

Accounting for Everyone: The Accounting Transition Process



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When do you start Transition Planning?

THE EARLIER THE BETTER



- Why?
- Gives time to pass knowledge onto next generation
- Work on minimizing/eliminating debt of the operation
- Plans set in place in case of serious health issue, or even worse “death”
- If something would happen tomorrow, is there someone else who can manage the operation?
- Are there enough funds to pay someone to complete tasks you normally would do?

When do you start Transition Planning?

How much money will you need monthly/annually in retirement?

- Do you have a retirement plan?
- Is your money for retirement coming from the sale of farm and equipment?
- Are Social Security benefits available to you and if so, how much?
 - www.ssa.gov



Things to consider

Family Dynamics

Selling vs. Gifting or Partial Gifting

Tax Implications



Family Dynamics

Who wants to takeover the operation and how many?

- Children?
- Grandchildren?
- Other family member(s)?
- Are they currently involved in the operations?



Family Dynamics

- What skills do the next generation bring to the table?
 - Crop knowledge
 - Recordkeeping
 - Livestock knowledge
 - Equipment



Family Dynamics

What about children who are not involved and do not want to be involved in the farming operation?

Remember: "Fair is not always equal"



Selling vs Gifting or Partial Gifting

- How do you determine what the fair market value of the property is?
 - ie: Real estate, livestock, equipment
- Appraisal
 - If it is related party transaction, all appraisers must be non-related to seller and buyer





Selling vs Gifting or Partial Gifting

FMV vs Something else?

How much do you need to live comfortably?

Can you afford to sell for something less than FMV?

Is there debt that needs to be satisfied at sale?

Does the current operation have sufficient cash flow to handle the proposed selling price/purchase price?

Tax Implications

Now that you have made it through family dynamics and come up with a selling/purchase price, are there any tax implications?

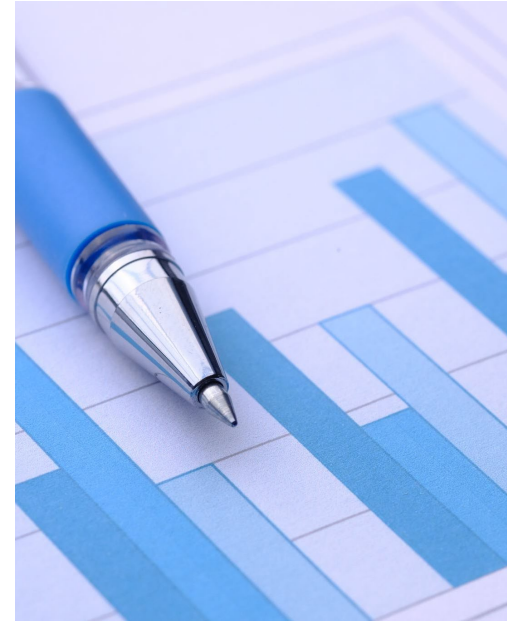
- Traditional financing
- Installment sale



Tax Implications

- Things to consider:
 - Basis in the property
 - Type of property being sold (ie: cows, equipment, farm)
 - Straight sale or Installment sale





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