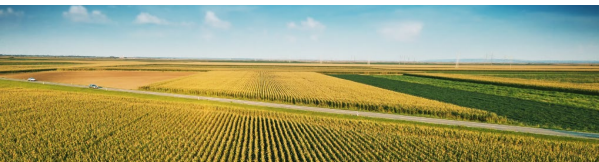




**Landowner Educational Webinar**  
**May 30, 2024**

# **Transition Planning Basics**



[www.Hertz.ag](http://www.Hertz.ag)



# Estate & Transition Planning

Speaker:

**Jeff Troendle**

*President of Farm Management*

[JeffT@Hertz.ag](mailto:JeffT@Hertz.ag)



# A Perfect Storm

1. Age of Landowner
2. Near all-time high land values
  - The wealth transfer over the next 15-20 years will represent the largest in the history of our country
3. Cash flow to acquire land
  - Approximately 50 - 60% down payment needed to cash flow farm purchase
4. Family dynamics
  - Fair vs Equal
5. Tax changes looming



# Estate Taxes

- The estate tax exemption for 2024 is \$13.61 million per individual
- Sunsets 12/31/25.
- Reverts to roughly 50% of current exemption.
- Estate or Gift tax 40% beyond exemption
- Stepped-up basis and portability continue?



# Why People Should Plan?

- Give heirs understanding of your wishes
- Opportunity to maximize success for the next generation
- Continuity to ensure the farm remains in the family
- Leave a family legacy
- Tax Savings ? ?
  - Estate / Gift / Inheritance taxes
- Avoid unnecessary conflict



# Farm Succession/Transition



# Why People Don't Plan?

- No one wants to disrupt the family dynamics
- Too busy with everyday life
- Too complicated, so it's easier to procrastinate
- Don't know how to get started or where to go
- Loss of control and/or identity
- Forces people to confront their own mortality



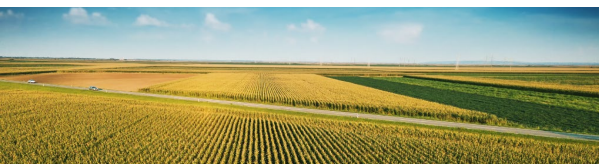


# Estate / Gift Tax

- Annual exclusion for Gifts
  - \$15,000/person - 2020
  - \$15,000/person - 2021
  - \$16,000/person - 2022
  - \$17,000/person - 2023
  - \$18,000/person - 2024



- If you exceed \$18,000 annual exclusion, it lowers your Estate/Gift Tax exemption accordingly
- Unlimited Spousal Deduction





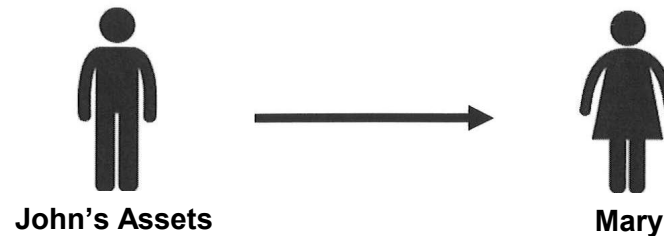
# A Simple Will

*“I love you Will”*

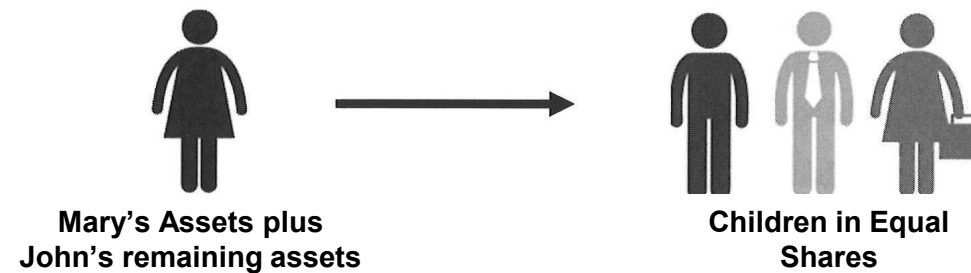
“Unlimited Spousal Deduction”

## Planning By Default Simple (“I Love You”) Will

Assume John’s Death  
Occurs First



At Mary’s Death  
(second)

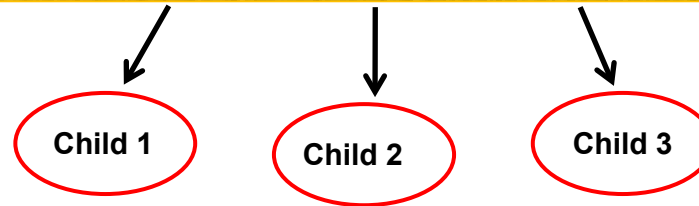


Source: Farm Bureau Take Root Workshop, 2017

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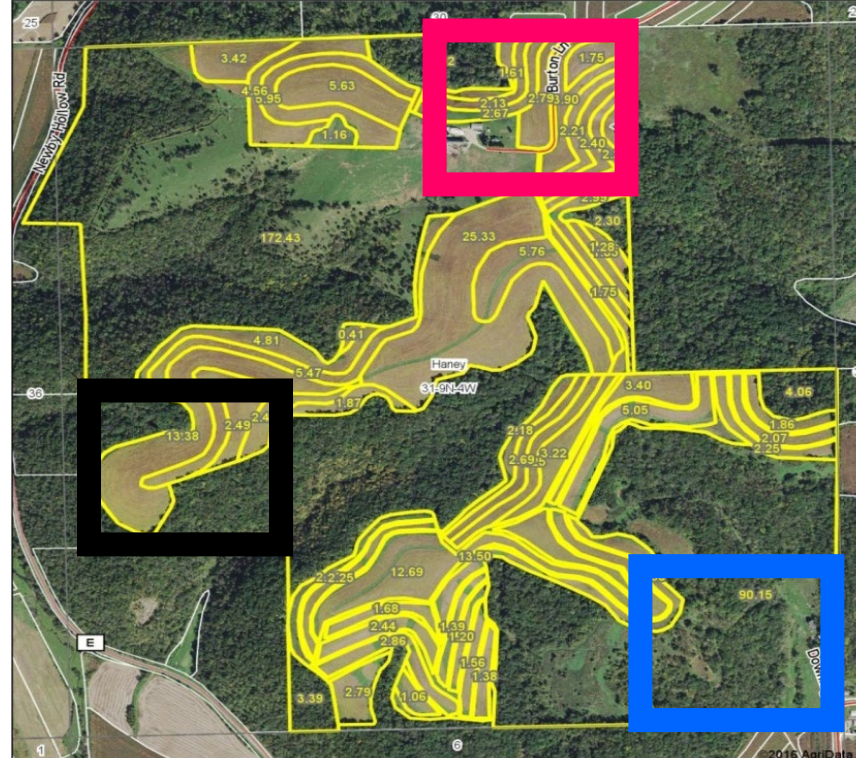
# A Simple Will



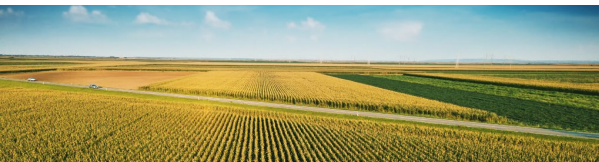
- At Mary's death, the 3 kids get equal interests
- Owned in equal undivided 1/3 interests
- Only takes 1 to force a partition action



# Gift / Will



- Fee Title
  - Individual Deeds – Separate parcels
  - Difficult to split parcels into equal value



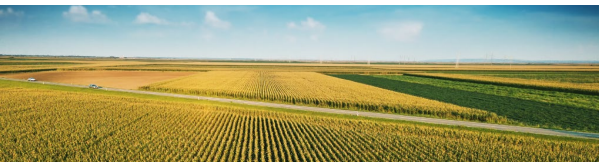
# Ownership Options for Land Transfer

- Partnership
  - Unlimited Liability
- Limited Partnership (LP)
  - Limited Liability for some
- Limited Liability Limited Partnership (LLLP)
  - Limited Liability
- Limited Liability Company (LLC)
  - Limited Liability

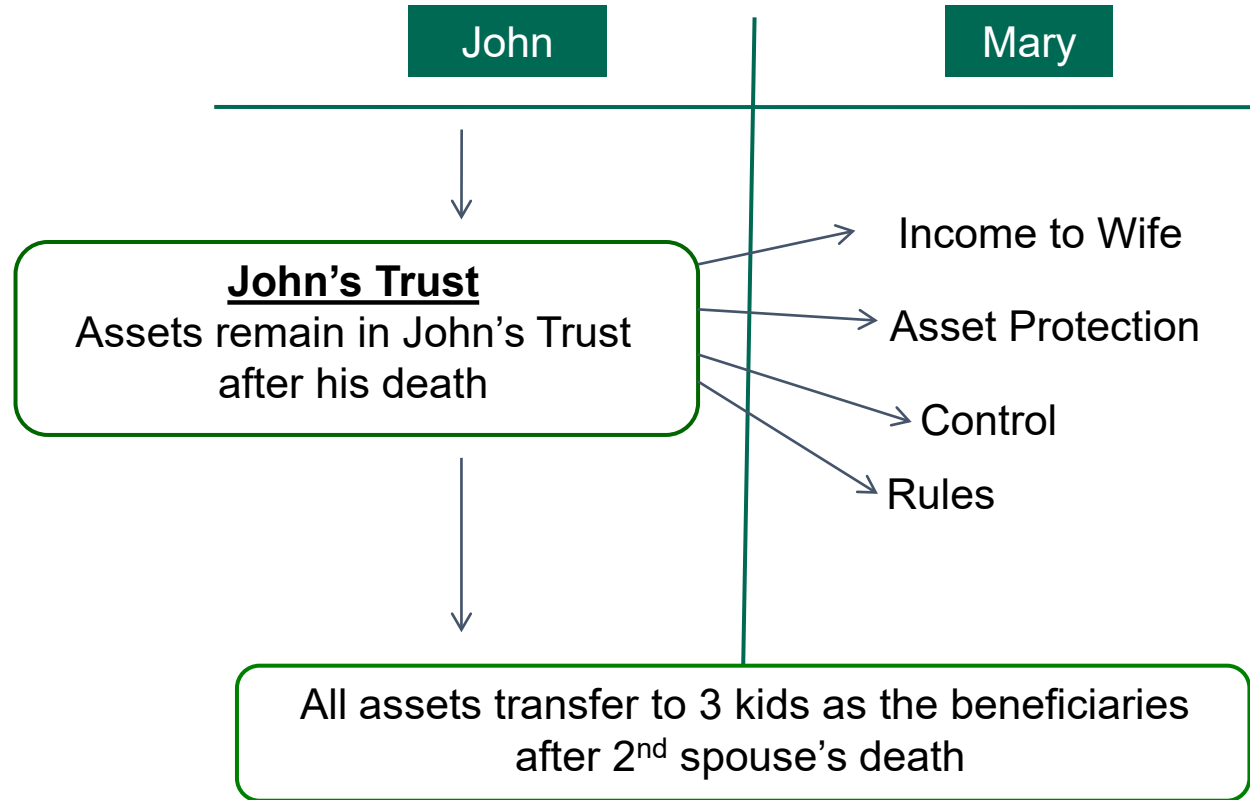


# Ownership Options for Land Transfer

- C-Corp
  - Limited Liability
  - Double Taxation
- Subchapter S-Corp
  - Limited Liability
  - Conversion vehicle for C-Corp
- Revocable Trust
- Irrevocable Trust



# Put in Revocable Trust



Source: Farm Financial Strategies

[www.Hertz.ag](http://www.Hertz.ag)



# Wills vs Revocable Trusts

Will	Revocable Trust
•Requires probate administration	•Does not require probate administration
•Probating a will is a public process	•Trusts are private and not filed with the court
•Does not manage assets during your incapacity	•Manages assets if you're incapacitated
•Does not manage assets while kids are under 18	•Manages assets for children while they're under 18 and beyond
•Less expensive to draft	•More expensive to draft
•More costly and time-consuming to administer	•Faster to administer; however, there may be ongoing Trustee fees
	•Asset Protection & Control





# Documents

- Operating Agreement or By-Laws
- Buy/Sell Agreement
- Articles of Incorporation for some
- Trust Agreement



# Tax Saving Tools

- Partial interest discounts
- Minority interest discounts
- Section 2032A Special Use Valuation -  $\$1,380,000 \times 40\% = \$552,000$ 
  - 50% of estate value must be in eligible real estate holdings
  - Heirs must own and participate for at least 10 years
- Section 6166 Deferred Estate Tax Payment
  - 35% of the estate in closely held business
  - 14 years and 9 months to pay
  - Interest only for first 4 years
  - 2% rate on first \$1.75 million low variable rate beyond that
  - must be an active trade or business
  - Heirs must continue to own for deferral period



# Conversation Starters

- Do you currently have a written strategy in place?
- What story do you want the next generation to rally behind?
- Who do you want to have it? And why?
- How do your children and in-laws feel about owning the family farm together?
- Are you positioned to take advantage of all the tax saving tools available?
- What could go wrong if you do nothing?



# Questions???





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