

Practical Farmers of Iowa

Presents

FARM TRANSFER *Workshops*

By



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1

Next Generation Ag Advocates

An Introduction to Who We Are

M A N A G I N G

By Betsy Froese, Executive Editor

YOUR FARM



Tenant/landlord communications is critical. Dan Schurr, Glen Moeller, Steve Bohr, and Mike Downey (l to r) share tips.

like they are, and I get offered another 1,000 acres, I am not sure I would want to do that."

The future of the family farm is at stake in 2018, says Schurr. "We have to build operations at the scale needed to make a comfortable living, otherwise why would kids come back in this tough environment?"

2 Don't expect the process to be easy.

"It used to be simple," says Moeller. "If you wanted to rent your farm, you went to the neighbor and shook his hand. It's not possible to do that anymore. Next Gen Ag does the profiling for all the producers that are out there for a particular piece of ground."

CHOOSING RIGHT MAKING A SMART MATCH WITH YOUR LANDLORD OR TENANT IS KEY TO YOUR FARM'S SUCCESS.

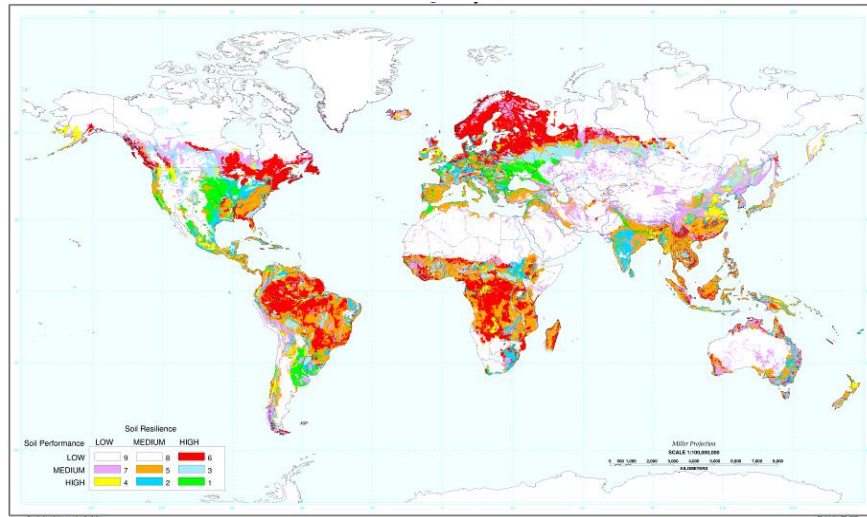


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2

American Agriculture

A Look at the Big Picture



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Source: U.S. Dept of Ag

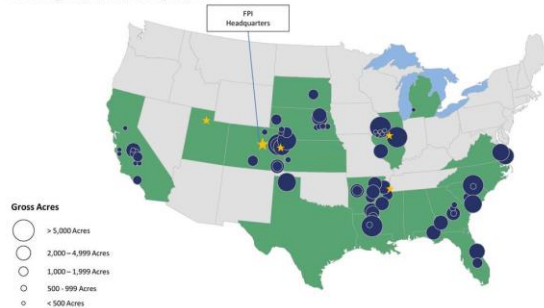
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Farmland is in Demand

Farmland Partners Inc.

Broadly Diversified Across Crops, Markets, and Tenants

FPI's portfolio now includes nearly **\$1.0 billion** in real estate assets totaling over **154,000 acres** across **17 states** and approximately **30 major crop types**. We work with **more than 110 farmers** across our properties.¹ Our headquarters are in Denver, CO with satellite offices in Burlington, CO, Salt Lake City, UT, Bloomington, IL, and Memphis, TN.



(1) Statistics as of June 6, 2017, inclusive of properties under contract



Farmland has increased in popularity and more and more institutional funds, pension funds and other buying groups want to own some of it.

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4

Dirt – “they’re not making any more of it”

Between 1992 and 2012 almost 31 million acres of agricultural land was lost to development.

Farms Under Threat

Acres Developed by Land Cover/Use 1992 - 2012

Land Cover/Use	Urban Development	Low Density Residential	Total Developed
Cropland	7,408,000	4,385,000	11,793,000
Pastureland	4,662,000	4,379,000	9,041,000
Rangeland	4,285,000	1,408,000	5,693,000
Woodland	1,674,000	2,527,000	4,201,000
Total agricultural land	18,029,000	12,698,000	30,727,000
Forestland	5,107,000	9,739,000	14,846,000
Other	2,463,000	1,297,000	3,761,000
Total	25,600,000	23,735,000	49,335,000

Source: Farmland Information Center



This is equivalent to losing all of the state of Illinois or Iowa’s cropland acres.

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5

American Soil



'American Soil' Is Increasingly Foreign Owned

May 27, 2019 - 4:17 PM ET

<https://www.npr.org/2019/05/27/723501793/american-soil-is-increasingly-foreign-owned>

“Nearly 30 million acres of U.S. farmland are held by foreign investors. That number has doubled in the past two decades”



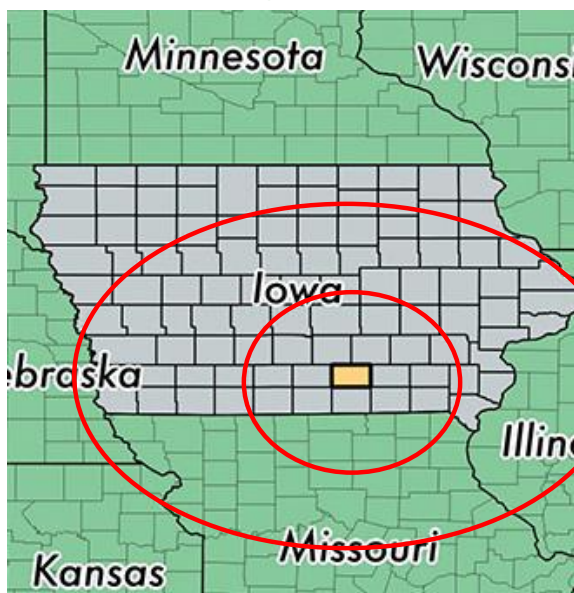
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6

Transition in Production Agriculture



- 47 bids from 5 states (130 counties)
- 230 mile radius
- 3 ½ hour trip by car (1-way)
- Winning bid 85 miles or 3 counties away



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7

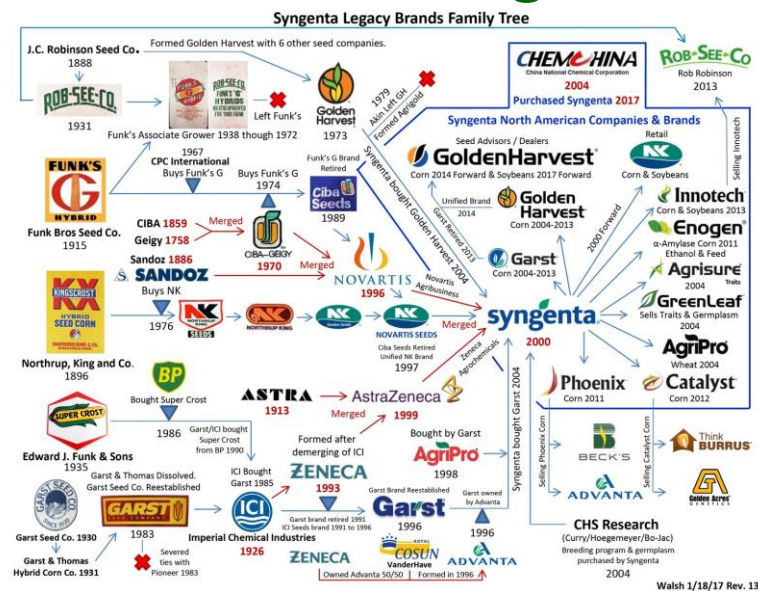
Consolidation in Rural America



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8

Consolidation in Agriculture



9

Consolidation in Agriculture

Seed & Chem Industry

THE BIG 4 (2018)



THE BIG 6 (2016)

Livestock Industry

Concentration Among Four Companies



10

Livestock Industry



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11

Row Crop Industry



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12

Transition in Production Agriculture

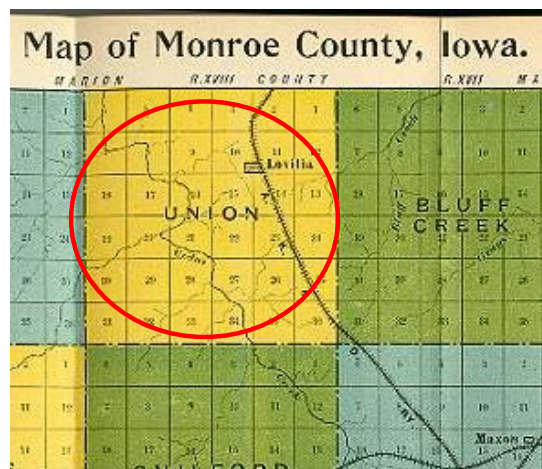
Transitioning Responsibly

Currently Estimated:

- 86,000 farms in Iowa
- 800+ farmers per county
- 72,000 farms in Illinois
- 700+ farmers per county

Do we really need to go 85 miles away to find a qualified producer?

Do you truly know every producer within a 5 or 10 mile radius of your farm?



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Source: USDA

13

Future of Agriculture



- Why do farmers farm?
- Why do landowners own land?
- Why would you ever stop?
- What happens then?
 - Estate Shrinkage...
 - Farm Business Succession...



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14

The Transition Problem



- | | |
|--|---|
| <ul style="list-style-type: none"> • Number of acres in <u>Iowa</u>: <ul style="list-style-type: none"> • 31,500,000 acres • The average price/acre is: <ul style="list-style-type: none"> • \$7,264/acre in Iowa: Up 2% (Down 2018, 2016, 2015, 2014, 1999, 1986) • The value of Agriculture in Iowa is: <ul style="list-style-type: none"> • \$228,816,000,000 (land in 2018 @ \$7,264/a) • \$274,554,000,000 (land in 2013 @ \$8,716/a) | <ul style="list-style-type: none"> • Number of acres in <u>Illinois</u>: <ul style="list-style-type: none"> • 27,000,000 acres • The average price/acre is: <ul style="list-style-type: none"> • \$8,200/acre for good quality • Down 3% from \$8,429/acre • The value of Agriculture in Illinois is: <ul style="list-style-type: none"> • \$221,400,000,000 (land in 2018 @ \$8,200/a) • \$248,400,000,000 (land in 2013 @ \$9,200/a) |
|--|---|

The Age group who owns the land:



SOURCE: Illinois Farmland Value & Lease Trend Survey – (2019)
SOURCE: Iowa State University Extension and National Agricultural Statistics Service (2003-2018)

15

Perfect Storm in Farm Transition



- 1.) **Age of Land Owner**
 - * Is the oldest in history: 60% over age 65 and 35% over the age 75
- 2.) **All-time high land values**
 - * Iowa's state average is \$7,264/acre *Illinois's state average is \$8,200/acre
- 3.) **Cash Flow to acquire land is outside of long term profitability**
 - * Subsidization and Economies-of-Scale required to compete
- 4.) **Farm is a legacy asset - Philosopher Rene Descartes "I farm therefore I am"**
- 5.) **Control**
 - * Difficult to surrender--required to transfer
- 6.) **Advice from specialists**
 - * Limited by location, experience and incentive
- 7.) **Low interest rates will change in the future**
- 8.) **Longevity of land owner**
 - * "Sandwich generation" may lose ownership opportunity
- 9.) **Family dynamics**
 - * Fair vs. Equal
 - * Performance based pay vs. Inheritance based pay
- 10.) **Deferral Mentality**
 - * Susceptible to emotional decision-making...Greed, Hope, Fear

SOURCE: Iowa State University Extension and National Agricultural Statistics Service (2003-2018)

16

Perfect Storm in Farm Transition



A new element but perhaps the most important:

11.) Transition of land to be operated by those outside the family

- * 68% of farmers do not have children who farm
- * 51% of farmers have not identified a successor, but hope to find one

Iowa & Illinois Farmer Today:

“The real macro-economic issue in farm transition may not be transition within the family, but a transition plan for families who do not have a farm heir to transition to.”

-Steve Bohr, Farm Transition Specialist

Article: Perfect Storm Looms in Agriculture Again – April 2019



Source: 2017 ISU Tenure Study & USDA

17

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Century Match Program

“For decades it has been easy for a retiring farmer or landowner to find an operator for their farm. However, the pool of farmers that operate the land is now smaller while the group that owns it is growing larger and transitioning at a more rapid pace.”

Glen Moeller – Retired farmer and Iowa Landowner

Connecting the next generation of Landowners to the next generation of Producers



Landowners

I'm looking for a new potential tenant for my farm due to retirement or other transition in the future.

[I am a Landowner!](#)



Producers

I am a beginning farmer or an existing farmer interested in expanding my operation.

[I am a Producer!](#)



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18

Find A Farmer connects landowners and land seekers to help preserve family farms.

Are you a beginning farmer looking for farmland to start or expand your operation? Are you a landowner interested in selling or leasing your land to someone who shares your vision for the future? FindAFarmer.net was created by Practical Farmers of Iowa to help maintain family farms and vibrant rural communities by facilitating the transfer of land from one generation to the next.

Our beginning farmer network has consistently cited land access as a main barrier to starting their own operation. Considering the aging population of landowners across Iowa and the Midwest, this Find A Farmer land-matching tool has great potential to help with the coming land transition.



The website allows for a comfortable place to start anonymous conversations with land-seekers or landowners that meet your interests, criteria, and location. Search for users in a particular area that fit your specifications and send them a message to begin the discussion.

Did we mention Find A Farmer is FREE and available for anyone with internet access? No membership is required.



FindAFarmer.net

19

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Ag Advocates



Farm Financial Strategies, Inc.

Keeping the farm in the family since 1993



1. Matching & Mentoring Programs
2. Leasing Program
3. Advisory Program
4. Strategies Across Families

1. Succession Planning
2. Estate Planning
3. Family Reviews
4. Strategies Within Families

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20

the Next Generation of Landowners

25% of land is owned by owners 55 to 64 years old

26% of land is owned by owners 65 to 74 years old

34% of land is owned by owners 75 years or older

85% is owned by those
age 55 and older

the Next Generation of Producers

68% of farmers have no children who currently farm

51% of farmers have not identified a successor

For each farmer under the age 35...there are 6 over age 65



"Iowa's future depends on finding more young farmers" – Craig Hill, President Iowa Farm Bureau

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Source: ISU 2017 Ownership & Tenure Survey
Cedar Rapids Gazette

21

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Mentoring Program

"This perhaps is the closest opportunity we can give young & aspiring farmers that resembles the opportunities our grandfathers had before us."

Steve Bohr– Farmer and Farm Transition Specialist



"How can we get our foot in the door to purchase or lease farmland?" – Young Producers

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22

Perfect Storm in Farm Transition Farm Leasing



A new element but perhaps the most important:

11.) Transition of land to be operated by those outside the family

- * 80% of U.S. farmland will be owned & controlled by those that don't operate it themselves
- * 53% of Iowa farms are rented (16 million acres)
 - In some counties, upwards of 70% of farms are rented
- * 43% of Illinois farms are rented as of 2012 (12 million acres)
- * 34% of Iowa land is owned by those with no farm experience (10 million acres)

"This will put a greater emphasis on landlord/tenant relationships. Solid long-term rental relationships are going to be an important factor for the survival for the next generation of producers."

-Steve Bohr, Farm Transition Specialist

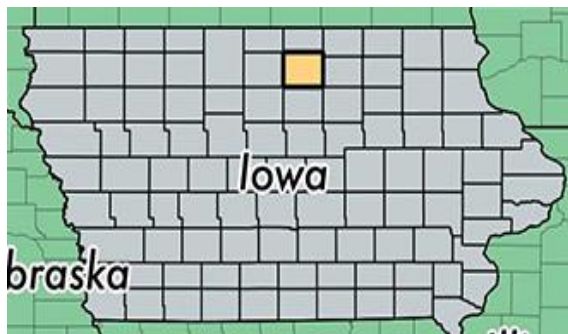


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Source: USDA & ISU Tenure Study

23

Farm Leasing Recent Example



- Option to rent 744 acres at **\$285/acre** for 3 years



Whopper Cash Rent Opportunity?

FARMLAND AUCTION: FLOYD COUNTY, IOWA, SALE INCLUDES WHOPPER CASH-RENT OPPORTUNITY

SUCCESSFUL BIDDER OF 80-ACRE TRACT GETS FIRST DIBS ON 744-ACRE CASH-RENT OPPORTUNITY.

By Bill Spiegel
9/20/2019

Every farmland auction is unique, and the sale of a tract in Floyd County, Iowa, on September 17 was one of the more unique actions I've ever seen. The buyer of this property also had the opportunity to cash-rent more than 740 acres for three years.

More on that in a moment.

Up for sale was 80 acres of good-quality land, 3 miles northwest of Marble Rock in northeast Iowa. The tract has 74.7 acres of cropland, mostly Saude and Waukelee loam soil with a Corn Suitability Rating 2 of



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24

Farm Leasing

Observations from the Industry

1. "The most common method of establishing cash rent is to set a rate similar to what other people are charging in the area." -ISU Farmland Leasing Booklet July 2019

"Coffee Shop Talk"

2. 3 approaches in establishing the terms of a rental agreement:

- a) **Feasible:** What's my tenant able to pay?
- b) **Equitable:** What's fair to the both of us?
- c) **Market Value:** What are the neighbors willing to pay?

"Profitable"
"Sustainable"
"Subsidization"

↓
An increase in rent auctions & online venues for renting land.

↓
"Consolidation"

3. Most land rents are negotiated well ahead of when the crop is harvested.

"Timing Issue"

4. "Fair Income" has changed as it relates to land ownership & land value trends.

"What is Fair?"

5. Farmland leasing trends do not correlate well with an increased focus on Conservation.

"Incentivize"

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Slide Contributor: Ag View Solutions

25

Farm Leasing

Recent Example



- 250-acre farm in east-central Iowa
- Landowner saw an Internet company advertising on Facebook & billboards in area
- Company offered to lease the farm from landowner and guaranteed \$321/acre for 3 years all paid upfront within 7 days
- Company promised renter would come from no more than 50 miles away



Landowner's Question: "How are they able to do this?"

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26

Farm Leasing

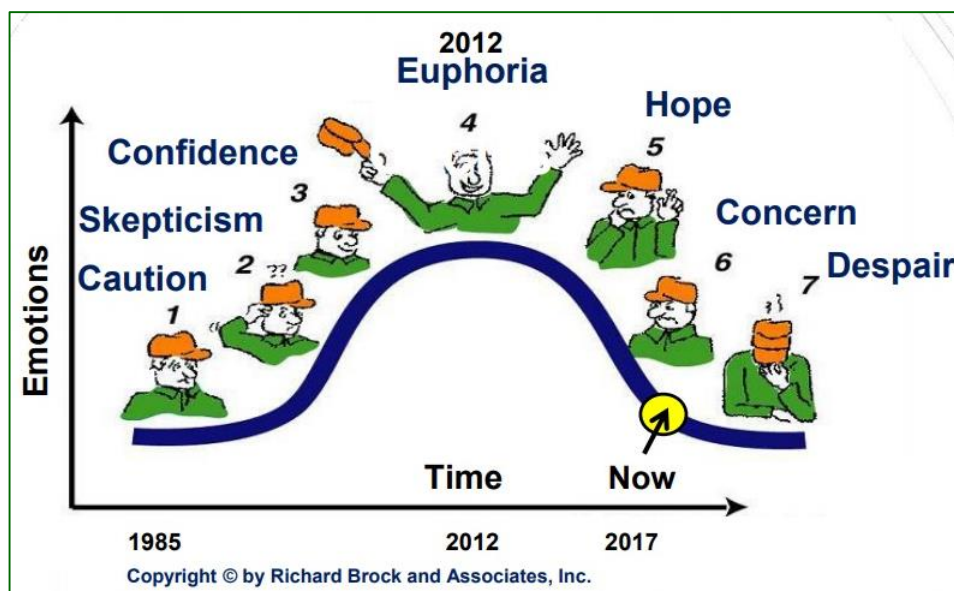
Spring 2019 Example - Corn

	May 2019	2 weeks later	August 2019
2019 Current Price	\$3.60	\$4.00	\$3.40
2018 Yields	<u>x 210</u>	<u>x 210</u>	<u>x 210</u> ?
Gross Revenue	\$755	\$840	\$715
Less Crop Expenses & Non-land costs	(\$445)	(\$455)	(\$445)
Less Operator Return for Time & Labor	(\$50)	(\$50)	(\$50)
Break-Even (Before Rent)	\$260	\$335	\$220 \$321?



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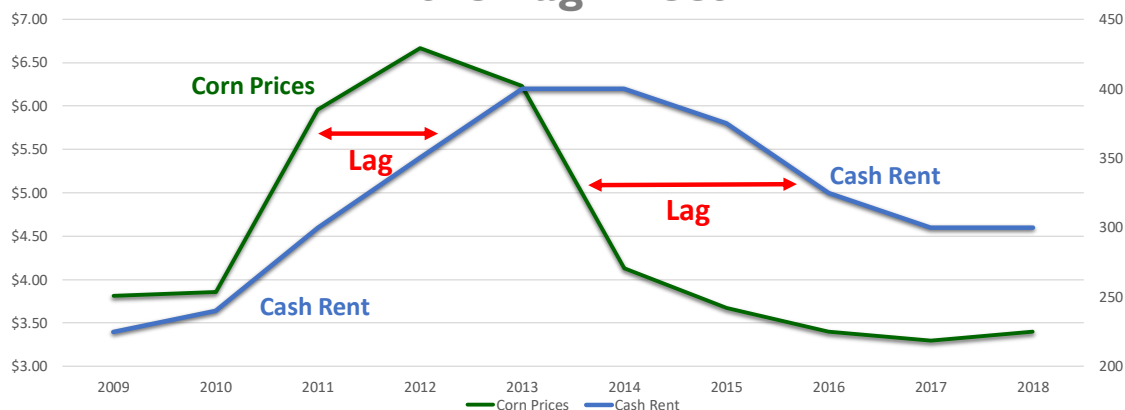
27



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28

the Fixed Cash Rent Lease the Lag Effect



The market will always move to favor one party to the lease or the other

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Source: Next Gen Ag

29

Cycles in Agriculture



Cycles in Agriculture have not changed, but farm leasing trends have...

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Chart Source: Unknown

30

Crop Share Arrangements

Low in #'s, but still have a place

- Tax reasons
 - Active Participation required for C-Corp to sub-chapter S-Corp
 - Retirement Transition Tool
- Iowa Beginning Farmer Programs
 - 5% State Income Tax Credit for Cash Rent
 - 15% State Income Tax Credit for Crop Share & Flex Lease Payments
- Modified Crop Share Arrangements
 - % of crop equivalent to typical land rent
 - % of crop equivalent to custom hire fees



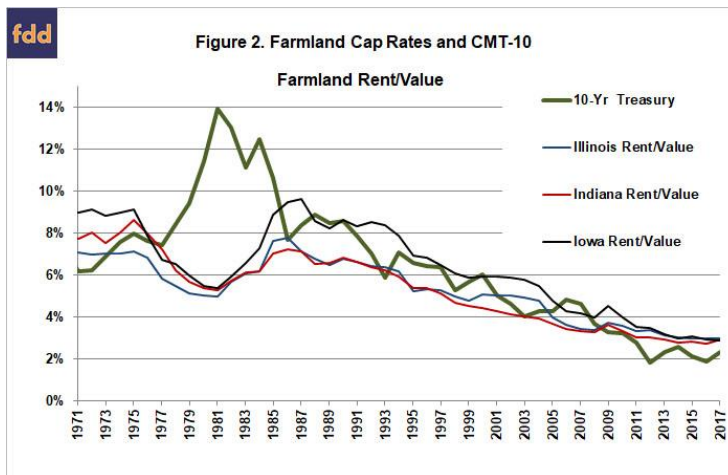
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31

Fair Income

50% say holding onto the land for long term, family, or sentimental reasons as their reason for owning land.

Less than 7% plan to sell to someone outside the family



There's a growing disconnect between farm profit margins and what people will pay for ground



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Source: 2017 ISU Tenure Study, USDA & Illinois FarmDoc

32

MAKING SOIL AND WATER CONSERVATION PROFITABLE

Learn about the benefits of soil and water conservation practices from:

- Farmers
- Landowners
- Agronomists
- Peer-to-peer discussions

**TUESDAY,
AUGUST 20**
9:45 AM- 3:00 PM

LUNCH PROVIDED BY
CATERING BY LJ'S

Location: Hills Bank, 590 W.
Forevergreen Road, North Liberty

SPONSORED BY



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33

Land Stewardship



Most conservation practices are
long term, not year to year



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34

Landowner-Producer relationships

What's Important to You?

Landowners:

What are your expectations in a prospective tenant?

- TI. Stewardship & Care for the Land
- TI. Receive a Fair Income
- TI. All the Little Things...

Producers:

What are you looking for in working with a landowner?

- 1. A long-term relationship
- 2. They care for the land
- 3. Understanding of fair lease terms

A farm lease is the foundation of every landowner-producer relationship

Does your lease truly incentivize the factors that are important to you?

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35

Farm Leasing

Our Approach

	Corn	Soybeans
2020 Projected Price	\$3.75	\$9.00
Average Yields (APH)	x 195	x 60
Gross Revenue	\$730	\$540
Less Crop Expenses & Non-land costs	(\$450)	(\$270)
Less Operator Return for Time & Labor	(\$50)	(\$50)
Break-Even (Before Rent)	\$230	\$220

Let's use a more "flexible" lease structure with all the same advantages of a fixed cash rent lease, plus more...

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36

the Flexible Cash Rent Lease



What % of cash rent leases in Iowa are now flexible leases?



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Source: 2017 ISU Tenure Study & Illinois Lease Trends Report

37

the Flexible Cash Rent Lease

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Landowner's Rent with a Flexible Lease

Average Calendar Year Price

	\$2.50	\$3.00	\$3.50	\$4.00	\$4.50	\$5.00	\$5.50
260	\$225	\$251	\$294	\$337	\$380	\$423	\$466
240	\$225	\$232	\$271	\$311	\$350	\$390	\$430
220	\$225	\$225	\$248	\$284	\$321	\$357	\$393
200	\$225	\$225	\$225	\$258	\$291	\$324	\$357
185	\$225	\$225	\$225	\$238	\$269	\$299	\$330
170	\$225	\$225	\$225	\$225	\$246	\$275	\$303

Assumptions: \$225/acre Base Rent + 33% Share in Profits over \$700/acre B/E Revenue



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Source: Next Gen Ag

38

Fixed Rent vs Flex Rents

Corn

Fixed Lease

Year	Fixed Rent
2009	225
2010	240
2011	300
2012	350
2013	400
2014	400
2015	375
2016	325
2017	300
2018	300
10 Yr Avg	321

Flex Lease

Base Rent	Bonus	Total
200	0	200
200	0	200
250	158	408
300	183	483
300	193	493
300	53	353
300	0	300
275	0	275
250	70	320
250	68	318
262		335



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Source: Next Gen Ag

39

Fixed Rent vs Flex Rents

Soybeans

Fixed Lease

Year	Fixed Rent
2009	225
2010	240
2011	300
2012	350
2013	400
2014	400
2015	375
2016	325
2017	300
2018	300
10 Yr Avg	321

Flex Lease

Base Rent	Bonus	Total
200	0	200
200	74	274
250	143	393
300	151	451
300	193	493
300	177	477
300	0	300
275	0	275
250	72	322
250	85	335
262		352



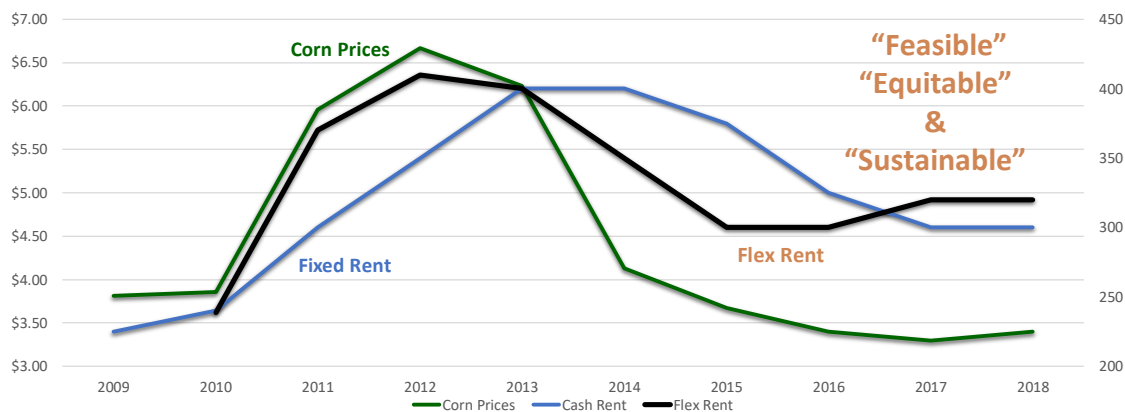
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Source: Next Gen Ag

40

Fixed Rent vs Flex

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Source: Next Gen Ag

41

the Flexible Cash Rent Lease

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Producer's Profit with a Flexible Lease

Actual Selling Price

		\$2.50	\$3.00	\$3.50	\$4.00	\$4.50	\$5.00	\$5.50
Actual Yield	260	\$0	\$54	\$141	\$228	\$315	\$402	\$489
	240	\$0	\$13	\$94	\$174	\$255	\$335	\$415
	220	\$0	\$0	\$47	\$121	\$194	\$268	\$342
	200	\$0	\$0	\$0	\$67	\$134	\$201	\$268
	185	\$0	\$0	\$0	\$27	\$89	\$151	\$213
	170	\$0	\$0	\$0	\$0	\$44	\$101	\$157

Assumptions: \$225 Base Rent + Share 33% of Profits over \$700 B/E Revenue



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Source: Next Gen Ag

42

the Flexible Cash Rent Lease

with a base rent

- Modern day alternative to the traditional crop share & cash rent leases, but with added benefits:
 - There is still a guaranteed level of income as with a traditional cash lease
 - The upside is left open for the landowner to share in profits when the tenant experiences a profitable year (more flexible)
 - Landowner will capture greater returns in strong yield & price environments
 - There is still no production or price risk for the landowner
 - Meets all the landowner's goals (land stewardship, fair income, all the little things)
 - Producers regard this as a more mutually fair arrangement
 - Assuming the "base" rent is set at a fair level
 - Meets the producer's #1 goal (supports a longer-term relationship)
 - Once established, much easier to maintain & establish what's fair year to year
 - It turns into a more enjoyable landlord-tenant relationship



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43

Transitioning the Family Farm... & the Family Farm Business to the Next Generation



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44

Establishing Goals



What are the priorities for you and your family farm?

- ☐ **Family Unity**
- ☐ **Keep Farm Together**
- ☐ **Treat Everyone Equal**

Which one would you pick as #1?



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45

5 W's of Business Succession



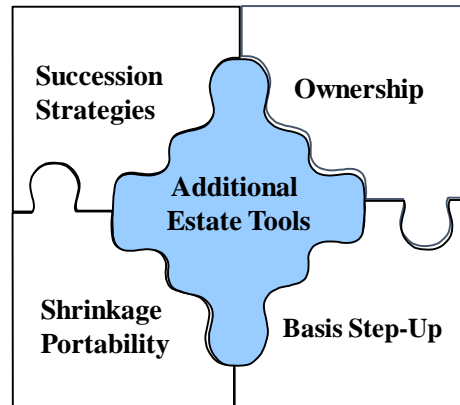
- 1.) Identify Ownership and Decision-Makers (Who)**
 - * Some assets need to be owned by operators/decision-makers
 - * Business heirs should own operating assets
 - * Other assets could be owned by anyone
 - * Land could be owned by all heirs—Lease and purchase options
- 2.) Identify and Divide Assets (What—Management, Leadership, Ownership, Labor)**
 - * Short and Intermediate-term assets
 - * Machinery, Grain and Livestock (Corporation, LLC or Individual)
 - * Long-term assets
 - * Real Estate (Individual, LLC or Corporation)
- 3.) Identify Timeframe (Where and When)**
 - * Consciously decide where and when the transfer should occur
 - * At Death (Wills or Trusts)
 - * Living (Sale contracts, Gifting, Corporation or LLC agreements)
 - * **Leadership opportunity—Replace yourself**
- 4.) Communicate your plan (Why)**
 - * In a business meeting
 - * In your estate planning documents
 - * Rumors and conjecture
- 5.) Take Action (How)—Navigate through the perfect storm**

46

Estate & Farm Succession Planning Pieces



Farm—Continuation of Farm
Financial—Minimize Shrinkage
Strategies—Proactive Strategies



47

Asset Ownership



Ownership Determines Distribution--Distribution Determines Shrinkage
 Goal: Coordinate distribution to minimize shrinkage

- Sole Ownership (Will or Intestate)
- Tenants in Common (Will or Intestate)
- Joint tenancy (To joint tenant)
- Intervivos trust (Distributed by trust)
- Corporation (Corporate agreement)
- Limited partnership/LLC (Agreement)
- Retirement accounts (Beneficiary)
- Life insurance (Beneficiary)
- Annuity (Beneficiary)



48

Ownership Issues:



- **Joint Tenancy vs. Tenants in Common**
- **Living (Revocable) Trust vs. Irrevocable Trusts**
 - Estate Administration Issues
 - Cost, Time Delay and Privacy
- **C-Corporation**
 - 2 Levels of Taxation—Difficult to Dissolve without Tax
- **S-Corporation**
 - Pass-through—One Level of Taxation
 - Some will convert from a C-Corporation to S-Corporation
 - Built-In Gains—holding period
 - Passive Income Rules

49

Ownership Issues:



- **IRA's and Roth IRA's**
 - Primary and Contingent Beneficiary
 - Per Stirpes vs. Per Capita
 - Stretch IRA
- **Life Insurance**
 - Income Tax-Free—Not Estate Tax-Free
 - Beneficiary—Primary and Contingent (Controls Liquidity)
 - Estate
 - Owner—Primary and Contingent (Controls Beneficiary)
 - Contract “Triangle”—Owner, Beneficiary and Insured

50

Basis “Step Up”

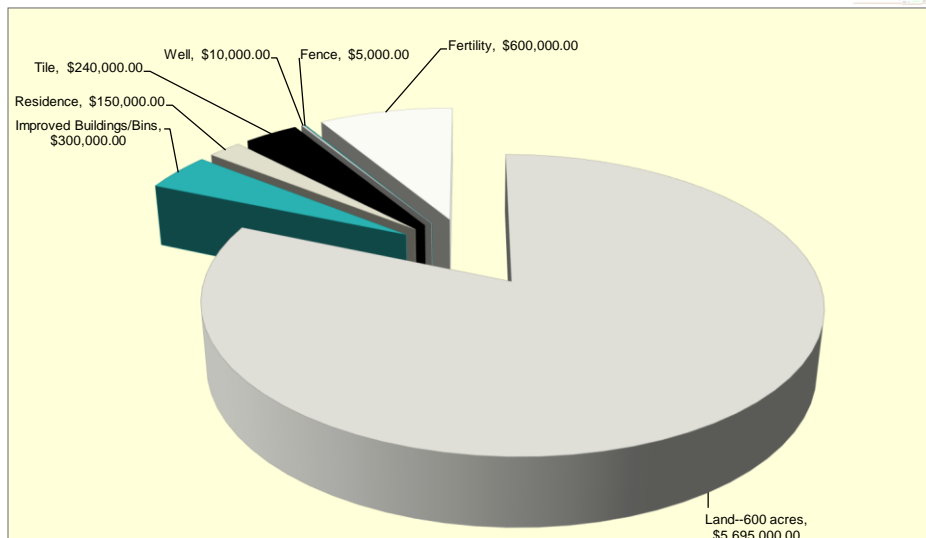


• Adjusted Basis at Death of Owner

- Occurs because an estate is subject to Federal Estate Tax
 - Real Estate
 - Dirt
 - Fertility
 - Fence and Tile
 - Buildings and Improvements
 - Machinery, Grain and Livestock
 - Corporation Shares—Not assets inside of Corporation
 - May not always be to your advantage
 - Could get a basis step “down”
 - Incentive to sell assets (tax-free)
 - Encourages deferral mentality to hold assets until death

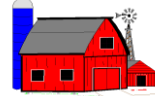
51

Basis Step-Up—600 acres valued at \$7,000,000



52

“Unified” Credit—2002-2019



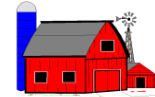
Year	Federal Estate Credit Equivalency	Credit At Death	EITHER OR	Credit While Alive (Gift)	Max. Tax
2002-03	\$345,800	\$1,000,000		\$1,000,000	50%
2004-05	\$555,800	\$1,500,000		\$1,000,000	48%
2006-08	\$780,800	\$2,000,000		\$1,000,000	46%
2009	\$1,455,800	\$3,500,000		\$1,000,000	35%
2010	Unlimited	NA		\$1,000,000	35%
2011	\$1,730,800	\$5,000,000		\$5,000,000	35%
2012	\$1,772,800	\$5,120,000		\$5,120,000	35%
<i>Scheduled to Sunset to \$1,000,000 Exemption Equivalent</i>					
2015	\$2,117,800	\$5,430,000		\$5,430,000	40%
2016	\$2,125,800	\$5,450,000		\$5,450,000	40%
2017	\$2,141,800	\$5,490,000		\$5,490,000	40%
2018	\$2,185,800	\$5,600,000		\$5,600,000	40%
2018	\$4,417,800	\$11,180,000		\$11,180,000	40%
2019	\$5,160,000	\$11,400,000		\$11,400,000	40%

Scheduled to Sunset to \$5,000,000 in 2026 (Adjusted for Inflation)

SOURCE: The National Underwriter 2018 Tax Facts

53

Portability—Carry-Over Unused Credit (DSUE)



Advantages--If fail to plan, may reactively get a 2nd tax exemption

- Simple

Disadvantages—What are the odds it could cost you tax?

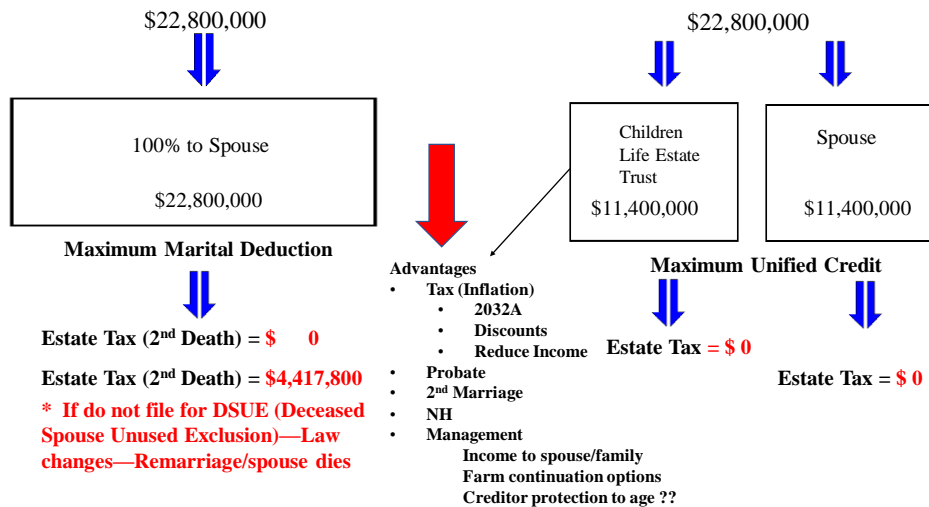
- Does not inflate
- Loss of 2032A (Special Use) at 1st death
- 2nd Marriage--Could receive marital share (typically 1/3)
 - Lose 1st spouse carry-over if 2nd spouse dies
- Creditor Protection
- Law can change
- Lost opportunity to sprinkle (deflect) income after 1st death
- Push decisions onto surviving spouse (unnecessary stress)
- Lost opportunity for undivided discounts
- Requires timely 706 (additional cost and time delay)

54

Estate Tax Strategies—2019

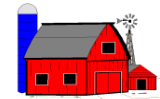


- “Unified” Credit Property—Use Tax Credit
- Marital Deduction Property—File 706 for DSUE
 - Deceased Spouse Unused Exclusion--Portability



55

Farm Succession Options...



2 Types of Plans

- Farm Assets to Farm Heir—Cash to Non-Farm Heirs
 - Bank Loan
 - Contract
 - Life Insurance/Other Assets
- Farm Assets to Multiple Heirs—Lease and Purchase Options
 - Divide Land Base—Can you afford to divide your base?
 - » What will your competition do?
 - Establish an entity with rules (operating agreement)
 - » Avoid undivided interests in real estate
 - » Partition Act

56

Sale Contract



260 Acre Family Farm



FMV \$10,000/acre

\$5,000/acre Sale Price
\$220/acre Pmt

Cost Basis \$1,000/acre

\$5,000/acre
Discount = Gift

\$5,000/acre
Capital Gain

57

LONG-TERM CAPITAL GAINS & QUALIFIED DIVIDEND RATES: CURRENT VS FINAL GOP TAX PLAN



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58

Special Use Valuation— 2032A

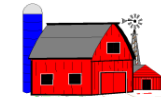


- Reduced valuation based on income producing ability
 - 5 year cash rent divided by applicable factor
 - Business interest must be 50% of decedent's gross estate
 - ****Value to qualified heir--50% of decedent's gross estate****
 - ****Deceased must own/operate 5 of 8 years prior to death****
 - Qualified Heir must own/operate 5 of 8 years after death
 - Qualified Heir can sell only to another Qualified Heir for 10 years
 - If Qualified Heir doesn't comply...family pays back taxes
 - Creates necessity for a proactive written and funded strategy
- Example of \$10,000/acre land
 - 5 year average cash rent of \$250 (after property tax)
 - Applicable factor .0468 (AgriBank FCB)
 - $\$250 / .0468 = \$5,342/\text{acre}$
 - Discount may not exceed \$1,150,000 (2019)

SOURCE: The National Underwriter 2016 Tax Facts

59

LLC or FLP (Entity)



Keep land together as a unit if transfer to more than farm heirs?

- Centralized management
- Ability to gift
 - \$15,000 annual AND/OR \$11,400,000 lifetime exclusion
- Deflect pro-rata income after gift is made (future years)
- Discount—minority interest and lack of control/market
- Lease options for farm heirs—ISU Extension Average
- Purchase options for all heirs
 - “Put” option—20% discount, 20% down, 20 year contract
 - “Call” option—40% discount, 0% down, 40 year contract
- Train heirs to retain a long-term asset
- Super Majority Vote to change agreement--85%
- Retain purchasing power
- Shift income from Schedule F to Schedule E

60

LLC and FLP—Gifting Strategies



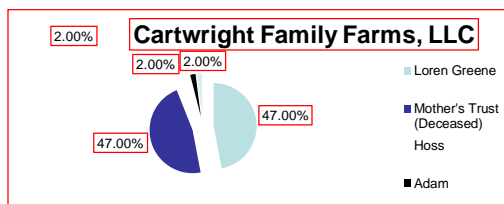
Cartwright Family Farm, LLC

Assets/Liabilities	Value	541 acres \$210/acre rent	Income
232a Home Farm @ \$8,500	\$1,972,000.00		\$113,525.00
152a West Farm @ \$10,000	\$1,520,000.00		
80a Smith Farm @ \$8,500	\$680,000.00		\$0.00
71a South Farm @ \$9,500	\$674,500.00		
Asset	\$0.00		\$0.00
Debt	\$0.00	Loan Interest (6%)	\$0.00
Debt	\$0.00	Property Tax	-\$13,525.00

Totals Assets/Liabilities for LLC \$4,846,500.00 \$100,000.00

Ownership	Units	%	Value	Income
Ben	47.00	47.00%	\$2,277,855.00	\$47,000.00
Mother's Trust (Deceased—number 1, 2 and 3)	47.00	47.00%	\$2,277,855.00	\$47,000.00
Hoss	2.00	2.00%	\$96,930.00	\$2,000.00
Adam	2.00	2.00%	\$96,930.00	\$2,000.00
Little Joe	2.00	2.00%	\$96,930.00	\$2,000.00

Total Shares for LLC 100.00 100.00% \$4,846,500.00 \$100,000.00



Estate Reduction Possibilities

Gift of 6% to 3 Children-----\$290,790
Potential (30%) Estate Discount--\$1,366,713

**** This example is hypothetical only
and do not represent any one
particular scenario**

61

**Our mission is to connect the Next Generation of Landowners & Producers
in order to Preserve the Integrity of the Family Farm
and the Future of Production Agriculture.**



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62