

What's It Worth If You Stay On The Farm

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**Beginning
Farmer Center**

IOWA STATE UNIVERSITY
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“I’ve spent my entire life
paying off my uncles.
Now I’ll spend the rest of
my life paying off my
brothers.”

English farmer, Devon, UK 2002

THE FARM

Owner's priority
Continuation of farm family business

SUCCESSION
PLAN

Assets Money Management

BUSINESS
SUCCESSOR

Owner's priority
Continuation of family ownership of farmland


ESTATE
PLAN

HEIRS



Your Values and Your Visions

- Determine your values!!
- Once values are determined, you can create a vision for the future of your business.
- A vision allows you to see what you want for your farm.
- A clear vision makes decisions much easier.



In a 2006 Iowa Survey farmers who had an estate plan responded that the best plan was to divide the farm equally among the heirs.



Equal is Fair. Isn't it?

The worst form of inequality
is to try to make unequal
things equal.

Aristotle(384 BC – 322 BC)



Equitable Division of Property

- Equal is not always fair.
- An equitable division allows the On-Farm Heir to be compensated for the increase in the wealth they have created and protected.
- An equitable division also gives the On-Farm Heir a greater chance of being able to keep the farm.

Basics for compensation of the On-Farm Heir?

- Time
- Market price of labor
- Value Added to Farm
- Preserved wealth



Case Study

The Miller family is a typical Iowa family who own and operate a farm family business and they want it to continue for another generation. Only one of their children is interested in farming.

The Miller's

- Denny and Mary: Farmers in Smallville, IA.
- Denny farms with his father, Tom.
- 3 children: Chris, Kevin and Kathy.
 - Only Kevin wants to farm.
- Mary and Denny love all their children and wonder how to divide assets when they are gone.

The Miller's: Part One

- Kevin is 21 and has a cattle herd of 10.
- He is in college and will finish this year.
- Since he hasn't contributed to the farm, no compensation is needed
- **Equal division would be fair because Kevin hasn't done anything "extra."**

The Miller's: Part Two

- Mary and Denny are 65.
- Kevin is 41 and is married to Grace w/ 3 children: .
- Denny and Kevin have been farming together for 20 years.
- Kevin makes some management decisions.
- 2,000 acres are farmed by Denny and Kevin.
- Their herds have grown significantly.
- **How do we value Kevin's contribution to the farm?**

Factors to Consider

1. What value has Kevin added to the farm?
2. What value has Denny added because he knows Kevin is going to take over?
3. Has Kevin built assets on Denny's land?
4. What amount should Kevin receive for management decisions?
5. Has Kevin made repairs, improvements to property?

Now, how do we value?

- There is no exact formula to do this!
- However, we can place values on services and increase in wealth/value/etc.
- Once values have been determined, we can multiply this by the number of years Kevin has worked. **
 - ** This may need to be increased or decreased because the value today wouldn't be the same 10 or 20 years ago. (This is negotiable amongst families).

The Miller's: Part Three

- Denny's dad, Tom, passes away.
- Denny is having back problems and finds it hard to ride tractor.
- Kevin's daughter, Jessica, and her husband want to come back and farm.
- Half of cash leases have been transferred to Kevin's name.
- Kevin has taken over the hay operation and all management tasks.
- Denny is slowly phasing out of the business.
- **How do we value Kevin's contribution to the farm?**

Factors to Consider:

- The value Kevin has added to the farm.
- Kevin's assets that are on Denny's property.
- The physical work Kevin does on Denny's land.
- Compensation for Kevin being the farm manager for Denny and Mary.
- Compensation for record keeping.
- Wealth preserved because of Kevin's presence. (i.e. living in a farm house that would have deteriorated)?
- Personal services performed by Kevin and Grace

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The Miller's: Stage Four


- Denny dies; Mary's health declines rapidly
- Kevin and Grace help her w/ almost everything; i.e. chores, doctor visits, cooking meals, laundry, etc.
- Cows are gone; Kevin uses buildings, shop, grain bins, etc. on farm
- Kevin received all Denny's machinery.
- Mary now owns the entire land because her and Denny had a joint tenancy.
- **How do we value Kevin and Grace's extra work on the farm and caring for Mary?**

Factors to Consider

- Would the farm business still exist without Kevin?
- Would Mary be in a nursing home if Grace and Kevin didn't care for her?
- Are Kevin and Grace receiving other benefits by staying on the farm?
- How much value has Kevin added to the farm?
- Is Kevin managing the entire business?
- Increased profits due to Kevin's management?

Now, how do we value?

- There is no exact formula to do this!
- However, we can place values on services and increase in wealth/value/etc.
- Once values have been determined, we can multiply this by the number of years worked by Kevin.



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Iowa Concern Hotline

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