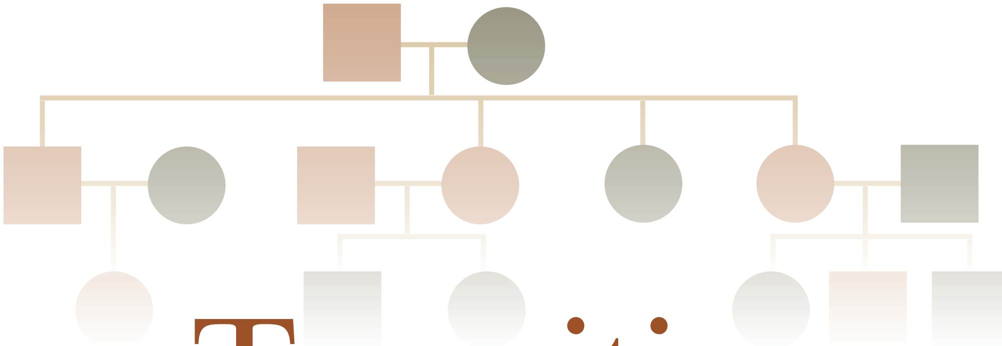

Transition Tips

PHOTOS BY KYLA COPELAND, FOCUS MARKETING GROUP

"Do your homework" and "Be patient" are part of the insight this specialist shares with farm and ranch families as they work through a three-phase process.

by Kindra Gordon

It's a common quip among farm families — a parent tells a son or daughter, "Someday this will all be yours." The presumption is that the younger generation will inherit the family business.

But Gary Sipiorski of Madison, Wis., cautions against making presumptions, saying, "Verbal promises don't mean much if things change."

As examples, he says divorce, death or remarriage can change a situation quickly. And, as a result, he underscores, "If it is not in writing, it may not happen the way you've been told."

Sipiorski has worked with farm families for four decades, including nearly 20 years in banking and numerous roles on ag-related advisory councils. Currently he works with the nutrition firm Vita Plus and has given many presentations on estate transfer across the U.S. and internationally.

Generational advice

His advice to farm families is two-fold. To the older generation, he says: "Get your homework done." Along with this, he emphasizes the need to start giving the next generation meaningful responsibilities in the operation. Sipiorski says, "This is called on-the-job training."

He acknowledges that mistakes are part of the learning process for the younger generation, and they will gain confidence and knowledge as they see their decisions turning out successfully.

To the younger generation, he says: "Be patient."

That said, Sipiorski suggests a step-by-step approach as a family farm is transitioned to the next generation. Ideally, he says, the process should be started when the older generation is about 55.

To this generation, he says, "It may seem like you just got the operation paid for, but you are not going to be able to do this forever."

He adds, "I'm not telling you to give it away, but start the process and have things in order because things happen. Today there are too many zeros behind the numbers (i.e. million dollar operations), not to have a succession plan in place."

He notes that busy days often turn into busy years, and it becomes easy to put off transition

planning. But waiting until a health issue — or even death — prompts the transition discussion is not only stressful but it can also have costly consequences of estate taxes, legal fees and sibling fighting. Nor does it prepare the next generation for a leadership and decision-making role.

Three phases

Sipiorski underscores that succession planning is a long-term project, and to prevent it from becoming overwhelming, he advises breaking it into three phases. Each phase may take several months.

For Phase 1, he suggests starting with a family discussion. This allows the opportunity to ask the question "What do you want to do?" and find out each individual's thoughts.

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During this meeting, he emphasizes that it is important to take notes and write down people's ideas.

Additional details that should be determined during Phase 1 include:

- Review copies of the farm's legal structures. All involved should be aware if the farm is an S or C corporation, an LLC or a partnership and of wills, trusts or other written agreements. Sipiorski says, "Mom and dad need to share that information."
- Review the real estate taxes and be aware whose name or business entities are listed on them.
- Review what specific loans exist and whose names are on them. Also review the current balance owed, interest rates and when payments are due, as well as the collateral backing each existing loan.
- Do a balance sheet for the farm, and "Do this annually," says Sipiorski, who says this information helps show growth of the operation. He advises using best-estimated and fair-market values for land, buildings, livestock, feed and machinery.
- Do a complete machinery list, also with fair-market values.
- Complete personal balance sheets that show farm assets owned (or percent of farm ownership) for each individual.

More Tips for Succession Planning

Succession planning takes time and a fair amount of paperwork. Gary Sipiorski suggests that before you see an attorney, you have all your financial documents in order. He says, "You will accomplish more with an attorney by having financials, business structures and wills in hand before the meeting; this will also save time and attorney fees."

You can either prepare your financials on your own or hire a financial consultant, who will still be less expensive than having a lawyer put together the financial documents.

As a second tip, Sipiorski advises seeking the services of professionals who know agriculture and understand current ag tax laws.

Sipiorski also encourages a positive attitude every day. He points out that thoughts become words, words become actions, actions become habits, habits become values and values become your destiny. **HW**

For Phase 2, Sipiorski suggests meeting with several professionals to help guide your next steps. In this phase, you are gathering information to help make eventual decisions for the succession plan and what the older generation wants — and can afford — to do. Steps during this phase may include:

- Meet with a financial consultant.
- Meet with your banker to review loans.
- Meet with your attorney to review (or establish) the LLC, corporation or partnership agreement.
- If necessary, do a farm real estate appraisal, as well as an appraisal on livestock and machinery. Depending on value changes, balance sheets may need to be redone.
- Establish and/or review wills of each family member.
- Complete cash flows for the three previous years and a summary document to average all three years. A new-year projection should also be completed with key financial benchmarks calculated. Sipiorski emphasizes that no matter what you have in assets, without cash flow, the business is not going to work.

Finally, for Phase 3, it is time for the older generation to decide "What do we want to do?" Sipiorski emphasizes that consideration must be given to lifestyle needs during retirement before final decisions are made. Steps during this phase may include:

- Determine how the actual transition of assets will take place. Will it be a land contract, a bank loan or a gift?
- Discuss the timeline for the transition and for the older generation to stay involved.
- Based on cash flow projections, determine how much the farm can afford to pay for wages and the lifestyle needs of the families involved.
- Consider if the farm should diversify to increase revenue.
- Determine if all farm assets are needed.
- Decide if there are issues with off-farm siblings that need to be addressed.
- Hold a family discussion so all family members know the general objective of your plan. Sipiorski concludes, "Parents, make a plan while you are alive." **HW**