Planning for Future Generations and Long-term Ownership

What should you consider when you look at future generation planning and long-term ownership of your farmland?

Your land is your legacy, so it is important to consider all ramifications when you plan for passing this legacy on to future generations. Depending on your unique situation, some important factors might include:

- Identifying goals and objectives for your farmland and selecting the kind of lease that best fits you and your farm(s)
- The benefits of professional farm management in improving long-term net income, the farm’s reputation and assuring a smooth transition from one generation to the next
- The advantages of having farmland in an S Corporation or an LLC for gifting and for an estate. The IRS typically recognizes a 25 to 40 percent value reduction because of the limited marketability of the stock/units, particularly for a minority interest holder
- Estate taxes can be paid on an installment basis as long as the farm has not been cash rented. More than 35 percent of the estate must be in a farm or closely held business to use the installment method of paying federal estate tax. The key elements of the installment method of paying federal estate tax include:
  - Estate taxes are paid over 15 years
  - Payments are for interest only for the first 5 years
  - The interest rate can range from 2 to 4 percent
- Reducing the value of farmland in an estate through “Special Use Valuation.” The maximum reduction in value for an estate using Special Use Valuation was $1,090,000 in 2014. To qualify for Special Use Valuation in an estate, several conditions must be met:
  - Over 50 percent of the estate must be real or personal farm property
  - There must be material participation by the decedent or a member of the family at least five of the eight years prior to death or retirement. Farmland that has been cash rented is not eligible. (Hertz Farm Management can help you and your heirs show material participation by signing a consulting agreement instead of a management agreement)
  - There must be material participation by a family member for 10 years after the landowner’s death
  - The property cannot be sold outside of the family for 10 years.

How Is the Value of Farmland Determined Under Special Use Valuation?

The value of farmland under Special Use Valuation is determined by taking the typical cash rent in the area, subtracting real estate taxes and dividing by the Farm Credit Service interest rate for the year of the person’s death.
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Here is an example of the potential reduction in the value of an estate using Special Use Valuation:

A 500-acre farm that has a market value of $9,000 per acre = $4,500,000

Typical Cash Rent = $325 per acre
Real Estate Taxes = -$25 per acre $300 per acre

Farm Credit Service Interest Rate Factor for Estates in 2014 was 4.71%

Value of Land = $6,369 per acre
($300 divided by 4.71%)
500 acres at $6,369 per acre = $3,184,500
Difference = $1,315,500

Maximum Reduction in Value for Farmland in an Estate for 2014 = $1,090,000

Hertz Farm Management and your Hertz Farmland Professional understand that your farmland holds not only financial but also personal value. Because they recognize the importance of your relationship with your land, they are in a unique position to offer the objective guidance you need to make the best decisions for you and your family.

Our Farmland Professionals combine a personal approach with exceptional expertise and have become trusted advisors to our clients since 1946. We invite you to become another satisfied Hertz client. Visit our Web site or call us today to learn how we can assist you.