

Introduction to Estate Planning in Agriculture

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What is an estate plan?

An estate plan is an arrangement for the orderly transfer of possessions to one's heirs before and after death.

What is succession planning?

When an estate includes a business operation, planning for the transfer of ownership and control of that business is required to insure its continued success.

The primary goals of estate planning may include ...

- financial security during retirement,
- continuity of the farm or ranch business,
- equitable treatment of heirs, and
- minimizing estate settlement costs

A Will is not the only way

...

Estate plans may include:

- Wills
- Trusts
- Financial instruments (insurance policies, etc.)
- Family communications

Estate plan advisors include:

- Attorneys (JDs)
- Accountants (CPAs)
- Certified Financial Planners (CFPs)

Estate Planning Issues of Special Concern in Agriculture

Agriculture is unique in many ways and, as a result, estate planning for a farmer or rancher requires special consideration of several issues.

(1) Financial Record Keeping

To undertake detailed estate planning, many financial records are needed which may not be kept by people already busy running an agricultural production operation. This creates two problems:

- Some system of estate record keeping is needed
- The system needs to be communicated to others

(2) Combining Retirement and Estate Planning

In agriculture, retirement planning is part of estate planning because most agricultural producers have no other source of “pension” income.

Estate transfer decisions affect retirement and vice versa. Therefore, the first stage of estate planning involves retirement planning.

(3) Business Organization Constraints

The volatility of agriculture often constrains business organization choices of a family operation which, in turn, may not allow the best estate plan to be created.

Of the three general types of business organization (proprietorship, partnership, and corporation) a corporation is usually the easiest to transfer as part of an estate and it is the most advantageous in terms of tax manageability for many firms.

Yet relatively few commercial farms or ranches are incorporated. One of the reasons is that the limited liability feature of corporations is not available to many closely held family corporations in agriculture.

(4) Economic Problems in Distributing Agricultural Assets

Many economic problems can be created when dividing up a farm or ranch as part of an estate settlement. Two of the most common problems:

- scale economies in production
- the unique nature of agricultural

(5) Personal Problems

The distribution problems give agricultural estate holders a much higher probability of facing difficulties in finding an equitable distribution of assets.

- Equitable treatment of heirs does not necessarily mean equal treatment.
- The surviving spouse's financial needs should be given priority, but an heir who has contributed time/money to maintain and build up the family farm or ranch may also deserve a larger share of the estate than other family members.

The background is a solid teal color. In the lower half, there is a faint, semi-transparent graphic of two hands shaking, symbolizing agreement or partnership. The text is centered and rendered in a white, bold, sans-serif font with a subtle drop shadow.

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