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3 Succession Solutions for Family Farms

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Splitting up a family farm is hardly a simple process.

Farm families must not only determine how to sustain farm operations in later generations but also how to divide the estate equitably among children. This gets particularly tricky when some kids are working the farm and others are not.

However, building out a detailed succession and estate plan for the family farm is essential. Families that fail to do so put both family harmony and their most valuable asset at risk. According to the USDA, the average value of assets for larger family farms was about $4.5 million in 2014.

How can a family pass the farming business—and access to the land and equipment necessary to run it—to a farming heir without neglecting non-farming family members? Fortunately, there are several ways to reach a compromise. Three of the most common options include:

The farming heir can **purchase the farm from his or her parents once they've reached retirement age**, and the proceeds can then be incorporated into the parents' estate plan and divided among heirs accordingly. However, this can result in capital gains and recapture taxes for the parents, which reduces the value of what they're able to pass on once they die. It also requires that the farming heir either have access to potentially large amounts of money or take out significant debt to complete the purchase.

Alternatively, the farming heir can **purchase the farm after the parents' death**. This way, he or she can take advantage of estate planning rules to eliminate the capital gains tax, as the farm receives a step-up in basis after the parents' death. However, the heir may have to pay more to purchase the farm at the parents' death instead of their retirement if the farm's value increases during that period of time. To get around this, the parents could agree to give the farming heir a set price or pre-determined discount ahead of time, factoring in the parents' overall estate plan. (Whether the heir buys the farm before or after the parents' death, parents may also establish a mechanism to credit the purchasing heir with sweat equity the heir has put into the farm or any rent the heir has paid to the parents to stay on the farm.)

Parents can also **split the farm up**, giving individual pieces out equally or giving each heir an undivided interest in all pieces of the property. They can then give the farming heir the right to rent that property from the other heirs for his lifetime or another specific time period. With this technique, specifically stating the mechanism to establish the heir's rental rates in estate plans is crucial. The rate, for example, could be tied to the average for the county, plus or minus a percentage. The more specific the terms, the less room for ambiguity and family arguments.

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