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Managing Farm/Ranch Transfer to Next Generation

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Cornhusker Economics

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Market Report	Year Ago	4 Wks Ago	8-16-19
Livestock and Products.			
Weekly Average			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight.	*	112.40	*
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb.	165.24	173.66	175.46
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb.	161.34	151.70	150.56
Choice Boxed Beef, 600-750 lb. Carcass.	209.70	213.11	230.43
Western Corn Belt Base Hog Price Carcass, Negotiated	40.22	*	*
Pork Carcass Cutout, 185 lb. Carcass 51-52% Lean.	67.12	76.40	86.06
Slaughter Lambs, woolled and shorn, 135-165 lb. National.	146.39	160.86	151.46
National Carcass Lamb Cutout FOB.	374.00	405.55	393.12
Crops.			
Daily Spot Prices			
Wheat, No. 1, H.W. Imperial, bu.	5.04	3.89	3.44
Corn, No. 2, Yellow Columbus, bu.	3.45	4.23	3.69
Soybeans, No. 1, Yellow Columbus, bu.	7.88	8.02	7.65
Grain Sorghum, No.2, Yellow Dorchester, cwt.	5.39	6.46	5.57
Oats, No. 2, Heavy Minneapolis, Mn, bu.	2.94	3.06	2.99
Feed			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton.	*	172.75	*
Alfalfa, Large Rounds, Good Platte Valley, ton.	102.50	125.00	115.00
Grass Hay, Large Rounds, Good Nebraska, ton.	100.00	100.00	95.00
Dried Distillers Grains, 10% Moisture Nebraska Average.	121.50	149.50	128.00
Wet Distillers Grains, 65-70% Moisture Nebraska Average.	42.44	43.25	42.50
* No Market			

The first step to have the next generation come back to the farm or ranch is to get them there. The next step is to keep them there. This requires thought about how to transfer management and ownership of the operation over a period of time. Four phases of transfer have been identified and are discussed in this article.

The first phase is *Testing*. Before transferring management and ownership, the current owner needs to feel like the younger generation is ‘tested’ or able to effectively help with the operation. One older farmer said to me, “I think my sons want to come back and drive the GPS guided tractor. I don’t need them here for that, I want to do that. I need them here to work on fence, shovel manure, and paint the outbuildings, the work that is getting harder for me as I get older.”

Sometimes the older generation would like to bring their child and spouse back and want to add some type of livestock enterprise. When asked about the experience of that younger generation with the proposed enterprise, you find out that they have never been around that particular enterprise before. Or, if there is some contact or experience, the experience is very limited. Be sure the proposed enterprise is something that the potential laborers and/or managers of that enterprise will be able to work and enjoy.

Can the younger generation be put on the business end of a scoop shovel for the rest of the older generation’s career? That is probably not a good idea. There are other responsibilities of the operation and producers should consider how those responsibilities could be transferred over time. Testing is just the first phase. Once testing is completed, then it is time to add responsibility or management transfer.

The second phase is called *Management Transfer*. Does this mean that the younger generation retains control of all of the management all of the time? Probably not.

It does mean that there should be a conversation between generations to think about what management could be shared over a period of time. What does this transfer of management responsibilities look like? One of the parcels of land might be assigned to the younger generation. They make decisions on seed selection, fertilizer rates, weed and disease control, tillage options, and marketing. Another example might be to let the younger generation plan the breeding program for the herd, or part of the herd. The younger generation could also be placed in charge of purchasing inputs, or marketing.

Be sure that when working on the tasks to assign to the younger generation there is a mix of tasks that are liked and those that are disliked by that individual. Assigning all tasks, liked or all tasks disliked won't be as helpful for long-term success. Over time, more management tasks are assigned.

One important part of management transfer is to write everything down. The transfer plan should include documented start dates so there is no confusion as to how to the transfer will work.

The third phase is called *Enterprise Transfer*. Typically this would be the transfer of livestock or machinery to the younger generation in a gradual and planned way.

For livestock, an example would be that the younger generation would receive a certain percentage of the calf crop to start their own herd. With machinery, one way to work on transfer is to gift a machine to the younger generation and when it is time to trade for a newer model, they could use the gift to buy the newer machine. The younger generation would use their cash or credit to make that purchase. There are many ways to transfer the ownership of livestock, buildings and machinery. Be creative in your thinking. Again, write it down and put dates to the plan. That way both parties know what is expected to happen and when it should happen.

The last phase is the *Land Transfer* phase. This phase includes the transfer of land or other large-value assets. This phase may not even occur until the end of life of the older generation. Usually, consideration is given to the non-farm sibling(s) when making plans for this transfer. In families where there are both on-farm and off-farm sibling(s), fair may not be equal. Meaning if the on-farm sibling has provided years of sweat equity to the operation, it might be appropriate to reward that sweat with a larger slice or share of the pie. That might be fair.

There are plenty of parents and grandparents who grew up believing that fair was equal. In the case where none of the children are on-farm, or in the case that all of the children are helping, then fair might be equal. However, if you have one child that has spent decades with the operation, then proper consideration should be made to reward

the sweat equity that they have contributed to make the operation what it is.

As you work on Phases 2, 3, and 4, be sure to include a CPA and attorney when making arrangements. Be careful of the tax implications of your intent. The intent of the asset transfer can usually be implemented, but has to be done the right way to avoid excessive taxes.

Another consideration is to put the future intent of the operation into the estate planning documents. If land will be split between two or more children, be sure that the non-farm sibling(s) are not allowed to force the sale of the asset to receive the cash value. Unless that is the intent. The use of agreements like buy and sell agreements in the estate plan will help in this case. If the intent is that the on-farm sibling pays some level of rent to the off-farm sibling(s), then write a long-term lease into the estate documents.

There is no perfect way to recommend how to transfer a farm or ranch operation. Every family is different and has their own issues and personalities. Establishing good communications about the issues and discussing the process fully will go a long way toward making a workable solution for farm and ranch families.

For more information on farm succession and transition, visit agecon.unl.edu/succession.

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