HOW TODAY'S PRICES IMPACT YOUR SUCCESSION AND RETIREMENT PLAN

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What We Do

- Estate Planning
- Farm Succession & Retirement Planning
- Transition Planning
- Entity Planning
- Family Meetings
- Other Planning

The Importance of Planning

If you are not planning for the future of your farm, your retirement, or your estate plan, you are competing with other ag producers that are.

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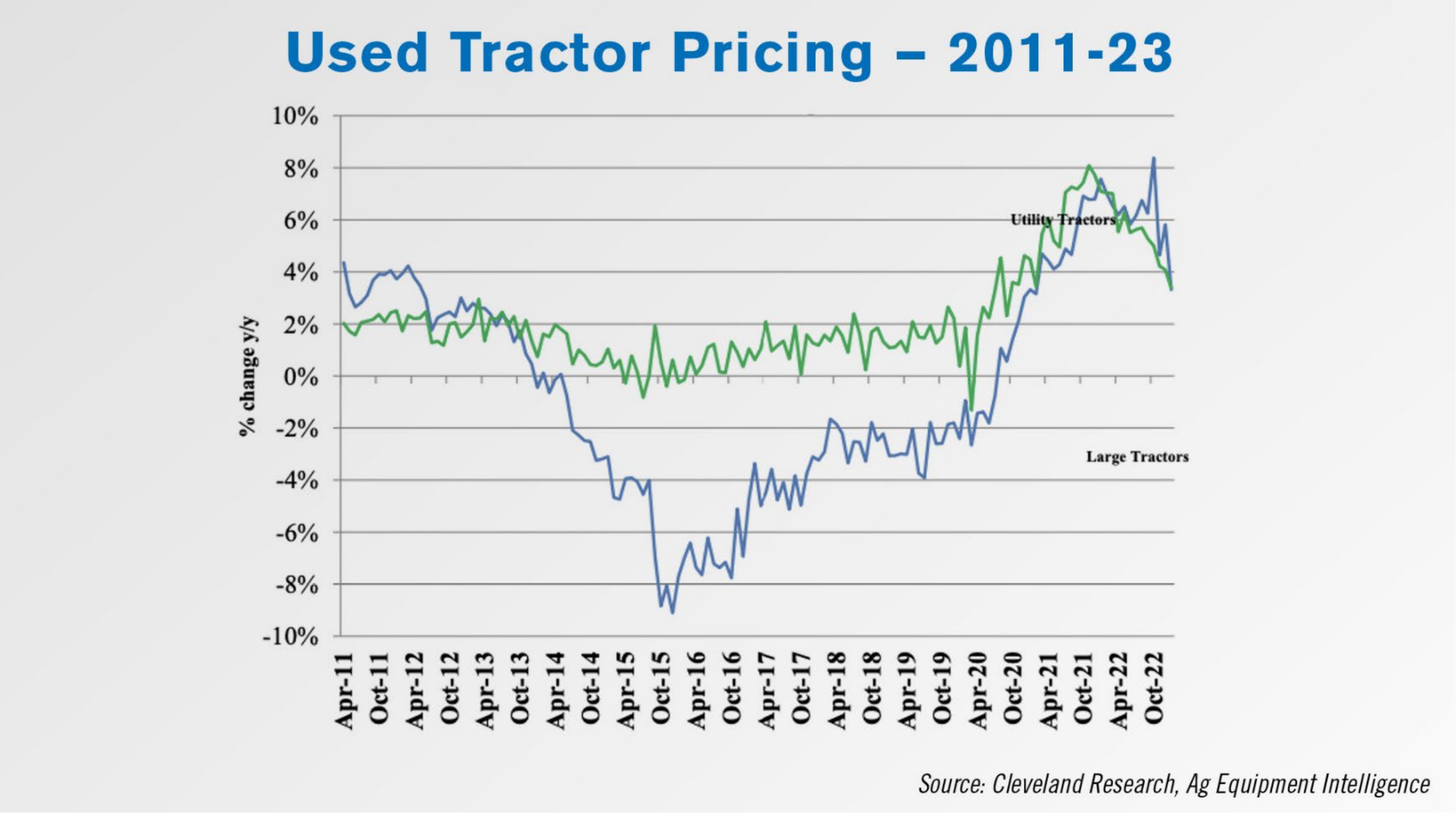
Today’s Topics

1. Updates – What We Are Seeing
2. Review, Review, Review in the Era of High Prices and the Looming Sunset
3. Estate Planning
4. Transition & Retirement Planning
5. Communication and Working with Family

County Land Values/Acre

County	State	2009	2015	2022	2023	% Change – '09 to '24
Clay	MN	$2,048	$4,759	$5,500	$7,552	369%
Marshall	MN	$1,722	$3,598	$3,999	$5,004	291%
Otter Tail	MN	$1,930	$2,242	$3,265	$4,800	249%
Pennington	MN	$1,132	$2,349	$2,651	$3,500	309%
Polk	MN	$3,301	$5,882	$7,000	$8,693	263%
Bottineau	ND	$948	$2,253	$2,253	$3,752	396%
Cass	ND	$2,827	$5,068	$7,500	$7,860	278%
Cavalier	ND	$1,079	$2,503	$3,020	$4,099	380%
LaMoure	ND	$1,967	$4,050	$5,200	$6,975	355%
McHenry	ND	$576	$1,367	$1,403	$1,799	312%
McHenry (P)	ND	$403	$844	$1,006	$1,104	274%
Nelson	ND	$807	$1,600	$2,250	$3,200	397%
Pembina	ND	$4,013	$7,500	$11,000	$12,500	311%
Wells	ND	$1,347	$2,547	$4,000	$4,600	341%
Williams	ND	$579	$1,456	$1,667	$2,105	364%

Machinery Value Trends



Estate Plan with Buy-Outs—Does this Still Work?

Case #1: Parents leave all assets equally to their four children, with certain stipulations for farming child to buy out farming assets from siblings.

- The parents own 9 quarters. The will gives 2 quarters outright to farming child and the Will contains an option in favor of the farming child to buy the remaining 7 quarters of land at 80% of appraised value for cash. There are 4 children.
- Land in the area recently sold for $6,500/acre, bringing total value of the land to approximately $9,360,000.
- Parents own machinery which is valued at $2,500,000. The Will gives an option for farming child to buy at 80% of appraised value.
- Residue (cash, investments, crop, vehicles, etc.) of the estate is split equally between the 4 children.

Estate Plan with Buy-Outs—Does this Still Work?

Case #1:

- Land purchase price for the 7 quarters @ $6,500/acre is $7,280,000 x 80% = $5,824,000 (farming son gets 1/4th of this).
- Machinery buyout is $2,500,000 x 80% = $2,000,000 (farming son gets 1/4th of this).
- To buy out three siblings with the discount and sharing in proceeds, the farming child needs to come up with $4,368,000 to purchase the land and $1,500,000 to purchase the machinery. Total buyout equates to $5,868,000.
- On a 25-year mortgage at 6.5%, the annual payment for land and machinery is approximately $487,322.
- Is this feasible for a 3,000-acre farm?

Entity with Buy-Out—Does this Still Work?

Case #2: An entity is owned by several siblings. Assets in the entity include:

Machinery and vehicles	$3,645,000
Building site	$2,088,000
Beet stock (550 shares)	$2,210,000
1,520 acres of land $6,500/acre	$9,800,000
2 houses	$ 660,000

Entity with Buy-Out—Does this Still Work?

Case #2:

Total value of the corp	$18,483,000
Debt	$876,000
Equity	$17,607,000
Each owner's equity	$5,869,000

The buy-sell states a 30-year buy-out if an owner’s equity exceeds $1,000,000 using Applicable Federal Rate for the interest rate.

Under this arrangement, the buy-out is $360,306/year. Is this feasible?

Review, Review, Review—High Prices and the Looming Sunset

Possible action steps to take because of high prices when a successor needs to make a buy out from siblings or if an ownership interest in an entity needs to be bought out:

- Run the balance sheet through each will, trust or entity to see how it functions if there is a death or buy-out today. The numbers often surprise our customers, and most will make changes.
- For entities, agree on a value each year.
- Reduce the number of acres and/or the number of assets a successor must buy.
- Increase discounts or increase buy out duration.
- Buy life insurance to assist in payment of a buy-out or use life insurance as “equalization” tool for non-farmers.

Review, Review, Review—High Prices and the Looming Sunset

Possible action steps to take because of high prices when a successor needs to make a buy out from siblings or if an ownership interest in an entity needs to be bought out:

- Sell land to a successor now on a contract for deed. The issue here is that the cost basis in the land is usually low, so this does not always work well from a tax standpoint.
- At the second passing of both parents, you could keep all or most of the land in a trust. The successor then rents the land from the trust for 5 to 10 years, with rental income going to the non-farmers. At the end of the 5-to-10-year time frame, land in the trust goes to the successor.
- Leave all or most of the non-farm related assets to non-farmers. All farm assets to the successor.
- Land can go into a land entity that puts the farmer in control of the land. The entity should have a buy-sell agreement for a buy-out, or at least a way to make a buy-out viable.

Review, Review, Review—High Prices and the Looming Sunset

- All wills and trusts should be reviewed every 3 to 5 years if there is a successor.
- If there is no successor, review every 5 to 7 years.
- Buy-sell agreements need to be looked at every 3 to 5 years.
- Larger estates (over $12,000,000) need to be planning ***today*** for the sunset of the tax rules that were part of the Tax Cuts and Jobs Act (TCJA) that was passed in 2017. Most notably, the possibility that the current federal estate tax exemption could sunset at the end of 2025. Farmers are notorious for waiting until the last minute. If everyone waits until 2025 (or worse, the latter half of 2025), will there be enough professional people to help them by January 2026?

Review, Review, Review—High Prices and the Looming Sunset

Actions to take before the looming sunset of TCJA?

- Educate yourself with upcoming changes on how the sunset impacts your farm or ranch. The sunset impacts many more taxes than estate and gift tax.
- Evaluate real-time values of the estate. Balance sheets from loan officers and customers/clients often undervalue land and other farm assets. Estate planning needs to use market values.
- Consider gifting now or selling assets at a discount to use some of the federal exemption (especially true in states with a state estate tax like MN).
- Use of land entities such as LLLPs to capture minority and marketability discounts (discounts are not guaranteed, and there have been several attempts to abolish them). Use 2023 and all of 2024 to plan.
- Some attorney are having the documents drafted now and hold on to them until more clarity is seen on the sunset.

Buy Outs in Wills, Trust and Buy Sell Agreements

The message:

Review your documents soon if they have a buy out for a successor with siblings or if you have an entity buy out with business partners.

Do not wait until late 2025 to start planning. Will there be enough legal, tax and other resources to craft a plan and/or revise documents?

Federal Estate and Gift Tax Limits
Sunset of the Tax Cuts and Jobs Act--TCJA

2023

Annual: $17,000

Lifetime: $12,920,000/person

$25,840,000/married couple

2024

Annual: $18,000

Lifetime: $13,610,000/person

$27,220,000/married couple

2025

Annual: ?

Lifetime: ?

2026

Potential Sunset of TCJA

Lifetime: $5,500,000 indexed for inflation (est. $7,500,000)

State Estate Taxes

North Dakota, South Dakota, and Wisconsin are coupled with Federal law.

- No specific or separate state estate tax.

Minnesota is decoupled from Federal law.

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Minnesota Estate Taxes

Minnesota Estate Tax Exemption:

2023/2024 - $3,000,000

- + $2,000,000 for *qualified* farmland & business assets for a total of $5,000,000/person
- NO PORTABILITY **between spouses – need to use disclaimer/bypass trusts**
- For estates that exceed the exemptions, there is a graduated tax scale
  - current rates range from 13% to 16%
- Real Estate owned by non-MN residents may be exempt from Federal estate tax but **not** exempt from MN estate tax

Estate Plan Focus

Is the goal to:

1. Transfer your farm or ranch as an ongoing business **to a successor** or:

2. Transfer to family members as a group of assets **with no successor**.

A will or trust for situation number one should look different than situation number two.

Estate Planning—Events That Occur During Life

What about disability planning?

- Durable Power of Attorney. Consider updating. Older POAs leave many things missing like power over digital assets. Try to avoid dual successors.
- Health care directive. Try to avoid dual successors.

What is your approach to planning for the nursing home?

1. Insure.
2. Self-pay.
3. Protect by transferring assets out of your name (**five-year look back**)
    - Life estates for land (some limitations in MN).
    - Irrevocable trusts (will not work if land going into trust is mortgaged).

Maybe a combination of two or all three. Please do not wait on this important planning.

Transition and Retirement Planning

- Time is important—give *yourself* time.

- Transition often takes **5 to 10 years**. A plan needs to be in place for all aspects of the transition, such as land, machinery, bins/buildings, the estate plan, tax planning and living location. *Shifting power can be much more difficult than shifting asset ownership.* Debt is often an inhibitor to the speed of the transition.

- If this is your retirement plan with no successors, give yourself **3 to 5 years**. Again, a plan should be in place for all components of your retirement plan (taxes, debt, social security, machinery sale, building site, where will we live).

- Is your plan a pinball that bounces around randomly or a series of well thought out action steps that are documented and shared with your family?

Transition Tools

Machinery, Bins, Buildings, and Infrastructure

1. Sell
2. Leasing for new assets at the farm (Bins, Buildings, the second Combine, the extra Planter…..)
3. Operating Lease for machinery and buildings between parents and successor(s).
4. Gift piece by piece

How does the estate plan fit in for machinery, bins/buildings and other infrastructure?

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Transition-Land

Usually, the last asset to transfer---if at all

- How much of the farm is rented vs. owned? Risk level for a successor to have to buy non-family land?
- Is protection a priority? What are we protecting from?
- How is the land going to be transitioned?
  - **Sell on a contract, sell to pay down parent's debt, sell to buy the house in town…….**
  - **Trust-owned** so terms can be set up for renting or buying land for a successor.
  - **Entity-owned** to keep the land base together and offer some level of protection.
  - **Life Estate** to transfer equity/protect from a nursing home but provide lifetime income to parents.
  - **Estate plan** (will or trust)? What language is in place to assure the next generation of farmers that the land base is stable and available? Use of Rights of Refusal and Options for land and machinery.

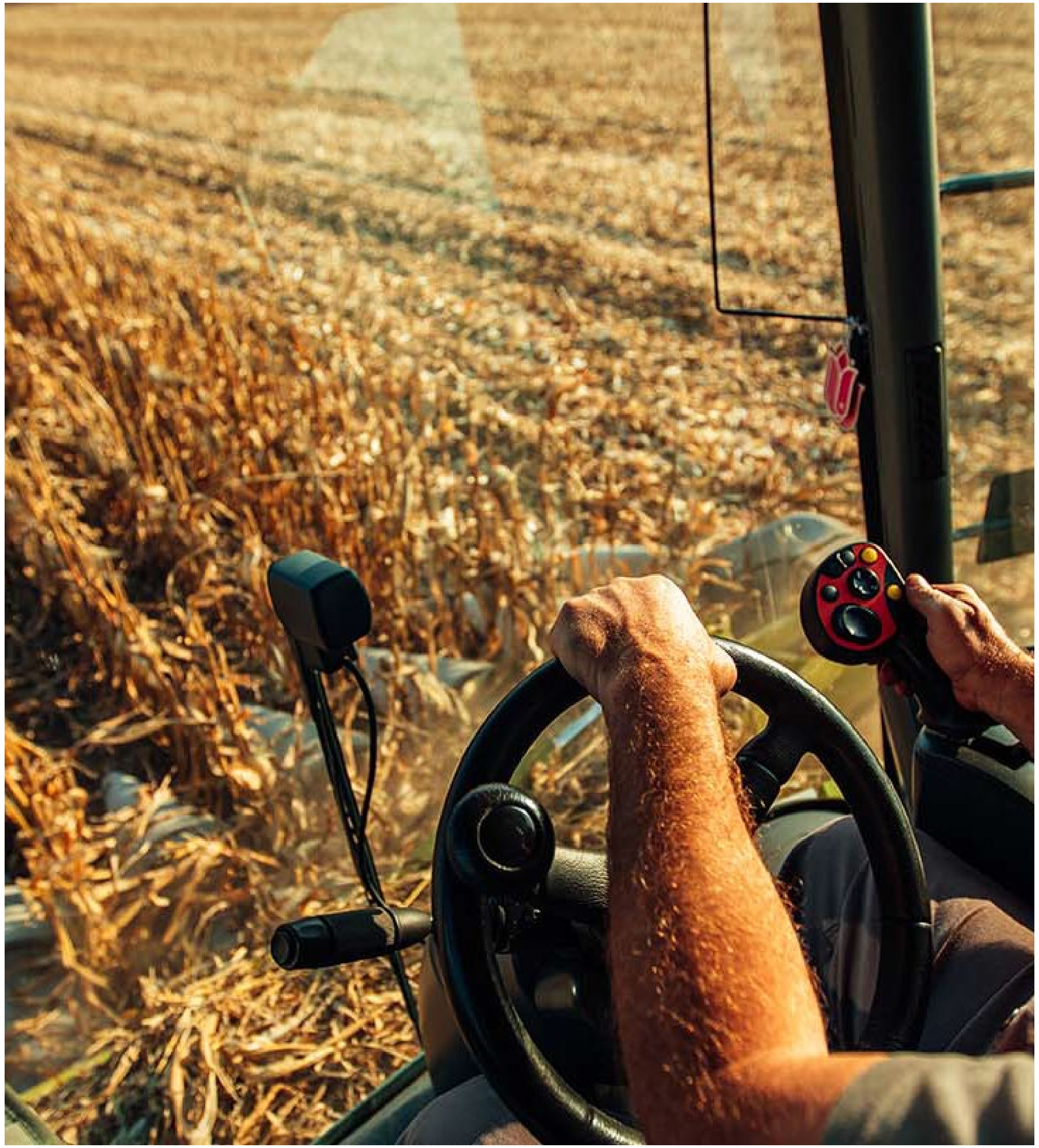
Note: if possible, avoid leaving land equally to all children in your will or trust—a major source of disagreement and raises the risk of litigation.

Retirement Planning

Many producers say getting out of farming is more difficult than getting in.

There are financial, tax, and emotional challenges as you wind down

- **How much debt is the farm servicing?**
    - Debt can stop most retirement/succession plans
- **What's your time frame?**
    - When to start Social Security?
    - What is the plan to pay for health insurance?
- **How are taxes controlled in the final years—especially the last year?**
    - Defer grain sales over a few years
    - Pension, 401(k) or SEP IRA
    - Charitable trusts for machinery or grain—not very often.



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Importance of Communication

Communication is the glue that binds you or the gun powder that blows you up!

- Who ***understands*** your plan?

- Is your shop or the yard your "Las Vegas"?

- ***Expectations*** need to be clearly communicated by both the Sr. farmers and successors to each other—perceptions will become reality. This is where assumptions grow and thrive. Talk to your non-farming children and hear their expectations, too.

- Litigation is on the rise between family members. Communication problems can morph into legal issues.

- Family meetings are important. Your family both wants and needs to know your plan.
    - Communicating **why** you've set up your plan the way you have is every bit as important as **how** you've set it up.
    - Who should attend? Just children? Children and their spouses?
    - Family meetings not always recommended. Tough decision sometimes.

Some Rules That Never Change!

- Good communication is vital regardless of your planning goals. Talk regularly to both your family and your professionals.
- **If it is not in writing, then it does not exist.**
- Don’t assume anything—especially the fact that someone understands what you are thinking.
- Proper succession and retirement planning adds emotional and financial value to your farm or ranch legacy.
- Time is your friend.

Thank you for Attending!

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