

Business Succession/Transition Past, Present and Future Programming

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Talk Topics

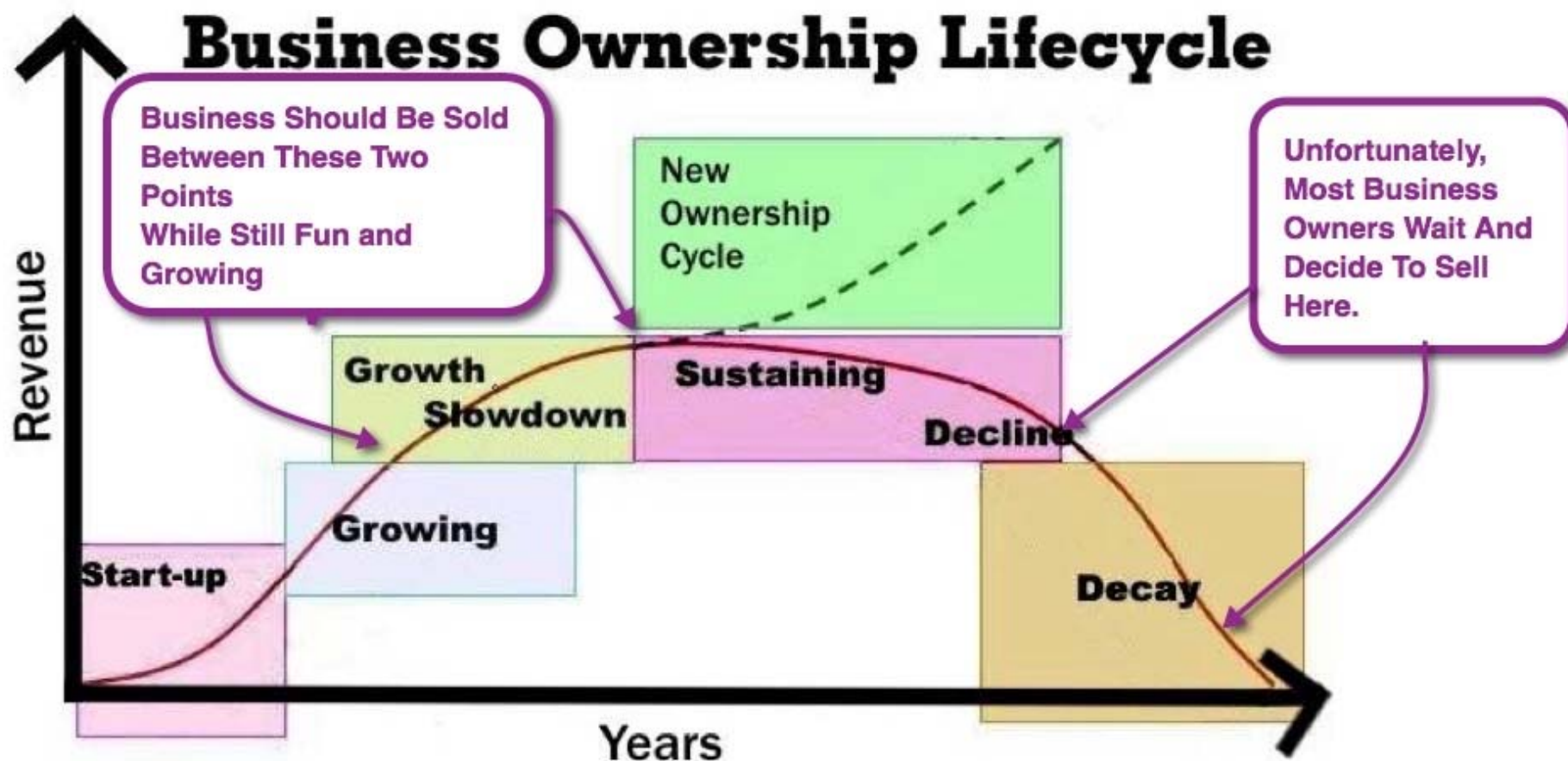
- Past and Present perspectives
- Graphic Diagrams
- Tax Issues
- Future Programming



End Game? Is it Succession?

- Past and Present Extension Programming may have been a “cheerleading” exercise.
- Efforts were made to gather family around a table to consider the what ifs
- Difficult to discuss in a public setting
 - Case farms used
 - One-on-one follow ups

Business Lifecycle (Source: Paul Forsberg)



Summation of the Process

Resources

- Liquid
- Not Liquid
 - Land
 - Business Resources
 - > Stuff
 - > People

Family

- Who likes the land?
- Business Involvement
- Special Circumstances
 - Grandchildren
 - Marriages
 - Personal Debt

Current Estate Plan?



Goals

- What do you want **your** life to be like in the future?
- What do you want for your **family** in the future?
- What do you want to have happen to your **stuff** in the future?

Plans

- Additional Resources
- Retirement Income
- Updated Estate Plan
- Business Disposition Plan
 - Succession?
 - Sale?

Kathi Beratan 2/23/2018

Types of Succession / Transition

- Death...can be very rough
- Forced But still alive
 - Disease
 - Poor Business (2009 – 2012)
- Planned
 - Moving to an end point
 - Ownership versus Management



Planned and...it's easy...right?



Transition Planning

- Starts way earlier than folks might think; it's hard work
 - Best when in ~40's
- Train the successor
 - After 5-7 years as an “employee” move to area of responsibility...otherwise the manager skill set will not be developed
- Who might the successor be?
 - Has the same last name?
 - Who has the passion for the business?
 - It could be Maria or Jose...

HMMMM.....

The difference between death and
taxes is death doesn't get worse every
time Congress meets.

-- Will Rogers



Gift and Estate Tax

- Gift Tax Exclusion Amounts for tax years beginning after December 31, 2017 and before January 1, 2026:
 - Annual Exclusion \$15,000
 - Lifetime Exclusion: \$11.18 million (\$22.36 per married couple)
- Step-up to FMV is retained
- Estate Exclusion Amount for tax years beginning after December 31, 2017 and before January 1, 2026:
 - \$11.18 million (\$22.36 per married couple)

The Estate Tax money issue is settled

- The difficult thing is for individuals, especially business owners to decide the following:
 - Who gets the “stuff” ?
 - How do they get the “stuff” ?
 - And, when do they get the “stuff” ?

The answers to the above questions are part of the road map succession / transition.

Profitability drives Succession

- Profitability of the business
 - Insures sufficient cash flow to fund transition
 - Provides economic incentive to the incoming successor to carry on
 - The fundamentals are in place for changes that might be made for expansion
 - Should be sufficient to allow for 5-6% growth per year at a minimum (2-3% in real terms) (Dave Kohl, VA Tech)

Gross Revenue and Profitability

- If a successor is to return to the farm...can the farm economically support the successor?
- Financial risk, *ceteris paribus*, sufficient gross revenue is needed.
- Example: Expense ratio of 0.85, successor compensation of \$40,000, additional gross revenue of \$267,000...($\$40,000 / 0.15$). This is simplistic, yes. However without a long-run plan financial stress is potentially around the corner.
- If successor replaces an employee dynamic changes.

Future Programming

- Profitability of Farms, Ranches and Agribusinesses
 - Management Capacity
 - The Executive Program For Agricultural Producers (TEPAP)
 - Cornell Dairy Executive Program (CDEP)
 - NC State's Executive Farm Management
 - NC State's Farm School for beginning/small farms
- Trustee/Executor Training
 - Management Capacity
 - "Money Job"
 - "People Job"

Ownership versus Control

- The transition road map should include a methodology to separate ownership of the business and management or control of the business.
- Use of Business Entity Structures
 - Ownership can be retained
 - Management can be hired...with ownership to come later if part of the plan
 - MUST BE CLEARLY COMMUNICATED and UNDERSTOOD BY ALL PARTIES.

Entity for Ownership

- A separate business entity to own the real estate: land and buildings
 - LLC is fairly common tool used today.
 - Rental arrangements between the Owner of the real estate and the Operator of the business can produce an income stream to the retiring or exiting individual.



Entity for Operation

- The “Nursery Business” could be a separate LLC as part of a succession plan. This business can “hire” the successor with the ultimate plan to increase responsibility/ownership of the operation.
 - Purchase of interests
 - Gifting of interests



Training/Education of Trustees and Executors

- Money Job
 - Administration Responsibilities
 - Signature authority on accounts
 - POA needed? For outside assets
 - Fiduciary Duty
 - Acting in the best interest of the beneficiary
 - Does fiduciary understand farming/ranching?
 - Action Trigger Points
 - See People Job below
 - Final Settlements
 - Oy! The fun stuff begins, continues and ends (maybe)

Training/Education of Trustees and Executors

- People Job
 - Trigger Points
 - Car has 4 dented corners...stop driving
 - Lack of attention to timely payment of bills
 - Medical Issues
 - Cognitive testing
 - Physical Evaluation
 - Communicating Medical Care Givers
 - Life Quality Issues
 - “When is it time?”
 - *Being Mortal*, by Atul Gawande

Questions?

- Thank you for your attention!!

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