CALIFORNIA FARM BUREAU FEDERATION

$26 trillion at stake: Passing on assets requires good planning

As the largest transfer of wealth in world history gets under way in America, experts say the need has never been greater for good estate and succession planning. Survival of the nation's small businesses--particularly farms and ranches--depends on it.

An estimated $26 trillion in assets are in the process of changing hands. And, to further complicate this massive shift, the baby boomers inheriting this property are looking toward retirement.

Economic research from the U.S. Department of Agriculture shows that nationally the number of family farmers 65 or older has risen sharply since 1989. Statistics also show that as small farmers near retirement, they're not transferring farms to younger operators. Of the more than 2 million farms in the United States, 99 percent are family owned. Of these, 30 percent will pass to a second generation, but less than 10 percent will pass to a third.

"What that means is that California's agricultural land base is in peril," said Kevin Spafford. "If we don't implement specific plans to transfer those assets to succeeding generations, we'll lose not only the families and their histories on the land, we'll lose the ground as it's put to uses other than agriculture."

Spafford, a Chico-based certified financial planner, is author of the new book, "Legacy by Design: Succession Planning for Agribusiness Owners." He lists the most common reasons for failure to pass down the family farm as inadequate estate planning, insufficient capitalization and failure to properly prepare the next generation.

"For California agriculture, the inevitable transfer of ownership from one generation to the next means family farms and ranches are at risk," Spafford said. "Surveys show that in nearly half the family business failures, the collapse occurred after the founder's death, usually due to insufficient capital.

"But keep in mind that only 36 percent of the farmers we surveyed during our own research said they had some sort of estate plan, which means about two-thirds of the farms did not have a long-term strategy," he added. "And 82 percent of farmers didn't have an exit plan for retirement, nor did they know how to create one.

"Astonishingly, 88 percent of farmers in our survey planned to rely on the government or the grace of God to ensure the transfer of assets and the continuation of the family farming business," Spafford said.

He says that oftentimes people don't piece together the real reasons the farm operation fails to survive from one generation to the next. The families grieve the loss and move on, but don't understand that

Family farmers at a crossroads

The largest exchange of wealth in world history is occurring as the aging make final decisions about their legacy. But, with the possible return of the death tax and the changing future of farming in California, which road should be taken? *Ag Alert*® delves more deeply into this important and timely topic:

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  - **Commentary: Lending a hand--when it's time to hand down the family farm**
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things could have been different.

"If you get into statistics, you'll hear people in the government say estate taxes aren't the reason family farms fail. They say it's everything else but taxes," he says. "And people buy that.

"They look at the tax laws and say there are lots of allowances and different ways estate taxes can be paid," Spafford said. "But, if you really look at the big picture, what you'll see is that given the complexities of the tax laws--along with all the other pressures--the next generation is not financially or mentally prepared for the leadership required to operate a farm in today's competitive environment. Complex and shifting estate tax laws are a big part of the problem."

For more information about "Legacy by Design," call (530) 345-7411 or e-mail ***kspafford@finsvcs.com****. The book by Kevin Spafford is available from online booksellers.*