through purchasing. If you are looking to buy a farm, you will need a large down payment. Suppose you are financing the purchase through a bank. In that case, they will expect a high degree of experience and education to make the loan. If you from a family-owned farm, do not be surprised if you are expected to buy the farm from your parents someday.

**Will buying farm assets be a part of your Getting Started Plan?**

## RENTING A FARM

There may be some great deals for those looking to rent land and facilities. The ground is particularly advantageous to rent rather than own. Many new farmers rent as a transition step into ownership; they build equity while renting to put money down on a future farm.

**Will renting farm assets be a part of your Getting Started Plan?**

## WORK IN PARTNERSHIP WITH THE SENIOR GENERATION

This method has become more popular, as the senior generation needs a source of retirement income. This also benefits you by providing a gradual transition into farm ownership. Whether it is within your family or with someone non-related, good contractual agreements are necessary to ensure that everything goes according to plan. Chances are, this transfer of ownership will happen through the b

**Will working in a business arrangement be a part of your Getting Started Plan?**

Again, if you want more in-depth information about working together, contact the SC Center for Cooperative and Enterprise Development for a copy of the *Doing Business Together* guide.

## A COMBINATION OF METHODS

Combining buying, renting, gifting, inheritance, and partnership agreements is common. A good transfer plan will help you work out all the details of future farm ownership. business structure. On the next page is a table of business structures and how they affect the ease of transfer.



BUSINESS STRUCTURE	EASE OF TRANSFER	INCOME SHARING	DECISION MAKING
<b>Sole Proprietor</b>	Ownership of assets determines who owns the business. Some difficulties may arise when transferring assets in this manner.	The owner of the assets makes the decisions on how net income is split. The owner also pays the taxes on net income.	The owner of the business makes all of the decisions unless otherwise agreed.
<b>Partnership Limited Liability Company</b>	Partnership share (%) is determined by one's contribution to the business. This percentage may be increased over time.	The partnership or LLC agreement determines how net income is split. This split can be based on management, labor, and/or ownership.	The percent partnership share determines who makes the decisions. An LLC operating agreement spells out job duties and voting rights.
<b>S Corporation C Corporation</b>	Shares of stock determine ownership. Shares of stock can be transferred easily. Valuation is difficult.	Net income is split among shareholders according to how much stock each shareholder owns.	Shareholders vote on decisions based on ownership of shares. Operating agreements spell out job duties.

### Check off the items which you are considering in your plan for getting started

#### Buying Business Assets

- Owner held mortgages
- Land contracts
- Bank financing

#### Inheritance

- Annual gifts of business assets from the senior generation
- Business assets left to you in a will or estate plan

#### Renting Business Assets

- Renting
- Renting with the option to purchase

#### Working into a Partnership/Ownership (transfer through the business structure)

- Partnerships
- Limited Liability Company
- Corporation (C or S)



**STEP 7**  
**THE GETTING STARTED /**  
**TRANSFER PLAN**

**THE FIVE STEPS OF A BUSINESS TRANSFER**

Transferring business ownership can have up to five components: A business structure, a buy-sell agreement, an operating agreement, sales and lease contracts, and estate plans. Let’s define each of these components:

**BUSINESS STRUCTURE**

How you structure your business can affect what legal, financial, tax and long-term planning options are available to you. The U.S. Small Business Administration<sup>1</sup> has a website explaining the different business structures ([sba.gov](http://sba.gov)). The chart below is from the website.

BUSINESS STRUCTURE	OWNERSHIP	LIABILITY	TAXES
<b>Sole Proprietorship</b>	One person	Unlimited personal liability	Personal tax only
<b>Partnerships</b>	Two or more people	Unlimited personal liability unless structured as a limited partnership	Self-employment tax (except for limited partners) and personal tax
<b>Limited Liability Company (LLC)</b>	One or more people	Owners/Members are not personally liable	Self-employment tax, can elect personal tax or corporate tax
<b>Corporation – C Corp</b>	One or more people	Owners/Stockholders are not personally liable	Corporate tax
<b>Corporation – S Corp</b>	One or more people, but no more than 100, and all must be US citizens	Owners/Stockholders are not personally liable	Personal tax
<b>Corporation – Nonprofit</b>	One or more people	Owners are not personally liable	Tax-exempt, but corporate profits can’t be distributed

**Discuss the need to change business structures with the senior generation.**

<sup>1</sup> 2018, U.S. Small Business Administration, 409 3rd Street, Washington DC, 20416

## BUY-SELL AGREEMENT

A buy-sell agreement determines how business interests can be bought or sold. This agreement provides insurance against the risk of involuntarily losing business partners due to retirement, disability, or death. Also, if a partner leaves the business voluntarily, this agreement determines the price and buy-out terms.

**Discuss the need for a buy-sell agreement.**

## OPERATING AGREEMENTS

These agreements spell out who does what in a business (LLCs, C corporations, and S corporations). An operating agreement can bolster your management transfer plan by specifying when one person's duties become the duties of another. Formalizing a responsibility and accountability system is necessary so essential duties do not fall through the cracks.

**Discuss the need for an operating agreement.**

## CONTRACTS

Often, there will be a need for some additional contracts in a business transfer. Some contract examples are shown below.

### SALES CONTRACTS

Many transfers incorporate selling assets to the next generation, even family members. A sales contract will also be used if a gift is made; however, the price tag on the sale may be as little as \$1.00.

### PURCHASE OPTIONS

If you cannot buy the farm right away, a purchase option is often used to lock in an opportunity to buy one. This contract specifies price, payment methods, and the amount of time the offer remains open.

## LEASE CONTRACTS AND RENTAL AGREEMENTS

These agreements specify the landlord and tenant's rights, the assets to be leased, and the cost to lease them. For more information on rental contracts, contact the SC Center for Cooperative and Enterprise Development.

### LEASE-PURCHASE CONTRACTS

This is a combination of a lease contract with a purchase option. This is similar to a rent-to-own situation. Lease payments can be put toward the purchase price or not, depending on the two parties' goals.

### OTHER CONTRACTS

Contracts can be tailor-made by your attorney to fit your situation.

**Discuss the need for additional contracts**

## ESTATE PLANS & WILLS

The following information is for your understanding of the complex issues faced by the senior generation. You may also need to prepare a will and an estate plan for yourself. The following are the essential pieces of an estate plan:

### CHOOSING BENEFICIARIES

A beneficiary is someone who receives assets from an estate. Typically, beneficiaries are spouses and children of the person who died.

### PROVIDING FOR YOUNG CHILDREN

Suppose the deceased person had minor (under 18) children. In that case, many states specify that a will spells out who will raise them and manage any assets left for their benefit.

## TRANSFERRING PROPERTY

Below are the most common ways to transfer property. All of these items (except for the living trust) can be done by your family as preparation.

1. **Wills:** Specify beneficiaries of property owned by the deceased. Wills may be subject to probate, a court process to ensure that the will is administered correctly. Probate can sometimes be a lengthy process.
2. **Revocable Living Trusts:** Similar to a will, except it avoids probate proceedings. This document can be changed at any time (revocable).
3. **Pay on Death Accounts:** Typically used for cash, stock, and bond accounts. Beneficiary forms are filed by the account holder. It is a good idea to have beneficiaries listed on business checking accounts. It is also a good idea to keep beneficiary forms up to date.
4. **Joint Tenancy with Rights of Survivorship:** A way to deed property, so surviving owners automatically receive the deceased's share.
5. **Tenancy by the Entirety:** A property deed similar to joint tenancy, except this is solely for married people.
6. **Life Insurance:** The beneficiaries are named on the life insurance policy.

## ESTATE TAXES

The death tax. Its bark is a lot worse than its bite for many small-business owners. The senior generation may be exploring ways to reduce these taxes if the personal and business assets total more than the federal exemption. Please contact the SC Center for Cooperative and Enterprise Development to determine the current federal and state estate tax exemptions.

## PLANNING FOR INCAPACITY

Who will handle the business's financial affairs if you and/or the senior generation become disabled? The documents below are used for these situations.

1. **Power of Attorney for finances:** This document gives someone else the ability to make financial decisions on your behalf, should you become unable to do so.
2. **Health Care Proxy:** This document gives someone else the ability to make medical decisions (about you) on your behalf, should you become unable to do so.
3. **Living Will:** This document specifies what actions you wish to be taken (to be kept alive or allowed to die) if you are disabled beyond a reasonable expectation of recovery.

**Discuss the need for wills, estate plans, and planning for incapacity.**

### Checklist to complete before moving on to the next section:

- I understand the difference between the business entities.
- I realize what a buy-sell agreement is & why it is needed.
- I know the importance of an operating agreement.
- I understand the differences between the different contract types.
- I know the difference between an Estate Plan and a Will.
- I understand the importance of planning for the incapacity of the owner.



## STEP 8 PUTTING THE PLAN INTO ACTION

You have all the pieces you need to complete your getting started/business transfer plan! Now you have to put things down on paper and get your transfer team to implement your wishes. All agreements should be drafted by a lawyer, but you can save yourself a lot of time and money if you have your plan spelled out before visiting your lawyer.

**Discuss your Getting Started Plan with the senior generation.**

**Draft a business entity agreement (if applicable).**

**Draft a buy-sell agreement (if applicable).**

**Draft an operating agreement (if applicable).**

**Draft any necessary sales or lease agreements (if applicable).**

**Congratulations, your farm transfer is just beginning. If you need help with this process, contact the SC Center for Cooperative and Enterprise Development.**



APPENDIX  
**WORKSHEETS & TESTS**

**GOAL SETTING WORKSHEET  
FROM “MANAGING FOR SUCCESS”**

**PART ONE: PERSONAL GOALS**

**1. Personal: Why are you in business?**

---

---

---

---

**2. Personal: Why do others (spouse, employees, etc.) think you are in business?**

---

---

---

---

**3. Personal: What do you hope to accomplish in your lifetime?**

---

---

---

---



## PART TWO: BUSINESS GOALS

4. What will your farm look like in 10 years?

---

---

---

---

5. What will your farm look like in five years?

---

---

---

---

6. What about a year from today?

---

---

---

---

**PART THREE: MAKING CHANGES IN YOUR BUSINESS**

*If your farm will be different in the future:*

**7. What will you change?**

---

---

---

---

---

**8. How will you make that change?**

---

---

---

---

---

**9. Who is responsible for making that change (you, spouse, employees)?**

---

---

---

---

---



**10. When will the change take place?**

---

---

---

---

---

**11. How will you know when you have succeeded (how will you measure the change)?**

---

---

---

---

---



# GETTING STARTED TIMELINE EXAMPLE

YEAR	EDUCATION, SKILLS IMPROVEMENT	MANAGEMENT RESPONSIBILITY	FARM ASSET EQUITY
2021	Improve youngstock performance	Take over youngstock responsibilities	Start buying livestock
2022			
2023			
2024	Improve dairy herd performance	Take over dairy barn responsibilities	
2025			
2026			Livestock ownership complete Begin buying equipment
2027			
2028	Improve cropping skills	Take over cropping responsibilities	
2029			
2030			
2031			Equipment ownership complete Begin buying land & buildings
2032	Improve financial skills	Take total responsibility (Take over checkbook)	
2033	Continually improve skills		
2034			
2035			
2036			
2037			
2038			
2039			
2040			
2041			Land & buildings owned

# FINANCIAL DASHBOARD WORKSHEET

Developed by: Dr. David Kohl & Scott Mickey

PRACTICE	VULNERABLE	RESILIENT	AGILE	YEAR:
<b>1. Working Capital Sufficiency</b>	< 10%	10 – 25%	> 25%	
Formula: (Current Assets – Current Liabilities) / Operating Expenses				
<b>2. Cash to Current Assets</b>	< 5%	5 – 15%	> 15%	
Formula: Cash / Total Current Assets				
<b>3. WC Burn Rate: Debt Services</b>	< 1:1	1:1 – 5:1	> 5:1	
Formula: Working Capital / Term Debt Payments				
<b>4. Equity to Asset Ratio</b>	< 40%	40 – 70%	> 70%	
Formula: Total Equity / Total Assets				
<b>5. Core Equity Burn Rate</b>	< 3:1	3:1 – 7:1	> 7:1	
Formula: Excess Reserves / (EBITDA – FL – Interest – Debt Payments)				
<b>6. Debt Efficiency</b>	> 6:1	3:1 – 6:1	< 3:1	
Formula: Term Debt / EBITDA				
<b>7. EBITDA Efficiency</b>	< 15%	15 – 30%	> 30%	
Formula: EBITDA / Revenue				
<b>8. Asset Turnover</b>	< 30%	30 – 70%	> 70%	
Formula: Revenue / Total Assets				
<b>9. Rate of Return on Assets</b>	< 2%	2 – 8%	> 8%	
Formula: (EBITDA – FL – Depreciation) / Total Assets				
<b>10. Family Living Withdrawals</b>	> 25%	15 – 25%	< 15%	
Formula: FL / EBITDA				
<b>11. Term Debt Coverage Ratio</b>	< 110%	110 – 125%	> 125%	
Formula: (EBITDA – FL – Op Int) / Term Debt Payment (P&I)				

# MANAGEMENT DASHBOARD WORKSHEET

Developed by: Dr. David Kohl & Scott Mickey

PRACTICE	VULNERABLE	RESILIENT	AGILE	IMPROVEMENT STRATEGY
1. Product/Service Marketing Plan	None	Written	Written & Executed	
2. Cost of Production by Enterprise	None	In Your Mind	Written Budgets	
3. Business Plan	None	In Your Mind	Written & Used	
4. Succession Plan for Assets & Management	None	Written	Written & Executed	
5. Advisory team	None	Developing	Established & Used	
6. Risk Management Plan	None	Developing	Written	
7. Lifelong Learning/Training	None	Developing	Definite Plan for Management	
8. Goal Setting	None	Developing	Written & Executed	
9. Environmental Conservation Plan	None	Developing	Written	
10. Financial Plan	None	Plan in Your Mind & Executed	Written Plan, Executed & Monitored	
* Business Principle Defined	None	Working on 7 Steps	7 Steps Written & Posted	

# BUSINESS PARTNERSHIP TEST

By Stuart F. Smith

*In business together? Appraise your qualifications and resources.*

Personal relationships and specific business characteristics are essential to the success of joint business operations. Before you decide to go into business with someone else, complete a comprehensive evaluation of the farm resources, including management. Identify your personal strengths and attributes that can be contributed to the company and identify your shortcomings that may cause problems.

Although the emphasis of this test is on appraising your personal qualifications, here are some business characteristics that are essential for success:

1. The business must generate adequate income to meet current family needs and provide financial security after considering sources of off-farm income. You must put the right combination of land, labor, capital, and management together to meet income goals. Test the profitability and financial feasibility of your proposed plan. If it doesn't measure up, adopt a new strategy.
2. Management must be shared, but not necessarily equally, by the partners. There must be the desire and a plan to transfer control from one generation to the next.
3. Income should be shared based on each partner's labor, management, and capital contribution to the business. Financial and business records must be kept and used to distribute earnings based on contributions and monitor and improve financial progress.
4. If the transfer of ownership is a goal, you must have an understood and accepted plan by all parties.
5. A written agreement needs to be developed and used. Competent legal and business management advice should be obtained and followed.

Here are the personal characteristics that need to be appraised before entering a partnership or joint business agreement.

1. **Common or complementary objectives and goals.** The goals of individuals separated by one or more generations will not be identical. Many will be different, but they must not be conflicting. If you cannot agree on common or complementary goals, don't farm together.
2. **Ability to work, learn, share ideas, and manage together.** Working together requires compromise and commitment. You need the willingness to divide responsibility and accept decisions for which the other person is responsible. You must be willing to give and take without losing sight of your shared goals and objectives.
3. **Respect your partner and have confidence in your ability and your business arrangement.** Farm together if you and your partner have the personal characteristics that blend together and have a plan that you know will work. Completing the attached test will help you appraise your own qualifications for farming together.

## QUALITY OF HUMAN RELATIONSHIPS TEST\*

Take the following test to determine if you have the personal characteristics to successfully farm together with a partner or joint business operator/manager. Rate your answers using the following point scale:

<u>Your Answer</u>	<u>Your Points</u>
Yes! Yes! Yes!	10
Yes	8
Maybe Yes	6
Don't Know	4
Probably No	2
Very Unlikely	1
Definitely No!	0

Everyone planning to farm together should take Test A. Take Tests A and B if you are from the senior generation and plan to farm with your son, daughter, or someone else from the junior generation. If you are the son, daughter, or another junior generation member, take Test A and C.

TEST A – FOR ANY AND ALL PARTIES TO THE POTENTIAL AGREEMENT

QUESTION

ANSWER POINTS

1. Do you prefer to work and plan together vs. work alone and plan independently? \_\_\_\_\_
  
  2. Are you willing to talk things over and make joint management decisions vs. “do it your way”? \_\_\_\_\_
  
  3. Are you willing to listen and accept ideas/suggestions from others with less experience, less training, or less education? \_\_\_\_\_
  
  4. Are you able to make suggestions and recommendations versus giving orders and believing “my way is best”? \_\_\_\_\_
  
  5. Are you willing to give others credit for things well done and accept responsibility for failures? \_\_\_\_\_
  
  6. Can you discuss business and family issues with your potential business partner without getting angry? \_\_\_\_\_
  
  7. Do you prefer to figure out how to get things done more effectively versus “do it like you always have done it”? \_\_\_\_\_
  
  8. Do you like to recruit, hire, train, supervise, and evaluate employees? \_\_\_\_\_
  
  9. Are you willing to monitor and analyze the farm business and financial records, production records, and recommend changes based on your analysis? \_\_\_\_\_
  
  10. Are you willing to arrange and attend a weekly meeting? \_\_\_\_\_
  
  11. Are you willing to develop a written business agreement? \_\_\_\_\_
  
  12. Are you willing to review the business agreement and update it when necessary? \_\_\_\_\_
- Total Points \_\_\_\_\_

**TEST B – ADDITIONAL QUESTIONS FOR THE SENIOR GENERATION**

**QUESTION**

**ANSWER POINTS**

1. Are you ready to turn over specific management responsibilities to the younger generation and are you willing to encourage and help them develop their management expertise? \_\_\_\_\_
2. Do you have a feasible plan for transferring the ownership of the farm business to the junior generation? Are you willing to recognize their earned equity as part of this plan? \_\_\_\_\_
3. Are you willing to borrow additional capital to build up the business to support two generations? \_\_\_\_\_
4. Are you willing to accept a junior partner with a different living style? Can you let his/her family have their own life yet help them get through family crises with praise, encouragement, and care? \_\_\_\_\_
5. Are you willing to plan and hold a family conference to discuss goals, roles, differences, and expectations? Are you ready to help the younger generation identify their farming future and help them get there? \_\_\_\_\_

Total Points \_\_\_\_\_

**TEST C – ADDITIONAL QUESTIONS FOR THE JUNIOR GENERATION**

**QUESTION**

**ANSWER POINTS**

1. Do you have the patience to grow into the business over a period of time—say 5 to 8 years? \_\_\_\_\_
2. Are you ready and willing to take on additional labor and management responsibilities to operate a farm business in which you have minor ownership? \_\_\_\_\_
3. Are you willing to accept and try advice based on the senior generation’s experience? Do you have a plan that will continue to involve your senior partner in the management of the business? \_\_\_\_\_
4. Do you understand that the senior generation has different goals based on retirement needs and that the farm may have to help pay for these needs? Are you willing to help them identify and plan for these needs? \_\_\_\_\_
5. Can you accept advice from the senior generation about life, raising a family, and family relationships? Are you willing to ask them for help in resolving family and business problems? \_\_\_\_\_

Total Points \_\_\_\_\_



**ANSWER KEY—TOTAL YOUR SCORE FROM THE APPROPRIATE TESTS. \***

TOTAL POINTS TEST A	TOTAL POINTS TEST A + B OR C	LEVEL OF QUALIFICATION FOR FARMING TOGETHER
91 – 120	135 – 170	You will make a fine partner
71 – 90	101 – 134	You can make it work
51 – 70	71 – 100	It will be difficult
31 – 50	41 – 70	Don't try it just yet
11 – 30	16 – 40	Little chance of success
0 – 10	0 – 15	No chance!

Note: Sometimes, it is more helpful to discuss the areas in which you are the weakest rather than just focusing on the score

\* Concept and ideas for this test are from *Farm Business Arrangements: Which One for You?*, North Central Regional Publication 50, pp. 21–22; *Test Yourself...Would you be a Good Partner?*, by Claude W. Gifford, Farm Journal, Inc.







NYFARMNET.ORG

PUBLISHED 2021

**OTHER A.E.M. EXTENSION BULLETINS**

<b>EB No</b>	<b>Title</b>	<b>Fee (if applicable)</b>	<b>Author(s)</b>
2022-07	Usine Farm Assets for Retirement		Richards, S
2022-06	Estate Planning for Farm Families		Richards, S
2022-05	Doing Business Together: A Joint Business Agreement Guide		Richards, S
2022-04	Business Transfer Guide: Junior Generation		Richards, S
2022-03	Business Transfer Guide: Senior Generation		Richards, S
2022-02	Starting an Ag-Business: A Pre-Planning Guide		Richards, S
2022-01	Six Year Trend Analysis 2020 - New York State Dairy Farms - Selected Financial and Production Factors		Karszes, J. and Augello, L.
2021-07	Progress of the Dairy Farm Report, Selected Financial and Production Factors, Dairy Farm Business Summary, New York State, 2020		Karszes, J. and Augello, L.
2021-06	Effects of NY Overtime Laws on Agricultural Production Costs and Competitiveness		Wolf, C, Stup, R, And Karszes, J.
2021-05	Hired Labor on New York State Dairy Farms: Cost, Efficiency & Change from 2011 through 2020		Karszes, J. and Wolf, C.
2021-04	The Economic Contributions of Agriculture to the New York State Economy: 2019		Schmit, T.
2021-03	2020 New York Berry Price Information		Yang, Z., Park, K.S., and Gómez, M.I.
2021-02	Central NY Farmland Cash Rental Rate Survey Findings		Ifft, J., and Tommell, N.

Paper copies are being replaced by electronic Portable Document Files (PDFs). To request PDFs of AEM publications, write to (be sure to include your e-mail address): Publications, Department of Applied Economics and Management, Warren Hall, Cornell University, Ithaca, NY 14853-7801. If a fee is indicated, please include a check or money order made payable to Cornell University for the amount of your purchase. Visit our Web site (<http://dyson.cornell.edu/outreach/#bulletins>) for a more complete list of recent bulletins.