USING FARM ASSETS FOR RETIREMENT

COOPERATIVE EXTENSION
College of Agriculture, Forestry and Life Sciences

THE CENTER FOR COOPERATIVE AND ENTERPRISE DEVELOPMENT
SERVING RURAL SOUTH CAROLINA

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Using Farm Assets for Retirement

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USING THIS WORKBOOK

Farm retirement decisions can be complicated, but they don’t have to be. This workbook takes you through some options, step-by-step, at your own pace, or with the help of a trained business consultant. The steps in this workbook are just a guide—you may use them in a different order if you wish. Skipping steps is not recommended; you should review the materials in each chapter before moving forward.

No retirement formula or plan is suitable for everyone. Each plan will differ based on your goals and your financial situation. If you need assistance with your retirement planning, please contact the South Carolina Center for Cooperative and Enterprise Development at clemson.edu/extension/agribusiness/sccced/.

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. All worksheets are included in this workbook.

Decision Point

At each step in this workbook, you will be asked to make decisions regarding the future of your farm. This 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!
Retirement planning doesn’t have to be as daunting as it sounds. For many farmers, the most challenging part is acknowledging that they may have to participate in activities other than farming. This is not an easy transition, but thousands of farmers will tell you that there is life after farming; there is life during retirement. The first step in this whole process is simply setting a retirement date. Then you can start thinking about what you want to do after you retire.

**SET A DATE!**

Retirement planning starts by picking a date for retiring from day-to-day farm duties. Don’t get stuck in what I call the “five-year trap.” The five-year trap is a common syndrome among farmers and non-farmers alike. The five-year trap is this: when I ask a farmer when he or she will retire, they say, “oh, in five years.” When I ask the same question five years later, can you guess what the answer is? “In five years!” By not setting a firm date, retirement planning may never get done.

Sometimes, people hesitate to retire because they want to see certain things happen before they hand the reigns over to someone else. To help you pick a retirement date, ask yourself and your family some of these questions:

**Discuss with your family what you want to do on the farm before you retire**

- Do you want to make sure the farm continues to the next generation?
- Do you want to continue working during retirement?
- What needs to occur for you to feel comfortable letting go of daily operations?
- Do you enjoy what you are doing now?
- How will you slow down and back off from your day-to-day responsibilities?

Leave some time to accomplish the things you want to get done on the farm, and leave time to do those exciting post-retirement activities! Make yourself a timeline of when you think the best retirement date would be.

**Set a date for retirement.**

Today’s Date __________________________

Retirement Date ________________________
WHAT DO YOU WANT TO DO AFTER YOU RETIRE?

One size does not fit all in retirement planning. Studies have shown that your attitude about retirement is the key to how happy you will be in retirement. So, let’s dispel some myths about retirement!

LIFESTYLE MYTHS:

• Retirement is when you stop working
• Your retirement will be short
• Retirees aren’t interested in self-improvement

These lifestyle myths perpetuate the idea that retirement is a “ride away into the sunset” event. This view of retirement is not productive. Instead, think of retirement as a time to enjoy those things you never had time for when you were working: travel, visiting relatives, hobbies.

Also, if you enjoy working, there is no reason to stop working just because you don’t have the daily responsibilities of running the farm. Many people see this as an opportunity for a second career: volunteer work, local politics, mentoring younger farmers, helping out a neighbor, consulting, or starting a new farm-based business.

FINANCIAL MYTHS:

• You need millions of dollars to retire
• Happiness is all about money
• You can or cannot depend on Social Security

There are many financial myths about retirement. The best way to determine your retirement needs is to create a budget that reflects your specific income and expenses during retirement. There are no financial “rules of thumb” that apply to everyone.

Discuss with your family what do you want to do after you retire?

• What kind of hobbies do you enjoy?
• Do you still want to work, even if it is not on the farm?
• Do you still want to work on the farm but do something different?
• Where do you want to travel?
• Do you want to spend more time with your family?

Make a list of things you want to do after you retire:

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________
CHAPTER 2
RETIREMENT INCOME BUDGETING

Stock market analysts and others on Wall Street make it sound like you need a mint to retire, but this may not be the case. The only way to find out is by drafting a retirement budget. A retirement budget is simply retirement income minus retirement expenses.

RETIREMENT INCOME FROM NON-FARM SOURCES

Before we look at any income derived from the transfer, sale, or lease of the farm, let’s concentrate on the other sources of retirement income available. Most of the sources of income not derived from farm assets would be from Social Security and retirement savings accounts.

SOCIAL SECURITY RETIREMENT

Social Security Retirement benefits still have value—21% of married couples and 45% of unmarried individuals rely on Social Security payments to provide 90% of their retirement income. In general, there are four things that you need to know about Social Security Retirement benefits:

1. **You need 40 work credits to receive Social Security Retirement benefits.** If you were born before 1929, you might need fewer. In 2021, to obtain one work credit, you must have paid Social Security (Self-Employment) taxes on $1470 of earned income. You can earn up to 4 work credits a year (paying Social Security taxes on $5880 of earned income).

2. **When you claim your benefits can affect how much you receive each month.** You can claim Social Security Retirement benefits as early as age 62, with reduced monthly benefits. Full retirement age (with full benefits) is currently 66 and 10 months and will gradually increase to 67 for people born after 1960. You can increase your monthly Social Security retirement income by waiting until age 70 to start collecting benefits.

3. **If you elect to receive Social Security benefits earlier than the full retirement age, you are limited on how much income you can earn without a penalty.** Suppose you are collecting retirement benefits before your full retirement age. In 2021, you may only earn up to $18,960 per year before your retirement benefits are reduced. Once you reach your full retirement age, you will not have any earning limits.

4. **It is hard to play "catch-up" with Social Security.** Suppose you are nearing retirement and you haven’t paid much into the Social Security system. In that case, it is tough to increase benefits much by paying extra into the system at this stage in your life. You may be better off by putting more money aside in another retirement account. See a financial advisor about your options in this instance.
INCOME FROM RETIREMENT PLANS

Suppose you have invested in other retirement accounts such as a SEP IRA, Simple IRA, traditional IRA, Roth IRA, profit-sharing plan, 401(k), or a pension fund. In that case, you should calculate much money you can withdraw each year. Most likely, you have someone administering your retirement plan—speak with them to find out how your program works. In general, there are three things that you need to know about most retirement plans:

1. **There is a penalty for early distributions from retirement plans.** An early distribution is when you withdraw money from your plan before you reach age 59 ½. There are instances where the penalty may not apply, such as paying for college expenses or buying a first home.

2. **Make sure that the beneficiaries named on your retirement plan are accurate.** When you die, the money in the plan goes to the listed beneficiaries, not whom you name in your Will.

3. **Minimum draw.** Once you reach the age of 72 (or 70.5 if born before July 1, 1949), you must withdraw a minimum amount of money from an IRA.

OTHER SOURCES OF INCOME

What other sources of income do you have that may continue after you retire from farming? Do you have rental properties? Do you hold leases or get royalties from mineral rights? Have savings accounts or other nest eggs? Are you planning on working part-time? Are you starting another farm-based business?

Calculate annual income from other sources

How much other income will you generate during your retirement? Estimate the amount of annual income that these sources will provide.

Annual Income from other sources $ _____________ C

Total of all non-farm retirement income

$ _________________ (A + B + C)
When estimating your retirement expenses, consider these three major areas: housing, health care, and everything else! Be conservative and estimate costs on the high side, as things are usually more expensive than you would expect—especially if retirement is still a ways off.

**HOUSING COSTS**

If you have lived on a farm your entire life, you may have to scratch your head a little bit on this one. What are the expenses that are associated with just your house? If you have had the farm pay the utilities, the mortgage, the maintenance, and the taxes, then you may not know exactly how much it has cost you over the years.

What will be the increase in costs to you and your family if you move away from the farm? When looking at all your options, be sure to do two budgets: living on the farm and living off the farm.

### Calculate your annual estimated housing costs.

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgage Payment</td>
<td></td>
</tr>
<tr>
<td>Property Taxes</td>
<td></td>
</tr>
<tr>
<td>Homeowner’s Insurance</td>
<td></td>
</tr>
<tr>
<td>Home Maintenance</td>
<td></td>
</tr>
<tr>
<td>Utilities</td>
<td></td>
</tr>
<tr>
<td>Other Housing Costs</td>
<td></td>
</tr>
<tr>
<td><strong>Annual Housing Costs</strong></td>
<td>$ ____________</td>
</tr>
</tbody>
</table>
HEALTH CARE COSTS

Health care costs continue to outpace the inflation rate—usually increasing by 10% or more each year. The good news is that once you turn 65, you will be eligible for Medicare, which is generally less expensive than a health insurance policy for people under 65. In any case, use conservative numbers (aim high) when filling out your health care budget.

Calculate your annual estimated health care costs.

Health Insurance/Medicare ___________________________
Medicines ___________________________
Co-payments for Visits ___________________________
Other Health Care Costs ___________________________
Annual Health Care Costs $ _______________ B

OTHER RETIREMENT EXPENSES

Think about all the other retirement expenses that you will have during retirement. If you are going to live off the farm, try to think of those things you will have to pay for, rather than the farm.

Calculate your other annual expenses.

Groceries ___________________________
Entertainment/Dining ___________________________
Auto Fuel & Repair ___________________________
Pet Expenses ___________________________
Vacation/Travel ___________________________
Gifts ___________________________
Loan/Credit Card Payments ___________________________

Retirement Income – Retirement Expenses = $ (Needed)/Leftover

$ ___________________ – $ ___________________

(Total Income) (Total Expenses) = $ ___________________

D

OTHER ANNUAL COSTS

Clothing ___________________________
Charity ___________________________
Income Taxes ___________________________
Insurance (car, boat, etc.) ___________________________
Other Expenses ___________________________
Other Annual Costs $ _______________ C

Total of all retirement expenses.

$ ___________________ (A + B + C)

HOW MUCH RETIREMENT INCOME DO YOU NEED FROM THE FARM?

In the table below, calculate how much money you need for retirement from the farm. If the amount on Line D is negative, this is the annual amount of money you need the farm to provide for your retirement. If the amount on Line D is positive, you don’t need the farm to supply you with additional retirement funds.
**GETTING MONEY OUT OF THE FARM**

What narrows down the number of choices is how much money you need from the farm for retirement. As you will see later on in this workbook, specific options may provide you with more money than others. The worksheet below summarizes the information you gathered in the last two chapters. There is also an additional blank copy included in the back of this workbook.

<table>
<thead>
<tr>
<th>RETIREMENT INCOME</th>
<th>MONTHLY</th>
<th>ANNUAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Security</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retirement Accounts</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Income</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Income (without farm)</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>RETIREMENT EXPENSES</th>
<th>MONTHLY</th>
<th>ANNUAL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Housing Expenses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mortgage Payment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property Taxes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Home Insurance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Home Maintenance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Utilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Housing Costs</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Health Care Expenses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Health Insurance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medicines</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Co-Payments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Health Care Costs</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Other Expenses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Groceries</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Entertainment/Dining</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Auto Fuel &amp; Repair</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pet Expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vacation/Travel</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gifts</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loan/Credit Card Payments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Clothing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Charity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income Taxes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insurance (car, boat, etc.)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Amount Needed from Farm</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(if expenses are in excess of income)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
What do you think?

Depending upon your goals and your financial situation, you may decide to sell, lease, or transfer assets as a retirement strategy. Maybe you have already made up your mind? If not, the charts below may help you think about your options a little better. Check off how you feel in the boxes below. Which options have the most check marks?

<table>
<thead>
<tr>
<th>HOW MUCH DO YOU AGREE?</th>
<th>LOW</th>
<th>MEDIUM</th>
<th>HIGH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash needed right now</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Desire to move on</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stress levels</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Desire to avoid risk</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Transfer or Lease</th>
<th>All 3 options may work</th>
<th>Sale</th>
</tr>
</thead>
</table>

In case the last chart didn't help you decide, let's flip the questions around and see how you feel about these four questions:

<table>
<thead>
<tr>
<th>HOW MUCH DO YOU AGREE?</th>
<th>LOW</th>
<th>MEDIUM</th>
<th>HIGH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Continue the farm for the future</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Avoid paying a lot of taxes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase income possibilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Risk does not bother me</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Sale</th>
<th>All 3 options may work</th>
<th>Transfer or Lease</th>
</tr>
</thead>
</table>

Sell, lease or transfer? Comparing risks and rewards

The primary decision boils down to risks and rewards. It is possible to increase retirement income and reduce income taxes by transferring or leasing the farm operation. However, the risks associated with doing so can be higher than simply selling the farm and walking away. Suppose you are a landlord or a retired farm owner drawing an income from the farm. In that case, your retirement income depends upon the success of the next generation or the renter. On the flip side, if you need more retirement income than a sale will provide, you may have to explore these other options to increase the amount of retirement income. The risks and rewards of each option will be discussed in the following chapters.

<table>
<thead>
<tr>
<th>COMPARING RISK AND REWARD</th>
<th>RISK</th>
<th>REWARD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sale</td>
<td>⭐</td>
<td>⭐</td>
</tr>
<tr>
<td>Lease</td>
<td>⭐⭐⭐</td>
<td>⭐⭐⭐</td>
</tr>
<tr>
<td>Transfer to Next Generation</td>
<td>⭐⭐⭐⭐</td>
<td>⭐⭐⭐⭐</td>
</tr>
</tbody>
</table>

You still may be undecided at this point. Read through the examples provided in this workbook and try filling out the worksheets and comparing them. It is also valuable for a tax preparer, an attorney, and a financial advisor to assist you. If you need help filling out the worksheets or finding a retirement advisor, please contact the SC Center for Cooperative and Enterprise Development at clemson.edu/extension/agribusiness/sccced.
Selling the farm business assets can be a low-risk or high-risk strategy, depending on how you sell the assets. See the table below for risk considerations for selling farm assets. In general, you may save on taxes if you spread the sale out over time, but it is riskier to hold the debt yourself.

<table>
<thead>
<tr>
<th>Method</th>
<th>Example</th>
<th>Tax Considerations</th>
<th>Ownership and Control Considerations</th>
<th>Risk Considerations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land Contract (Fixed Assets)</td>
<td>Owner held mortgage (land and buildings only).</td>
<td>Interest payments are ordinary income. The principal is capital gains.</td>
<td>The tenant has control of the property while making payments. The owner still has the deed.</td>
<td>Default on payments. Property damage. Having to evict the tenant.</td>
</tr>
<tr>
<td>Owner Financing (All Assets)</td>
<td>Owner-held loan on any farm assets.</td>
<td>Similar to Land Contract, except it can be used with more than fixed assets.</td>
<td>Similar to a Land Contract.</td>
<td>Similar to a Land Contract. Taxes on installment sales may be due immediately.</td>
</tr>
<tr>
<td>Bank Financing (All Assets)</td>
<td>A new farmer buys the farm with 3rd party financing. Co-sign possible.</td>
<td>Gain on sale immediately taxable. Some items are ord. income</td>
<td>The tenant has control of assets. The bank holds the mortgage.</td>
<td>The bank assumes most of the risk unless you are a co-signer.</td>
</tr>
</tbody>
</table>
HOW MUCH WILL BE LEFT IF YOU SELL THE FARM?

This is an accounting question decided by how much your farm business is worth, how much you still owe on it, and how much you will pay in taxes when selling the farm.

HOW MUCH IS THE FARM WORTH?

The best person to answer this question is a certified farm appraiser. Your lender may also be able to give you a reasonable estimate. Ideally, get a separate estimate for each asset class: livestock, equipment, buildings, and land. This will help with future decisions as to what assets to transfer and which assets to sell.

<table>
<thead>
<tr>
<th>How much is the farm worth?</th>
<th>How much debt is owed by the farm?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Livestock</td>
<td>Livestock</td>
</tr>
<tr>
<td>Feed &amp; Supplies</td>
<td>Feed &amp; Supplies</td>
</tr>
<tr>
<td>Equipment</td>
<td>Equipment</td>
</tr>
<tr>
<td>Buildings</td>
<td>Buildings</td>
</tr>
<tr>
<td>Land</td>
<td>Land</td>
</tr>
<tr>
<td>Other</td>
<td>Other</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

| Total $_________________________ A | Total $_________________________ B |

HOW MUCH DO YOU OWE?

How much debt does the farm owe? Specifically, how much debt is owed on each asset: livestock, feed and supplies, equipment, buildings, and land? To find out the exact amounts, call those that you have borrowed from. Remember to include credit card debt and unsecured debt, like IOUs.
Before you know what the government will take, you need to know the taxable gain on your farm items' sale. Have your accountant help you calculate the potential gain on the sale of your farm. Gain is the difference between the sales price and the adjusted basis (what you paid for an item minus accumulated depreciation). Raised cattle and crops, feed and supplies, and fully depreciated assets have a zero adjusted basis.

### What is your adjusted basis on each of these items?

<table>
<thead>
<tr>
<th>ITEM</th>
<th>PURCHASE PRICE</th>
<th>− ACCUMULATED DEPRECIATION</th>
<th>=</th>
<th>ADJUSTED BASIS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchased Livestock (&gt;2yrs)</td>
<td>________________</td>
<td>−</td>
<td></td>
<td>________________</td>
</tr>
<tr>
<td>Purchased Livestock (&lt;2yrs)</td>
<td>________________</td>
<td>−</td>
<td></td>
<td>________________</td>
</tr>
<tr>
<td>Equipment</td>
<td>________________</td>
<td>−</td>
<td></td>
<td>________________</td>
</tr>
<tr>
<td>Buildings</td>
<td>________________</td>
<td>−</td>
<td></td>
<td>________________</td>
</tr>
<tr>
<td>Land</td>
<td>________________</td>
<td>−</td>
<td></td>
<td>________________</td>
</tr>
<tr>
<td>Other Items</td>
<td>________________</td>
<td>−</td>
<td></td>
<td>________________</td>
</tr>
</tbody>
</table>

### What is your gain on each of these items?

<table>
<thead>
<tr>
<th>ITEM</th>
<th>VALUE OF ASSET</th>
<th>−</th>
<th>ADJUSTED BASIS</th>
<th>=</th>
<th>GAIN ON SALE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchased Livestock (&gt;2yrs)</td>
<td>________________</td>
<td>−</td>
<td>________________</td>
<td>=</td>
<td>________________</td>
</tr>
<tr>
<td>Purchased Livestock (&lt;2yrs)</td>
<td>________________</td>
<td>−</td>
<td>________________</td>
<td>=</td>
<td>________________</td>
</tr>
<tr>
<td>Equipment</td>
<td>________________</td>
<td>−</td>
<td>________________</td>
<td>=</td>
<td>________________</td>
</tr>
<tr>
<td>Buildings</td>
<td>________________</td>
<td>−</td>
<td>________________</td>
<td>=</td>
<td>________________</td>
</tr>
<tr>
<td>Land</td>
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<td>________________</td>
<td>=</td>
<td>________________</td>
</tr>
<tr>
<td>Raised Livestock</td>
<td>________________</td>
<td>−</td>
<td>Zero Basis</td>
<td>=</td>
<td>________________</td>
</tr>
<tr>
<td>Growing Crops</td>
<td>________________</td>
<td>−</td>
<td>Zero Basis</td>
<td>=</td>
<td>________________</td>
</tr>
<tr>
<td>Inventory</td>
<td>________________</td>
<td>−</td>
<td>Zero Basis</td>
<td>=</td>
<td>________________</td>
</tr>
<tr>
<td>Other Items</td>
<td>________________</td>
<td>−</td>
<td>________________</td>
<td>=</td>
<td>________________</td>
</tr>
</tbody>
</table>
WHAT IS THE TAX LIABILITY? CLASSIFYING AND TAXING GAINS

The second step is to classify the gain. Gain from the sale of raised dairy and breeding cattle, land, some buildings, timber is typically a capital gain. Gain from the sale of purchased breeding and dairy cattle, machinery, equipment, and single-purpose structures is usually ordinary income not subject to self-employment tax. Gains from the sale of crops, supplies, and livestock held for sale are ordinary income and reported on Schedule F. Schedule F income is subject to self-employment tax.

<table>
<thead>
<tr>
<th>ITEM</th>
<th>GAIN TYPE</th>
<th>AMOUNT OF GAIN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchased Livestock (&gt;2yrs)</td>
<td>Ordinary/Not Sch. F</td>
<td>$</td>
</tr>
<tr>
<td>Purchased Livestock (&lt;2yrs)</td>
<td>Ordinary/Yes Sch. F</td>
<td>$</td>
</tr>
<tr>
<td>Equipment</td>
<td>Ordinary/Not Sch. F</td>
<td>$</td>
</tr>
<tr>
<td>Buildings</td>
<td>Capital Gain</td>
<td>$</td>
</tr>
<tr>
<td>Land</td>
<td>Capital Gain</td>
<td>$</td>
</tr>
<tr>
<td>Raised Livestock</td>
<td>Capital Gain</td>
<td>$</td>
</tr>
<tr>
<td>Growing Crops</td>
<td>Capital Gain</td>
<td>$</td>
</tr>
<tr>
<td>Inventory</td>
<td>Ordinary/Not Sch. F</td>
<td>$</td>
</tr>
<tr>
<td>Other Items</td>
<td></td>
<td>$</td>
</tr>
</tbody>
</table>

**Gain Type** | **Tax Rates**
--- | ---
Ordinary/No Sch. F | Ordinary Income Tax Rate
Ordinary/Yes Sch. F | Ordinary Income Tax Rate + Self Employment Tax
Capital Gains | Capital Gains Tax
ESTIMATE TAXES DUE ON THE SALE OF FARM ASSETS

Now that you have calculated your basis, estimated your gains, and identified the taxes you are subject to, talk to your accountant! For a rough estimate, most standard farm sales pay about 1/3 of the gain in taxes. Hopefully, your accountant can help you strategize how to lower this tax bill. Typically, selling farm assets over multiple years helps spread the gain out over multiple tax years, reducing the tax.

What is your tax liability if you sell the farm?

Estimated Amount of Taxes $ ___________ C
Owed Upon Sale

HOW MUCH MONEY IS LEFT AFTER SELLING THE FARM?

Estimate what would be left after selling the farm by subtracting debt and taxes from the sales price.

What is left if you sell the farm?

Sales Price of Farm – Debt Owed – Taxes Owed

$ _______ – $ _______ – $ _______

A B C

= What’s Left

= $ _____________

D

Are the farm sale proceeds enough to fund your retirement? You will have to divide "What’s Left" by the number of years you plan to be retired. Also, compare this number with any calculations you made in Chapter 1 of this workbook.

Which category do you fall into below?

☐ We have enough to retire without the sale of the farm!

Excellent! The sky is the limit on what you can do with the business.

☐ We have enough to retire if we sell the farm.

Your options are still open! If you decide to sell, you will be able to finance your retirement. If you choose to transfer the farm, you can ask the junior generation a fair selling price (or perhaps a price lower than market value) for the farm.

☐ We have close to enough money to retire if we sell the farm.

Your options are slightly narrower, as you may have to consider other means of income during retirement. If you decide to transfer, you will need the junior generation to help finance your retirement — either through rental payments, selling farm assets, or a combination of both.

Some other things to consider:

Are there other sources of income that you didn’t think about?

Maybe some retirement costs can be lowered?

Is it possible to extend the retirement date a little longer?

Can you extend the sale of farm assets to save on some taxes?

☐ We cannot fund our retirement through a farm sale.

You need to check out different options rather than selling outright. Some of these options may involve taking a few more risks, as you may be depending on the junior generation to provide for your retirement. This means that the future success of your business is necessary for your retirement.
Leasing farm assets is a medium-risk strategy. While leasing may provide additional income for a few years, the farm assets may decrease in value due to use, inflation, and obsolescence. On the positive side, leasing provides some time to plan for the future—and if leasing doesn’t work out, you still retain the option to sell the assets at a future date. Below are a couple of different leasing methods compared:

<table>
<thead>
<tr>
<th>Method</th>
<th>Example</th>
<th>Tax Considerations</th>
<th>Ownership and Control Considerations</th>
<th>Risk Considerations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lease (All Assets)</td>
<td>Barn, Land, Equipment, or Livestock Lease.</td>
<td>Lease payments are taxed as ordinary income.</td>
<td>Lease agreements give more control to the tenant and cannot be canceled easily.</td>
<td>Risk of default on payments. Risk of damaging leased property.</td>
</tr>
<tr>
<td>Lease with Option to Buy (All Assets)</td>
<td>“Rent-to-own”: Lease as a trial period, then sell.</td>
<td>Lease payments are ordinary income.</td>
<td>Lease agreements give more control to the tenant. Option to buy expires with the lease.</td>
<td>Cannot sell the property to another person while the option to buy is in effect.</td>
</tr>
<tr>
<td>Share-Lease Agreements (and Non-Cash Leases)</td>
<td>Sharemilking “Milk check assignment”</td>
<td>Payments are taxed as ordinary income even if payment is not cash</td>
<td>Lease agreements give more control to the tenant, cannot be canceled easily.</td>
<td>Risk of default on payments/damage to leased property. Cannot sell during contract terms.</td>
</tr>
</tbody>
</table>
**How Much Income Will Leases Provide?**

Ultimately, lease payments have to be agreed upon by both you and the lessor. Rental rates for farm structures and equipment is one of the most commonly asked questions of Cooperative Extension. Instead of providing you with rule-of-thumb rental rates, you should determine how much rent you need from each asset. The table below shows the types of expenses you should build into your rental figures. Remember, you still need some of the lease income to pay for some of your retirement expenses.

<table>
<thead>
<tr>
<th>EXPENSES TO INCLUDE</th>
<th>STRUCTURES</th>
<th>EQUIPMENT</th>
<th>ANIMALS</th>
<th>LAND</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation</td>
<td>✔️</td>
<td>✔️</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank Payments</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>Repairs*</td>
<td>✔️</td>
<td>✔️</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property Taxes</td>
<td>✔️</td>
<td></td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>Insurance</td>
<td>✔️</td>
<td></td>
<td></td>
<td>✔️</td>
</tr>
<tr>
<td>Utilities*</td>
<td>✔️</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fuel*</td>
<td>✔️</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Feed*</td>
<td>✔️</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vet / Medicine*</td>
<td>✔️</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Breeding</td>
<td>✔️</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bedding*</td>
<td>✔️</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lime*</td>
<td>✔️</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*May be part of the rent payment or the lessor’s responsibility.

**Figure out what minimum rent you need to charge for your farm assets.**

Fill in the second table below and calculate the minimum rental rates you need to charge to cover your expenses.

<table>
<thead>
<tr>
<th>MY EXPENSES</th>
<th>STRUCTURES</th>
<th>EQUIPMENT</th>
<th>ANIMALS</th>
<th>LAND</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation</td>
<td>✔️</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank Payments</td>
<td></td>
<td>✔️</td>
<td>✔️</td>
<td></td>
</tr>
<tr>
<td>Repairs*</td>
<td>✔️</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property Taxes</td>
<td></td>
<td>✔️</td>
<td>✔️</td>
<td></td>
</tr>
<tr>
<td>Insurance</td>
<td>✔️</td>
<td></td>
<td></td>
<td>✔️</td>
</tr>
<tr>
<td>Utilities*</td>
<td>✔️</td>
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<tr>
<td>Fuel*</td>
<td>✔️</td>
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<tr>
<td>Feed*</td>
<td>✔️</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vet / Medicine*</td>
<td></td>
<td>✔️</td>
<td>✔️</td>
<td></td>
</tr>
<tr>
<td>Breeding</td>
<td>✔️</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bedding*</td>
<td>✔️</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lime*</td>
<td>✔️</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Minimum Rent Payment</td>
<td>✔️</td>
<td></td>
<td>✔️</td>
<td>✔️</td>
</tr>
</tbody>
</table>
How much more can you charge to cover your retirement expenses?

Can you charge an additional amount to cover some of your retirement expenses? To answer this question, compare the market rental rates in your area to the minimum rent amounts you need to charge. To get a good idea of rental rates in your area, contact the local Cooperative Extension office. Fill out the table below to see if you can cover all of your costs and provide some retirement income.

<table>
<thead>
<tr>
<th>ASSET</th>
<th>MARKET RATE</th>
<th>LESS: MINIMUM RENT</th>
<th>EQUALS RETIREMENT INCOME</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Compare the retirement income generated from leasing/renting. Is it enough?

If it looks like renting might be an option, please read the rest of the chapter. If renting won’t provide for all of your retirement needs, maybe you will have to consider a combination of selling and leasing assets.

If you have another party interested in taking over the farm, that still may be an option at this point. The next chapter will review the options for farm transfer as a means for retirement.

FARM LEASE AGREEMENTS

In a farm rental/lease agreement, the farm owner landlord agrees to grant temporary possession and use of their farm, to a tenant, for an agreed-upon time and rental amount. All contracts should be in writing in case any future questions or disputes occur. Many leases are similar, but please refrain from using a general template. Each lease may require details specific to your situation or local laws. It is best to have an attorney help you write your lease agreement. Please see the "Items to Consider in a Farm Rental Agreement" on page 27 for more information on lease agreements.
FARM LEASE-PURCHASE AGREEMENTS

This agreement is also known as "rent-to-own" or a "lease with the option to buy." In either case, this agreement is simply a standard lease combined with a purchase option. The items included in a purchase option include the following:

1. **Option Price:** For an option contract to be enforceable, the buyer must pay for the option. The amount paid for the option is not refundable. It is applied to the property's purchase price if the buyer elects to exercise the option or is forfeited to the seller if they do not exercise the option to purchase the property.

2. **Option Term:** The contract should contain a specific date by which the buyer must exercise the option.

3. **Method of Exercising the Option:** The contract should specify what actions the buyer must take to exercise the option. Often, this is simply a letter to the seller stating the buyer's intent to purchase the property.

4. **Buyer's Credits:** If a portion of the rent payments is applied to the property's purchase price, this should be stated clearly in the contract.

FARM SHARE-LEASES

A share-lease agreement is a contract that combines many of the business assets and the management and labor of the two parties without creating a formal business structure. In the dairy industry, these agreements are called “share-milking” and are somewhat prevalent. Still, the same goals may be accomplished through other means (such as a formal business structure or a partnership). These agreements do work, especially when there is a good deal of attention paid to record-keeping accuracy. If you want additional information on share-leases, please contact the SC Center for Cooperative and Enterprise Development at clemson.edu/extension/agribusiness/sccced.

YOUR RETIREMENT INCOME DEPENDS ON THE SUCCESS OF YOUR RENTER

If you rely on rental income for retirement, you will also depend on your renter’s reliability and success. Choosing the right renter for your property is a critical decision. Some tips for selecting the right renter are:

- **Ask all prospective tenants to fill out a rental application.** This application should include:
  - Employment, income, and credit history
  - Social Security and driver’s license numbers
  - Past evictions or bankruptcies
  - Previous rental history
  - References

- **Check with previous landlords and other references.**

- **Verify income and employment information.**

- **If possible, obtain a credit report through the applicant’s bank or online service.** The process is called “due diligence” and is a good idea to perform on prospective renters and prospective buyers. A credit report may indicate whether the person has a history of paying rent or bills late, has gone through bankruptcy, has been convicted of a crime, or has been evicted from a property.

- **Check references as to the renter’s experience operating and managing a farm.** Their success at running a profitable business will affect the timeliness of getting paid.
Transferring a farm business to new owners may have the highest income potential. However, risks also increase with this method. The risk is that your retirement income depends on the next generations’ success. If the business fails, your retirement income stream may be in jeopardy.

In general, there are four strategies and five agreements used for business transfers. The strategies (or methods) are selling or leasing, gifting, Willing (estate), or an intermediary. The five agreements are sales and lease contracts, business entity agreements, operating agreements, buy-sell agreements, and estate (Will and trust) documents.

Not all of these strategies or agreements are used in every business transfer. We will only concentrate on a few commonly used methods to generate retirement funds through a farm transfer for this workbook. If you would like more ideas on how to transfer a business, please contact the SC Center for Cooperative and Enterprise Development at clemson.edu/extension/agribusiness/sccced and download the Junior or Senior Business Transfer Guides.

This chapter is meant to help you think about the options of farm transfer and retirement. You should pass any ideas or plans by your accountant and your attorney.

TIPS ON MAKING BUSINESS TRANSFERS WORK

This list is not exhaustive, but it contains the essential elements of successful business transfers.

1. Make sure that the business transfer is beneficial to both parties. Not only is the retirement budget important, but the farm must be able to afford to pay both retired individuals and those running the farm.

2. Use a neutral third party to help set up your farm transfer plan. A neutral third party is beneficial in easing tensions and discussing complicated topics.

3. Get your farm transfer plan in writing. Don't leave anything open for misunderstanding. Get everything written down so that it is clear how this transfer is to proceed.

4. Practice good communications with your successor(s). Try not to let the little stuff bother you. Frequent meetings between the business partners and retired partners can help resolve conflicts before they boil over. If conflicts do occur, don’t be afraid to call a third party to help mediate the situation.
5. Help the next generation succeed. Remember that your retirement income depends on the success of the next generation.

TRANSFER TO A FAMILY MEMBER

Some transfer methods are typically used for an in-family transfer, such as gifting. In addition to the family transfer methods listed below, all non-family transfer methods may also be used. However, the tax advantages of gifting usually result in farm families using it as one of their tools. See the examples for more details.

TRANSFER BY GIFTING

The advantages of gifting are that it avoids income taxes for the senior generation, and it gives the junior generation a break on the cost of the business. In the case of a husband-and-wife-owned business, the gift amounts apply to each of them so that the annual gift exemption limits may be effectively doubled. The main disadvantages are that the senior generation does not receive any cash for retirement. And, the adjusted tax basis of the gifted property remains the same as before the gift was made.

GIFTING STRATEGIES

Annual federal gift tax exclusion: The government allows a business owner to give gifts tax-free each year to his/her beneficiaries. Currently, the annual gift exclusion is $15,000 per donor/per person. This amount increases every few years, so it is good to check current IRS regulations.

Lifetime federal gift tax exclusion: If you need to pass a large amount of property to the next generation in excess of your annual gift exclusion, you can use your federal lifetime gift tax exclusion. This lifetime gift exclusion is the same as the estate tax exemption of $11.7 million, meaning you can gift $11.7 million in addition to your annual gift exclusion. The disadvantages of this approach are that the basis of the gifted property stays the same as it was for the person giving the gift and that the lifetime exclusion amounts are added back into the estate at the time of death (meaning that the amount of lifetime gifts reduces your estate tax exemption).

OTHER EXAMPLES OF GIFTING STRATEGIES

Gift of interests in a family business: If your business is organized as an LLC, S Corporation, or a C Corporation, you can give gifts of minority business interests to your beneficiaries. You may also be able to discount the value of the minority interest, allowing you to pass more real property through the business structure tax-free. It can be tricky to determine how much a business interest is worth, as its value fluctuates every year. Consult a tax accountant or a business transfer attorney if you are considering this option.

Gifts of life insurance: Life insurance gifts may be made three years before your death (IRS regulations). Life insurance may be given in two ways: simply giving the policy to your beneficiary or creating an irrevocable life insurance trust. For more information on this trust, see "Tax Savings" Trusts below. Remember, once you sign over your life insurance policy to another person, it cannot be canceled or changed by you ever again.

GIFTING IN EXCHANGE FOR A DEFERRED COMPENSATION AGREEMENT

Usually, when gifts are made, the senior generation wants to protect their rights to a retirement income stream. A deferred compensation agreement is often used to structure a retirement payment stream for the senior generation, even if the senior generation does not own any farm assets. Often a win-win scenario: the senior generation gets to retire, and the payments are usually less than what the junior generation would have to pay if they had bought the farm. In addition, the payments to the senior generation are tax-deductible to the farm and not subject to self-employment taxes for the senior generation.
GIFTING IN EXCHANGE FOR A LIFE ESTATE

This method gives the senior generation some security that they will be able to live in their house after they transfer the farm property deeds to the next generation. A life estate is an actual easement placed on the deed that allows the life use of the property (usually the house)—so no one can evict the senior generation. Many farm transfers use this tool.

DEBT FORGIVENESS THROUGH GIFT OR ESTATE

Sometimes the senior generation will balance out their risk a little by holding a mortgage or an installment note on some of the farm assets (rather than gifting them all). Since the IRS requires that all transactions of this sort charge an interest rate, many farmers forgive the interest portion of the payments—which is a gift. In addition, the senior generation may have the junior generation pay for a while then forgive the remaining debt—either by gift (while alive) or upon the death of the senior generation (debt forgiven in the Will).

INCOME ONLY TRUST OR MEDICAID TRUST

These trusts can be used to protect farm assets from being encumbered by nursing home costs. Look-back disqualification periods for putting money into a trust are currently five years from the date the assets were put into trust, so plan ahead. An income only trust may also be used with non-family members.

The essential workings of an irrevocable income only trust allow the senior generation to keep the income from the assets put into trust. The income generated by the assets in this trust (e.g., rent, installment sale proceeds, deferred compensation payments) will provide retirement income during the lifetime of the senior generation. However, the assets in the trust are for the eventual benefit of someone else. Keep in mind that appointed trustees must make all decisions regarding the assets in the trust. The trustees have to be persons other than the person who created and funded the trust.

ESTATE STRATEGIES

This strategy involves letting the Will do the work. The typical "someday, this will be all yours" approach. This strategy is riskier for the junior generation because Wills may be changed for any reason.

Federal estate tax exclusion: Since 2001, the tax exemptions on property passed through an estate (after the owner dies) have been gradually rising. The current estate tax exemption is $11.7 million per person.

The advantages of this approach are that it is easy, and most property gets an automatic "step-up" in tax basis when it passes through the estate. The disadvantages of this approach are that the junior generation never owns some of the farm assets until after your death. Also, you may not have your Will in order before you die—possibly dividing the estate in a manner which you did not intend.

Remember that lifetime gifts are added back into the estate, reducing the amount of estate tax exemption. For instance, if you had made $1 million in lifetime gifts before 2021, your estate tax exemption would currently be $10.7 million.

TRANSFER TO A NON-FAMILY MEMBER

Non-family transfers usually do not involve transfers through gifting or the estate. The tools mentioned below may also be used with family members.

SELF-CANCELING INSTALLMENT NOTES (SCINS)

This is a similar strategy to the debt forgiveness by the estate strategy described above. SCINs are promissory notes given in payment for a purchase of assets. The notes are canceled upon some event, usually the death of the seller of the assets. If the note is canceled upon death, the value of the SCIN is not included in the seller’s estate. No more payments are necessary, and the property passes to the buyer. Such a note must have a higher face value or higher interest rate or both
(compared to a note which is not self-canceling) to avoid being viewed as a gift to the buyer. You will need the help of an accountant to get this note set up right. Another tool that is similar to a SCIN is sometimes called a Life Annuity.

**TRANSFERS THROUGH BUSINESS STRUCTURES OR PARTNERSHIPS**

The type of business structure chosen can then make your transfer plan easier or more complex. Keep in mind that the more items spelled out in an agreement, the less room there is for misunderstanding between people in the business. See the table below for some comparisons of business structures and their effect on business transfers.

<table>
<thead>
<tr>
<th>BUSINESS STRUCTURE</th>
<th>EASE OF TRANSFER</th>
<th>INCOME SHARING</th>
<th>DECISION MAKING</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sole Proprietor</strong></td>
<td>Ownership of assets determines interest in the business. Some difficulties may arise when transferring assets in this manner.</td>
<td>The proprietor makes the decisions on how net income is split. Proprietor pays the taxes on net income.</td>
<td>The owner is the sole decision-making authority.</td>
</tr>
<tr>
<td><strong>Partnership</strong></td>
<td>Partnership share (%) is determined by one’s contribution to the business. This percentage may be increased or decreased relatively easily.</td>
<td>The partnership or LLC agreement determines how net income is split. This split can be based on management, labor, and/or ownership.</td>
<td>Partnership share (%) is the default as to who makes the decisions. But, the operating agreement can allocate decision-making differently.</td>
</tr>
<tr>
<td><strong>Limited Liability Company</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>S Corporation</strong></td>
<td>Shares of stock determine ownership. Shares of stock can be transferred easily.</td>
<td>Net income is split among shareholders according to how much stock each shareholder owns.</td>
<td>Shareholders vote on decisions based on ownership of shares. Operating agreements spell out job duties.</td>
</tr>
<tr>
<td><strong>C Corporation</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Discounts: People elect to transfer equity through a business partnership to take advantage of discounts for minority partners. The IRS allows you to discount the amount of equity transferred to a minority (owns less than a controlling share) partner by as much as 35%. This discount allows you to transfer the business much quicker and takes the bite out of the taxes owed on such a transfer. Talk to your accountant if you are interested in this strategy.

Profits Interest: People also elect to transfer equity through a business partnership to take advantage of a profits interest. In a partnership structure (a general partnership or an LLC), you can split the net income in whatever manner the operating agreement states (unlike a corporation where the net income is divided by how many shares each person owns). A profits interest could allow the senior generation to retire, own all the assets, and assign all profits to the junior generation. The only problem with this approach is that many farms do not show a profit year after year. Talk to your accountant and your attorney if you are interested in this strategy.

Deferred Compensation Agreement

This agreement can be used similar to how families use it: providing retirement income for partners no longer active in the business. This agreement can be a bargaining chip for the retiring partner—negotiating a deferred compensation agreement in exchange for a retiring partner discounting the price of selling their interest to other partners.

Lease with Option to Buy

This option was discussed in the leasing farm assets chapter. It is a good way to test the waters and get the new person on their feet before requiring them to buy the farm assets.

Conservation Easement Strategies

Selling or donating conservation easements (or development rights) on your property can be a difficult decision. Once you change the deed to your property, it is permanent. Some townships and municipalities have funds to purchase development rights, but most do not. There are tax benefits for donating conservation easements; however, talk to your accountant before making any decisions.

Selling conservation easements: You sell a deed restriction on your property to a qualified conservation organization. These easements can be used for wetlands, agriculture, or even scenic views. This money could also be used for retirement or to help the next generation buy your share of the business.

Donating conservation easements: The main benefit is reducing your estate’s value, thus lessening possible estate tax. The donation value is also seen as a charitable contribution and may be deductible for income tax purposes.

Other Strategies

Like-kind Exchanges: Sometimes, like-kind exchanges can be used in the transfer of farm real estate. There are three basic requirements for like-kind exchanges: the property must be business or investment property (not residential), the transaction must be an exchange of property, and the property must be similar (i.e., real estate must be exchanged for real estate). This can be helpful if you consider trading your farm real estate for commercial or rental property elsewhere.

Charitable remainder trusts: Basically, you put some or all of your assets into this charitable trust while alive. The charity then pays you a set amount of income per year while you are living. After you die, the charity takes possession of the remaining property in the trust (the remainder).
The most common mistake made by people transferring businesses is having too few people on the transfer team! Often, a single trusted family advisor (such as a lawyer or an accountant) executes the entire process. While this may get the job done faster, relying on just one individual may overlook a transfer plan’s essential aspects. Below is a list of specialties that need to be represented on the transfer team:

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

**Lender:** Loan security, financing the next generation

**Accountant:** Tax implications of the business transfer

**Business management specialist:** Someone who knows the industry

**Farm transfer facilitator:** Keeps the process moving

**Financial planner:** Retirement planning and life insurance needs

**Lawyer:** Reviews and drafts the legal agreements, prepares estate planning documents

**Other:** Trusted family advisors

Realize that you will not need to meet with all these people every week. Nor will you have to meet with all these people at the same time. However, the team needs to know what is going on to double-check each other’s work and make additional suggestions during the process.

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

After reviewing the transfer team members’ list, you may notice that you need to find more people for your team. How do you go about finding the right service provider? Here are some tips for finding the right transfer team member:

1. **Compile a list of names.** List all the people you can find in that particular service area. Ask around—your family, other service providers, and even your neighbors.

2. **Check the person out.** Find out who has used that person's services and call them for references. Look for online reviews. Treat this like a job interview—this service provider will be doing important work for you, so you want the best!
HOW DO I GET THE MOST FROM PROFESSIONAL SERVICE PROVIDERS?

Service providers are busy people like you, and they have other businesses to attend to. Here are two good pieces of advice to getting the most from your service provider:

1. **Keep in contact.** Ensuring that your service provider gives you the attention you need is like the old adage: "the squeaky wheel gets the grease." You need to be in regular contact with your transfer team—don't wait for them to call you.

2. **Ask the right questions.** Ask questions in the service providers’ expertise (i.e., don't ask your accountant legal 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 don't understand.

3. **Make expectations known upfront.** What do you expect from your service provider, and how much is this going to cost you? How is this person going to cooperate with your family and the other transfer team members? It is a good idea to write these things down and review them with your service provider to see if they are willing to meet your expectations. Get all agreements in writing.

4. **Don't be afraid to change providers.** Although you may have time and money invested in a particular person, don't be scared to replace that person if he/she isn't doing the job you want. The future of your business depends on getting the transfer done right.

WORKING WITH YOUR ATTORNEY

One key point to remember is that attorneys specialize in different aspects of the law. For a farm transfer, you need an attorney with experience in estate planning, business transfers, and business transactions.

HOW MUCH WILL THIS COST?

A business transfer may cost you a good amount of money. Prices range from a thousand to multiple thousands of dollars, depending on the transactions' complexity. You need to think of this expense as an investment. Just like a good tractor lasts you ten years or more, a good business transfer agreement needs to last a long time.

Check off which specialties will be represented on your team and identify them.

- [ ] Business Members
- [ ] Lender
- [ ] Accountant
- [ ] Management Specialist
- [ ] Farm Transfer Facilitator
- [ ] Financial Planner
- [ ] Lawyer
- [ ] Other
Attached are some general materials that you may find useful reading in your retirement planning. Some of the tax figures in these articles may go out of date rather quickly, so you should always ask the advice of your accountant when it comes to tax projections.

**ITEMS TO CONSIDER IN A FARM RENTAL AGREEMENT**

1Excerpted from Richards, Steven, Charlotte Maxwell, and Adam Kantrovich. “Farm Rental Arrangements” Clemson Land Grant Press #LGP 1065. May 2020. This checklist was updated and adapted from a similar article written by Andy Dufresne, a retired Cornell Cooperative Extension Educator.

In addition to lease generalities (such as naming the parties involved and describing the leased property in detail), the following is a checklist of discussion items between farm owners and tenants for negotiating a farm lease agreement.

**LEASE PERIOD (TERM)**

The length of time for the lease, the beginning and ending dates, should be stated in the contract. Usually, landowners favor a short-term lease because they can more easily change tenants or sell the farm. Tenants generally prefer a long-term lease so that they feel more secure in developing their businesses.

**RENTAL RATES AND PAYMENTS**

Landlords and tenants should consider current value, depreciation, interest, insurance, taxes, and maintenance when agreeing on a rental rate. There are two common lease payment types in agriculture: cash rent and crop share. Cash rent is the most common; the tenant pays the landlord a cash amount per acre or a total amount for the property involved. Crop share rent can take on various formats. Still, the most common is where the landlord and the tenant agree to share both the crop expenses and crop receipts (revenue) in a specified manner. Crop share is common in states where there is a requirement of "material participation" to qualify for special agricultural tax treatment.

**REPAIRS**

Prevent misunderstanding by agreeing ahead of time as to which repairs are the landlord’s responsibility and which are the tenant’s. Minor repairs and upkeep, such as replacing a broken fence board or post, are usually the tenant’s responsibility. Significant repairs to the leased property, such as barn roofs, are generally the owner’s responsibility.

**CAPITAL INVESTMENTS BY TENANT**

Typically, tenant’s capital improvements necessitate a long-term lease with provisions for reimbursement if the lease terminates early. One of the most common ways is to match the lease term with the estimated "life" of the capital improvement (usually corresponding to IRS tax depreciable life). For example, a tenant drills a well on the land and estimates it will operate for fifteen years, so the lease term is fifteen years. If the lease is terminated after ten years by the landlord, then the landlord would have to reimburse the tenant for one-third of the "life" still left in the well (5/15).

**RIGHT OF ENTRY**

Every farm lease agreement should include a statement giving the landowner the legal right to enter the property.
Sometimes, the landlord must notify the tenant about their planned visits to the property.

NO PARTNERSHIP CREATED

A lease does not create a partnership. A statement of this nature is advisable in any lease form. Neither party will obligate the other party for liabilities or damages outside of the lease agreement.

NO RIGHT TO SUBLEASE

Usually, tenants are not allowed to lease the farm they are renting to another business or individual. There are exceptions, for instance, allowing hunters to sub-lease the land during hunting season.

OPERATION AND MAINTENANCE OF THE FARM

Some lease agreements spell out general management practices. These practices could be the number of consecutive years a crop can be planted, re-seeding hay fields, conservation measures, noxious weed management, and drainage ditch maintenance.

GOVERNMENT PROGRAM PAYMENTS

Some government program payments are made to the participants who grow the crops; others are for owners of the land who commit to certain practices. There should be an understanding of who participates in federal farm programs, including responsibility for eligibility and payment receipt.

REAL ESTATE TAXES, INSURANCE, UTILITIES, OTHER COSTS

Is it clear who pays these costs? Landlords generally pay real estate taxes. Typically, landlords have casualty insurance on buildings, while tenants have renter’s insurance, and both parties should have liability insurance.

TERMINATION CLAUSES

How may the lease be terminated before the term? Often, it is a good idea to add a clause that both parties can terminate the lease if they mutually agree to do so.

DISPUTE RESOLUTION CLAUSES

The contract should include a provision that helps resolve landlord and tenant disputes through mediation before going to court.

RIGHTS OF CONTINUATION AND SUCCESSION

Will the lease be binding on heirs (if a party to the lease dies) or future owners (if the farm is sold)?

RIGHT OF FIRST REFUSAL OR OPTION TO PURCHASE

For added security, some tenants like to have language that gives them the first option to purchase the leased property, should the landlord decide to sell it. Both parties may agree on a purchase price and make that part of the contract — making it a lease/purchase contract rather than a straight lease.

HOLD HARMLESS

Landlords should always have a hold harmless clause in the rental agreement that states that they are not liable for the business activities on the rented property.

SIGNATURES

The agreement becomes a contract when it is signed. All co-owners of the property, including husband and wife, should sign the lease agreement.
The purpose of this publication is to explore what you need to think about if you decide to sell. It includes information from interviews with farmers who have recently sold their farm as well as the tried and true advice gathered over many years.

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* Dr. George Conneman, was a professor in the College of Agriculture and Life Sciences at Cornell University. He had a lifetime of experience consulting with families about their businesses and relationships. He also taught the farm real estate appraisal course at Cornell for 20 years.
FIRST THINGS FIRST

Are you thinking about retiring or changing occupations? At first thought, it sounds like a simple decision: sell the farm! How? Tell the neighbors your farm is for sale. Put a for sale sign on the front lawn. Contact a real estate agent. Call an auctioneer. Advertise in a farm newspaper or on the internet. Maybe all of the above!

But it ordinarily is not that simple. Many questions arise, and many alternative strategies need to be considered. If you have decided to sell the farm, there are two MUST DO’s before advertising your farm or listing your property with a real estate agent, or contacting an auctioneer:

1. Develop a team of advisors. Just contacting your accountant or tax preparer is not sufficient. But having an accountant or tax preparer on board early is essential because they can advise you on procedures that will limit your tax liability and will lead to an exit plan that is financially sound for you and your family. A trained and experienced financial advisor or farm business consultant can help you with the details and complexities of doing a cash flow analysis and give you professional advice on alternative ways to dispose of the property and other farm assets. To identify a knowledgeable financial advisor to work with, talk to other farmers who have sold their farms and contact others professionals (e.g., veterinarian, lender, feed salesperson, cooperative, equipment dealer) you work with for suggestions. It is crucial to connect with an advisor who has experience working with farm sales.

2. Discuss the sale with your creditor(s). Make arrangements with them to release the property before the sale. Lenders often know the "ins and outs' of property sales, and they will have some experiences to share.

DEVELOP A STRATEGY AS SOON AS POSSIBLE

The overall question is how to manage your farm sale best to maximize your net sale income after taxes and other expenses. It takes lots of planning. Selling your farm may be the largest and most important transaction of your life. Delaying the decision can be costly, so develop a plan to sell your farm. Your plan should take into consideration the following four factors:

1. Analyzing historical trends in farm sales in your location
   a. Are farm property values going up or down?
   b. What kind of buyers are there in your area?

2. Valuing and pricing the farm real estate and other assets
   a. How will you get a realistic picture of your farm's value?
   b. How will you price the farm so it sells?

3. Developing a strategy to sell the farm business
   a. Who can assist you, and how will you work with them?
   b. What is your sales timeline?
   c. Will your farm sell better as a unit or in pieces?

ANALYZING HISTORICAL TRENDS IN FARM SALES

BUYERS MAY BE SEEKING A BALANCED OPERATION

Selling a farm in the 21st century is different from selling a farm in the 20th century (1900 to 2000). In the "old days," most farms were sold and valued as a unit. The land, buildings, and farm residence were sold as one, usually to a younger person starting farming or moving up to a better or larger farm. Farms were generally balanced (land, buildings, house); that is less likely today when many farms rely on a rented land base of
30-40% for their crop operations. A balance needs to be considered when thinking about the most likely buyer.

Even as farms were expanding in size, the unit was purchased and integrated into a more extensive operation; all the new farm facilities were utilized. (For example, a son came home to be a partner in a large farm operation; the parents buy a farm nearby, son lives in the house, the business uses the buildings as part of the expanded operation for heifers, and the land is incorporated into the larger business).

Current technology and economies of size have made many farm facilities somewhat obsolete, e.g., older freestall and conventional barns. To some extent, this is true of larger farms, even those with "modern" freestalls (built in the last 10 to 15 years). Dairy farms with a 100 to 500 cow capacity, just like smaller farms, may also not sell as a unit. The buyer may be looking primarily at the land and discount the buildings and the milking parlor and only be interested in the cow facilities for their heifers or dry cows.

**GOOD LAND (LOCATION) HAS ALWAYS BEEN IMPORTANT**

Good land has never been more critical to an efficient operation than it is today. Agriculture in New York and elsewhere in the Northeast has moved to the "chosen spots," i.e., those regions with good soil resources. Is your farm an economically viable unit in the 21st century? How good are the soils? As I have been fond of telling my farm management classes for years, "Some soils are so poor that when the crows fly over, they carry their lunch!" However you look at it, location plays a big part in how a farm sells. Depending on the specific location, the market for a farm may be either continued agricultural use, recreational use, residential/commercial, or all of the above.

"WHOLE FARM" SALES ARE DECLINING

The trend of selling the farm as a complete unit continued until the late 1990s when fewer and fewer farms were sold "whole." There have been recent whole-farm sales, but compared to the 1980s, it's about one farm in 20 today versus 8 out of 10 in the 1980s. Many farms are now purchased as "add-on" units and lifestyle farms. The exception to this may be in regions where small farms dominate, such as those where Amish and Mennonite farmers have moved in. Inefficient facilities can become "profitable" with a larger family labor force and a lower family living requirement.

**MORE FARMS BEING SOLD AS LIFESTYLE OR RECREATION FARMS**

Lifestyle farms and farms for recreation uses are a large part of farm sales. The best market for your farm may be a non-farmer! As Will Rogers said about land: "God ain't making any more." A desire to move to the country, a desire for a lifestyle "farmette" results in the sale of the farm to an urban buyer. Other buyers are interested in niche farming on a smaller scale than traditional commodity production. There is also an increasing market for recreational properties, which is not only woodlands but also agricultural land. Depending on the area, recreational woodland may bring a higher price per acre than open agricultural land.

**SMALLER PARCELS TEND TO SELL FOR HIGHER PRICES**

Many studies have shown that other things being equal, small land parcels tend to sell for more per acre than larger parcels do. Does this mean you should subdivide your land? Read the market carefully before making a decision.
CASE STORY: GROWING HOUSES INSTEAD OF CROPS?

I know a farmer who had a modest dairy farm and sold off 40 acres while he continued to farm. The sale price was roughly $8,000 per acre. The 40 acres was marginal land for growing crops, easily replaced by renting some better land nearby. The person he sold the 40 acres to was an experienced developer. This individual developed the property, selling many lots for $30,000 to $50,000 and building upscale houses. Observing what appeared to be a bonanza, the farmer decided to go out of farming and develop a 30-acre piece on another part of the farm. Why not become the developer and get more of the profit? Upon undertaking this venture, he discovered the "costs" of development:

Visible, obvious, apparent costs:
1. Infrastructure, including roads, drainage improvements, and utilities (sewer, water, cable)
2. Surveyor, and engineering, and other consulting fees
3. Realtors fees
4. Site preparation, including clearing trees and moving dirt
5. Legal fees and liability insurance

Hidden Costs:
1. Taxes: capital gains, property taxes on developed land in an agriculture district, or "roll back" taxes on Agricultural Exemptions
2. Higher property taxes since the land was no longer taxed as farmland and taxed to its next highest and best use
3. Opportunity costs—interest income lost on money tied up in the development; interest owed on any loans needed to finance the development project
4. Any windfall capital losses or other developments nearby or in the area available for residential/rural development compete for the pool of building lot buyers
5. Emotional costs: red tape and frustration when dealing with local planning board and other agencies.
6. Neighbors: Some would become upset with development near their houses.

Note: I pursued the question of development on an exam in my Rural Real Estate Appraisal Course: "Discuss and analyze the costs of developing farm property for urban housing." One student wrote: "The moral of this story is: if you are sick, go to a reputable doctor; if you are taken to court, get a reputable lawyer; and if you want to grow houses, sell to a reputable developer."

Never believe it is a simple thing to subdivide. It may be risky, and you may have to wait years until you realize any gain from the subdivision. In addition, if the developer fails, you may end up with the land back—dirt piles, unfinished roads, and all!

Many farmers are better at growing crops than houses!
VALUING AND PRICING FARM REAL ESTATE

EMPLOY A CERTIFIED APPRAISER

You probably have some feel for what your cattle will bring at an auction: a knowledgeable auctioneer can give you a good ballpark figure. Your local machinery dealer will probably be willing to appraise your equipment. Getting an idea of what your farm real estate is worth is a little trickier. Many people can give you a “seat of the pants” or the “back of an envelope figure” for what your real estate is worth. A real estate agent or auctioneer can help with a more informed estimate. But it is rarely, if ever, enough information to make an informed decision about selling farm land. A professional real estate appraiser will do an appraisal for $1,000 to $3,000, including comparable sales and analysis of your property. Use a state-certified appraiser. Remember that farm appraisal is an increasingly specialized business. Ask farmers who have recently sold their farms and other agricultural professionals you work with for referrals.

GET AN ACCURATE PICTURE OF THE VALUE OF YOUR FARM REAL ESTATE

A successful sale frequently hinges on an accurate valuation of the property. Don’t be surprised if the appraisal is at odds with your tax assessor’s valuation or your own “back of the envelope” valuation. We all tend to see more value in what we own than the market really will pay for an item (ask me about my 1993 Firebird). A buyer is likely to identify that some of your buildings are not state-of-the-art. You will need to be realistic about the actual market value. Family labor frequently "absorbs" inefficiencies. But the prospective buyer sees them. Dairy facilities and certain storage buildings are single-use structures, so an old barn or storage may not be as valuable as you think.

PRICING YOUR REAL ESTATE

In selling your farm, you need to formulate three prices: The advertised price, the price you want, and the price you would be willing to take. Usually, these are in descending value, from the price you advertise to the price you would be willing to take. If not, you may have to reassess your strategy!

1. The advertised price. Broad experience of real estate professionals and auctioneers say maybe 10-20% above the actual market value. If you are grossly over-priced, it’s more likely that potentially interested parties will not even look or make a bid. Experience shows that +10% may be the figure that gives you wiggle room to negotiate.

2. The price you want. This is the ideal price you would like to receive for the farm. Your "wanting price" should be in line with the market value for farms in the real world. The likely buyer is probably knowledgeable about farm values and may have other properties he/she is considering buying.

3. The price you would be willing to take. This price is probably fair but may be less than the price that you want. Each side probably has to give a little to make a sale happen, and you don’t want to pass up an offer that may be the best offer you are likely to get.

DEVELOPING A STRATEGY TO SELL THE FARM BUSINESS

THOSE WHOSE HELP YOU MAY NEED

We have already mentioned that you should employ the help of a farm management specialist, an appraiser, and a tax accountant. Two other professionals may be needed at this point in your selling strategy: a real estate agent or an auctioneer.
1. **A Real Estate Agent**
   Find a real estate agent or broker knowledgeable about farming and has a record of selling farms and farm properties, one who has wide contacts and handles large parcels. Other things equal, a local agent probably knows the market in your area better than the out-of-town 800-number that advertises getting the highest price instantly. But, things are not always equal. Farm real estate is a rare occurrence on the landscape, and knowledgeable local agents may be hard to find. Choose carefully and ask lots of questions of the realtors you contact, and evaluate the trade-offs. Ask farmers who have recently sold their farms and other agricultural professionals you work with for referrals.

   Discuss with the realtor ways to sell the farm real estate. Ask for their advice on strategies that work. Realtor’s commissions and taxes must come out of gross sales proceeds. Realtors have set fees, but a farm sale can be a relatively large transaction. Feel free to negotiate prices. An excellent and knowledgeable realtor is almost always worth the cost.

2. **An Auctioneer**
   Select an auctioneer familiar with farming and selling farm assets and has a good record of successful auctions and farm sales. Your creditor, accountant, tax accountant, extension specialist, or other financial advisors may have good suggestions on whom to contact. Your neighbors who have exited farming may have some experiences to share and referrals. Auctioneer’s commissions come out of gross sales proceeds and may be 7-10% of the sale. That may sound high, but an auction company provides valuable services, including quality and experienced sales staff and proper support equipment. Services may include:

   - Estimate of what the farm assets are likely to bring at the auction
   - Preparation of the livestock and machinery for the sale
   - Promoting and advertising of the sale, i.e., generating a competitive crowd and bidding atmosphere
   - Insurance for the sale and bonding
   - Handling checks on sale day and guarantee checks and collections

   There is no substitute for an experienced auction company. The difference between a good sale and a lousy sale may be as much as 20%. There is a difference between hiring an "auctioneer" and an "auction company." An auctioneer sells at a sale and goes home! An auction company provides all required services from beginning to end. You want to select a company you can trust with the greatest skills and bring the most to the table before, during, and after the sale. Cheap usually means less service. On the other hand, commissions are sometimes negotiable. An extensive portfolio of assets to dispose of may give you some leverage in these negotiations.

3. **A Tax Advisor**
   Select a tax accountant or consultant that can give you an estimate of the income, self-employment, and capital gains taxes that will be due upon the sale of your property. A good advisor will help generate options for you to save tax dollars before and after the sale. However, beware of tax-saving schemes that will jeopardize your best sale price.

**KEY COMPONENTS OF YOUR SALES STRATEGY**

Some critical components of your sales strategy may include: the timing of your sale, dividing up the real estate, tax considerations (next chapter), and other items specific to your situation.
TIMING OF YOUR SALE

Often, people wait too long to sell the farm. When times are good, the market is generally good, and there are more likely buyers. When farm operators wait until bad times to sell, it is often too late because there are fewer potential buyers. Remember, the goal is to SELL the farm! The experience of many farmers is that if you refuse the "reasonable offer," it may be a long time before you get the next one, and the next offer may be lower. Figure out what you will take for the farm—if you get an offer that is about your price, take it. Don’t look back, and don’t second guess yourself.

Remember, there is a cost to holding on to a farm, particularly after it has stopped operating (e.g., property taxes, insurance, upkeep, utilities, and repairs). Idle farm buildings go downhill quickly. Holding costs could be 10-25%, depending on the farm (many buildings) and the length of time it is held.

DIVIDING UP THE PROPERTY

Selling the various pieces of a farm to different people has much appeal because it is assumed that the parts will sell for more than the whole-farm unit. Subdividing mainly involves decisions on road frontage. You can see residential and commercial development along rural roads and arterial highways. This is called "curb cut" or "strip" development. As a farm owner, you need to decide on this development pattern and the implications, especially for the longer term, i.e., for the next generation of farm owners.

A farm with a residence, improvements (outbuildings), and land (tillable, woods, and pasture) has several parts that may not be valuable. For example, a neighbor would likely be very interested in an adjoining 50-acre field with well-drained soil and even pay a premium because of the proximity to his operation. Fifty acres of cropland in five or six small fields with poorly drained soil (marginal land) would likely generate less or no interest. On the other hand, a large acreage of woods or brush—the back forty—might be very attractive for a person wanting a hunting camp or a place to build a house in the woods.

The sale of farm improvements (buildings) offers a similar challenge. An urban buyer who wants a place in the country may be looking for a good house and a little barn for horses, certainly not a large 50 cow hip roof barn with two concrete silos. Recent sales of small farms as "rural properties" indicate that buyers pay a premium for a good house, small barn, other outbuildings, and small acreage, but discount property with too much land or too many outbuildings.

SELLING PARTS OF THE FARM OVER SEVERAL YEARS?

It’s an idea worth exploring, but like developing farm property into urban lots, there is a downside (Remember the earlier case story: Growing Houses Instead of Crops?).

If you split up the farm, it may be easy to sell the good parts (good land or house) and be stuck with the "rest." And there is a strong possibility that some building values decrease if the farm is split up. You may end up with a dairy barn with no support land, or a large storage facility with nothing to store in it (e.g., grains, apples). If the farm is to be split up, it may be advantageous to sell the sections (pieces) with improvements first. Why? It reduces the "carrying costs" faster than if land only is sold. Also, it provides the opportunity to offer more land to the buyer if they want it.

An appraiser or real estate agent may have some good advice on whether to offer the property as a whole or in pieces. Two items, however, are almost always advantageous to sell separately from the farm property: timber and gas wells.

Timber

If there are sizable hardwoods, a timber consultant, for a fee, would inventory the standing timber and estimate
its value. A timber consultant can also recommend a reputable logger to purchase and harvest the wood. Harvesting the timber provides additional income and, most times has little impact on the value of the farm property. Loggers will sometimes purchase woodlands, selectively cut the timber, and subdivide the property for sale as recreational woodland to urbanites. While some buyers may pay extra for a good woodlot, most times it does not impact how much the buyer is willing to pay for the farm.

**Gas Wells**

If there are producing oil or gas wells on the farm, which generate royalty income, the seller can reserve some or all of the revenue for either a fixed period or for as long as the well continues to produce. This reservation would have to be inserted in the purchase and sale contract and the deed. Although some buyers will pay extra for a producing well, most times it does not impact how much the buyer is willing to pay for the farm.

**OTHER TIPS FOR SELLING FARM PROPERTY**

**Pay attention to the farmhouse**

Since the farmhouse will probably provide the purchasing family their living place, it’s essential to have the house and farmstead spruced up every day to make the place look its best. Some spouses may be working off the farm, so the house may be more critical than it used to be. Investing time and money into the home can pay a handsome return. House values are generally increasing. Sales registers show an increase in house value of 10 to 20 percent in the last five years. This is important whether selling the farm as a unit or in pieces.

**Consider offering to help the potential buyers get started on your farm**

Perhaps help them renegotiate some contracts on land you are currently renting from one of your neighbors. You might consider “throwing in” the feed inventory to sell the farm. These may be selling points.

**Are you selling the farm yourself?**

You will have to develop a prospectus that lists all the assets: Land, buildings, homes, equipment, and livestock. Be sure to describe the farm’s strengths, such as type of soil, crop yields, water resources, and the style and design of buildings. Advertise the farm in an agriculture publication or industry groups or even over the internet.

**COST OF A SALE**

What will a sale cost? There are two costs: emotional and financial.

**EMOTIONAL COSTS**

Yes, selling means the loss of a lifestyle, an identity, a heritage. Even though you are tired and discouraged with farming, you will find that a sale will be emotionally draining. Whatever your reasons for selling the farm, you invested many years of your life building up the business and the farm. Selling means a change in your lifestyle, but there is a life after farming!

**FINANCIAL**

On the dollar side, the costs associated with a sale can be as much as 10 percent of the sale price. That doesn’t include taxes on the sale. Firms charge different commissions, usually based on the number and quality of the services provided. Services include such things as advice, advertising, and sale preparation. On the brighter side: the costs related to preparation for the sale and the actual sale costs are tax-deductible. Help to prepare income tax returns is also tax-deductible, as are survey costs and closing cost of selling real estate.