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AGTRANSITIONS: DEVELOPING A FARM BUSINESS TRANSITION PLAN

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Abstract

The average age of U.S. farmers and ranchers is over 57 years old. Nearly 30 percent of U.S. producers are over 65 years old. This means that more than 650,000 U.S. producers need to make decisions about the future of their farm business in the next few years. This paper discusses an online tool, AgTransitions, designed to help producers develop a plan to transition their business to the next generation. The demand for transition planning has been increasing rapidly. Many educators state it is the topic most frequently requested in surveys about training needs. AgTransitions does not replace the need for transition planning workshops or advisors, rather it provides a tool to help agricultural professionals work more effectively with producers who want to develop a farm transition plan. Agricultural producers who know they should develop a transition plan often do not know where to start. AgTransitions provides a detailed outline that helps producers improve communication and work through all of the aspects of developing a thorough plan. Sections include gathering all of the pertinent information, sharing the vision and goals of both generations, determining how and when to transfer management, ownership, income, and labor, developing a retirement plan and preparing information to meet with an attorney to develop an estate plan. In addition to the comprehensive outline, AgTransitions provides tips or suggestions for each section of the plan, resource links to articles on specific topics, worksheets and a sample plan. An innovative feature of AgTransitions is a producer's ability to give reviewers or advisors access to their plan and to interact with trusted reviewers as the plan is developed. AgTransitions, www.agtransitions.umn.edu, is free for anyone to use and is online, so it is available and being used by producers throughout the world.

Keywords: Farm Transition Planning, producers, U.S.

1. Introduction

The average age of American farmers and ranchers is over 57 years old. Nearly 30 percent of U.S. producers are over 65 years old. This means that more than 650,000 U.S. producers need to make decisions about the future of their farm business in the next few years. Some of these producers have developed transition plans and many of them are part-time producers who do not need a comprehensive transition plan. However, there are hundreds of thousands of producers who have not prepared adequately for the transition of their business to the next generation.

The demand for transition planning has been increasing rapidly. Many educators state it is the topic most frequently requested in surveys about training needs. As a result, there has been increasing attention devoted to farm transition educational programs in recent years. Workshops on this topic are usually very well attended. But transition planning takes time. Plans are usually developed over several months or years and require considerable interaction between family members. They also may need ongoing interaction with an agricultural professional. Usually an educator or consultant can help a family get started, but they rarely have the time for intensive ongoing interaction with the family as they work on their plan.

AgTransitions was developed by a team of farm transitions experts from across the U.S. to help producers have a framework with which to develop a comprehensive farm transition plan and to facilitate constructive communication between all of the family members involved. Over the past several years, it has proven to be a valuable tool for both farm families and the educators or consultants who assist them.

Sometimes transition planning takes a different form as farm families that have no family members who want to engage in farming as an occupation, seek alternative methods of transitioning their farm to a younger person who wants to farm. Some of these older producers actively seek to connect with the growing number of young people interested in beginning to farm. AgTransitions can also provide a framework around which to explore transitioning a farm business to non-family members.

2. Challenges in developing a transition plan

Many producers know they should develop a farm transition plan, but find actually developing one challenging. In part the challenges are due to not knowing how to proceed with the development of a plan, but they also face the challenge of addressing all the different factors that are involved with developing a plan.

The primary challenge faced by most families is simply open and honest communication. They need to get to the point where they understand each generation's goals and desires. Not only do they need to understand the goals of the family members who are involved in the farm business, but often there are family members who will not be involved in the future of the business, whose interests must also be considered. Communication between two or three generations within the family and between on-farm and off-farm heirs can be complicated and very challenging.

Identifying goals can also be challenging. Often family members have not clearly thought through their own goals and expectations, adding to the challenge of trying to communicate goals and vision to others. Once individual goals are identified, the next challenge is reconciling differing or even competing goals among family members. The goals of the successor generation may be quite different from the goals of the owner generation. The goals of the non-farm siblings may also vary considerably from the goals of those operating the farm business.

In addition to these broad, general challenges, families who engage in the process of developing a transition plan encounter numerous other topics that they must address. These include developing an estate plan to distribute the business assets and a tax plan to minimize the tax impacts of transferring the assets. The owners should develop a retirement plan that helps them determine when they will retire, where they will retire and what they will do in retirement, both in terms of future involvement in the farm business and other activities they may want to engage in once they have more time available. There are legal issues that must be addressed including developing wills and trusts, how assets will be titled, and when and how assets will be transferred. Long-term care options should be discussed. Part of the plan should include how and when transfer of not only assets occurs but also a plan to transfer income, labor, and management.

Due to the complexity and challenges of developing a farm transition plan, most farm families find that working with an educator or consultant or participating in a transition planning workshop helps them make progress in the development of their plan. The help of a good educator or consultant can make the process much easier, but even with that help, developing a transition plan is a daunting task for most farm families.

The AgTransitions website was developed by a team of experienced farm transition experts from across the U.S. in cooperation with the Center for Farm Financial Management at the University of Minnesota to help make the process a bit less overwhelming for farm families. During the past three years, more than 750 producers have used AgTransitions to help develop a transition plan.

Numerous articles have been written on developing a transition plan and many workshops are delivered on this topic every year. AgTransitions was developed to complement, not replace these resources. Workshops and consultants are very important in the transition planning process, AgTransitions just provides a tool to help farm families understand the entire process and work through the development of their plan in a more organized manner.

3. AgTransitions, a tool to help develop a farm transition plan

The Center for Farm Financial Management (CFFM) at the University of Minnesota formed a national team to work on the development of an online agricultural farm transition planning tool. The team represented transition planning educators from different region of the U.S. including John Baker, Beginning Farmer Center, Iowa State University and chair of the International Farm Transition Network; Dave Goeller, University of Nebraska; Marsha Goetting, Montana State University; Gary Hachfeld, University of Minnesota; Jeff Johnson, Texas Tech University; Steve Richards, Casa Larga Vineyards, New York; Mike Sciabarrasi, University of New Hampshire; and Jeff Tranel, Colorado State University.

The result of this development team effort was AgTransitions, a powerful online transition planning tool. AgTransitions is free for anyone to use and is online, so it is available and being used by producers throughout the world. To use AgTransitions, simply go to www.agtransitions.umn.edu and register to setup a free account.

AgTransitions is built on the same platform used to develop AgPlan, an agricultural business planning tool. It has many of the same features as AgPlan, which has proven to be a very popular and useful tool. More than 19,000 producers have used AgPlan over the past few years.

4. Using AgTransitions

Once an account has been created, an outline for a transition plan is displayed. In addition to the plan outline, AgTransitions also provides tips or suggestions on what to include in each section of the plan, and resources which are links to articles about the specific sections of the plan, worksheets, and sample plans.

AgTransitions is designed to help producers develop a transition plan with assistance from agricultural professionals, so it provides the unique ability to interact whenever necessary with one or more advisors, educators, or consultants.

Developing a farm transition plan can be accomplished in few months, but usually takes much longer, often taking several years to complete. AgTransitions help families document and track their progress as they develop their unique transition plan. It also allows all involved parties full access to documents and to decisions as they are made.

5. AgTransitions outline

AgTransitions provides a comprehensive outline to help farm families consider all the aspects of developing a farm transition plan. The major sections in AgTranstions include:

- Getting Started,
- Your Information,
- Vision and Goals,
- Business Transfer Plan,
- Retirement Plan,
- Estate Plan Preparation.

Each section of the outline has a short video explaining why the section is important in a transition plan and how to get started on that section of the plan. There are a number of subsections under each major section of the plan. For example, subsections under Your Information include, owner generation, successors, nonfarm heirs, other parties involved, business description, assets, liabilities, business structure, financial trends, non-business income, documents, and advisors. These subsections are designed to help the family gather all the information necessary to facilitate open and honest communication among family members. Families that work through this section will have a solid foundation of shared information upon which to build trust and knowledge about the business, the financial situation, and will give everyone involved full access to all pertinent documents. This section will also make working with an educator or advisor much easier, because much of the background information will be available here, resulting in much more efficient use of the advisor's time.

The third major section in AgTransitions is Vision and Goals. This section will help all involved parties clearly state and communicate their goals and vision, including the owner generation, and both the on-farm and off-farm successor generation or generations. Finally it facilitates finding and documenting common goals.

Perhaps the largest section in an AgTransitions plan is the Business Transfer section. This includes a discussion of what the owners or parents want to accomplish along with what the successors or children want to do. The subsections include the transfer of four major parts of the business. The first is the management transfer plan which is where the family can outline how and at what pace management authority for various functions including operations, personnel, control, and financial functions will be transferred to the successors. There is also a subsection to discuss transfer of ownership and in what order ownership of crop and livestock inventories, machinery, breeding livestock, real estate and other assets will be transferred. The third major part of the business that must be transferred is the income. How will income be transitioned from accruing to the owner generation to the successor generation and at what pace? Can the business support both generations or will off-farm income be necessary during part of the transition? The fourth part of the business that needs to be transferred is the labor. How and at what pace will the successor transition from being more like an employee to becoming the manager of the business?

AgTransitions also includes a Retirement section that helps the older generation think about what they will do in retirement, where they will live, what sources of income they will have and what will be their retirement budget. This section also has subsections to discuss health care, long-term care, along with family and community support. There is also a subsection that helps put all of the parts of the retirement plan into a timetable.

The final section of AgTransitions is called Estate Plan Preparation. Estate planning often requires the services of an attorney, but the attorney fees can be reduced if the family goes to the attorney prepared. The subsections in the Estate Plan Preparation section help families do exactly that, get prepared to work with an attorney. This section will help the family outline how they want both business and non-business assets distributed, and what they want to have happen.

AgTransitions provides a list of documents commonly needed as part of an estate plan and discusses what each one accomplishes for the family. Finally it helps the family think through the tax considerations of transferring their assets. Specific documents are not provided, since many of these topics are very specific to individual states or countries, but the issues and requirements are similar across states or countries.

6. AgTransitions features

In addition to the detailed outline, AgTransitions provides Tips or suggestions for each topic in the outline. Tips are short but helpful suggestions that give producers insight into what should be included in each section of the plan and should also help them determine if the section is relevant to their business.

In addition to Tips, AgTransitions also provides Resources, which are links to web-based articles or factsheets providing more in-depth information for topics in the outline than what is provided by the Tips. Resources provide producers the ability to quickly learn more about topics of interest to them or topics that they feel the need to learn more about. For example, the management transfer subsection has links to several articles that discuss topics such as “Are you Transferring Management?”, “Developing the Next Generation of Managers”, and “Transferring Business Management”. A sample transition plan is also available to help producers understand how to complete their individual plan.

One of the most innovative features of AgTransitions is the ability producers have to allow multiple family members or advisors access to their plans and to allow them to comment on or edit the plan. All a producer needs to do to provide someone else access to their plan is to enter the person’s email address into AgTransitions and select the level of access allowed. Other people with access to the plan are called reviewers in AgTransitions. A producer can allow a reviewer comment only access or comment and editing access. For example, maybe family members all want the ability to edit the plan, but they do not want an advisor to have editing capabilities. The family member who created the plan in AgTransitions has the flexibility to set each reviewer’s capabilities. When the plan owner enters an email address, the reviewer will receive an email stating that they have been given access to the transition plan. An unlimited number of reviewers can be given access to the plan.

Producers also have the ability within AgTransitions to send emails to reviewers. If a producer has been working on a section of the plan and wants one or more reviewers to take a look at what has been written, he can click send email and ask for a review of the work just completed. The reviewer can add comments in the comment box or, if given edit privileges, can edit the plan.

The AgTransitions editor has all of the normal word processing features available such as copy, cut, paste, spell check, etc. Images or tables can be imported into the plan or added to the plan as attachments. An outline is produced by AgTransitions that includes the titles the producer assigns to each attachment.

Individual producers and their families can easily find and use AgTransitions online, but it is best used in conjunction with an advisor or workshop. Increasingly educators are using AgTransitions in workshops and educational programs. AgTransitions provides a tool that educators can provide to workshop participants that will help them work through all the components of developing a farm transition plan.