



Business Plan Taking Stock of the Estate

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PLANNING TODAY *for* TOMORROW'S FARMS



Taking Stock of an Estate

- Identify assets and liabilities in the estate
- Locate papers and documentation
- Establish a personal net worth statement
- Identify deficiencies in record keeping system and take corrective action



When to Take Stock

- During property owners (your) life
- Information will be more concise
- Questions can be answered



Why Take Stock

- May help clarify how you want to dispose of property
- May help establish goals for your succession plan
- Will help advisors provide advise on tax and legal issues



"Banker, you said before you'd loan me anymore money
I'd hafta bring in my bookkeepin' system. You jist
don't know what heck I had takin' this barn door off!"



What records should I keep?

Family	Business	Production
Bills Paid	Bills Paid	Crops and Soils
Employment, Earnings	Income, Receipts	Livestock
Accounts	Accounts	Machinery & Equipment
Credit	Credit	Computers, Office
Insurance	Farm Insurance	Buildings
Inventory & Assets	Business Management	Other Inventory
Important Papers		



What are your goals for the record keeping system?

- Keep what is needed for tax purposes
- Be prepared for the unexpected
- Planning ahead
- Communication
- Business analysis
 - Be able to accurately identify shares of income and expenses
 - Determine costs of production per unit
 - Know where profit (and/or loss) centers are in the operation



Using records

- Historical analysis
- Current assessment
- Forward planning

- Financial performance
- Financial position

- Whole farm
- Enterprise



The farm inventory list

- Farm records
- Bank, credit card statements
- Tax records, depreciation schedule
- Balance sheets
- Walk/drive around farm or ranch with tablet and pencil





Questions records can answer

- Am I making more on crops or livestock?
- Should I buy or raise hay?
- Are my costs of production too high?
- What is my break-even crop price?
- What can I do if I want to be more profitable?



Grab It and Go!

- You are told that a natural disaster is going to destroy your home or business in 10 minutes.
- You have 5 minutes to get anything from your home or business that you might need. And then 5 minutes to travel to safety.
- What do you take with you?





Alarming Statistics

- If a company's records are lost in a fire:
 - 17% can no longer furnish a financial statement
 - 43% go out of business completely
- From 1997 to 2007, there were an estimated 397,650 residential fires, resulting in losses over \$6 million (NFIRS)
- Direct property loss due to fires was estimated at \$14.6 billion (NFIRS, 2007)





Alternative Storage Options

- Family members or close friend
 - Copies of important documents
 - They know your wishes
 - Safe place away from your residence or business
- Attorney
 - Legal documents that are difficult to replace or duplicate
- Safe-deposit box
 - Safe place away from your residence or business
 - Additional storage for those hard to replace documents



“Even if you’re on the right track – you’ll get run over if you just sit there.”

Will Rogers



Steps in the Process

- Determine what is owned, and its value
- Determine what is owed, and its value
- Centralize the collected information
- Construct a personal financial balance sheet



What is Owned?

- Anything of personal possession
- Real and personal property
 - Right, title, interest
- Includes obvious personal assets
 - Home, money
- Includes not-so-obvious personal assets
 - Life insurance



Examples of Owned Property

- Cash on hand
- Checking account
- Savings account
- CD's
- Mutual funds
- Stocks/Bonds
- IRA's
- Retirement Savings
- Vehicles
- Home & Furnishings



How to Value

- If you sold on the open market, what would its value be?
- Current market value
- What you paid
- Some items appreciate, most will depreciate
- Value at the same date you put on your balance sheet



What is Owed?

- Outstanding Bills & Debts
 - Current unpaid bills
 - Cars
 - Credit Cards
 - Loans against life insurance policies
 - Home mortgage
 - Home equity loans
 - Any other secured or unsecured debt



What is Owed?

- Contact lender for balance on home/land if not on statement
- List total balance due, not just monthly payments
- List any current unpaid bills (dentist, utilities, telephone charges)



*Once you have determined
these....*



Balance Sheet

- $\text{Assets} - \text{Liabilities} = \text{Net Worth}$
- Verify accuracy
- Update on a regular basis
- Keep with valuable papers



Financial Performance Measures

- Liquidity
 - Ability to pay bills as they come due and cover unanticipated events
- Solvency
 - Ability to cover all debts if the business were sold
- Profitability
 - Returns to labor and management generated by the operation
- Financial efficiency
 - Efficiency with which assets generate income
- Repayment capacity
 - Ability to repay term debt in a timely fashion



Analyzing Net Worth

- Is your estate smaller or larger than expected?
- Is your net worth positive or negative?
- Use as base for financial planning decisions and estate transfer decisions
- Use this information to determine estate taxes



Analyzing Net Worth

- Do you have adequate emergency funds?
- Did you discover any surprises, like excess debt or forgotten assets?
- Is your insurance coverage adequate to cover the value of your property?
- Are your invested assets working for you to increase your net worth?
- How does your debt load compare to your income?
- Are you building financial resources to help you achieve your long-term goals?

Source: Passing It On: An Estate Planning Guide for Wyoming's Farmers and Ranchers



Family Cash Flow Planning

- Budgeting
 - A method for spending money on purpose
- Cash flow plans do not work when you:
 - Leave things out
 - Overcomplicate your plan
 - Don't actually do it
 - Don't actually live it



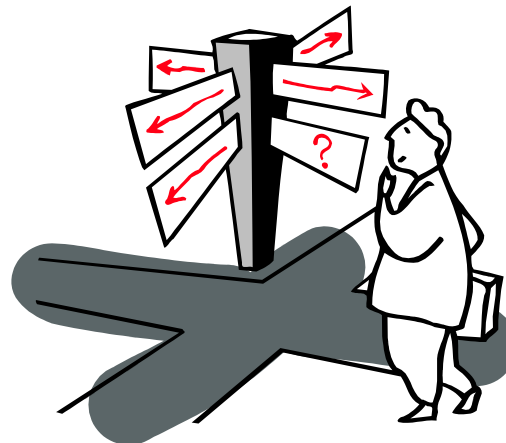
Family Cash Flow Planning

- A good written plan comes from:
 - Communication and input from all family members and is implemented by all members
- Steps to developing a written plan:
 - Keep your checkbook recorded and balanced
 - Write out the details
 - Allocate every dollar
 - Commit to the plan



Business Operation Questions

- How many families can my farm support?
- Where am I?
- Where do I want to be?
- How can I best get there?





If you can't make a profit with
a pencil, you can't make
a profit with a plow.





Estate Planning Tools

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PLANNING TODAY *for* TOMORROW'S FARMS

THE UNIVERSITY of
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AGRICULTURE



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Disclaimer

All information is educational in nature and does not constitute legal advice.

I am not an attorney or certified estate specialist.



Questions to consider

- **Who gets the house and farm?**
- **Who gets Grandma's old, blue, slightly chipped, dinner platter?**
- **Do you have the documents / tools in place to transfer assets as YOU want?**
- **Do you know what happens if you do not?**



Planning ahead is Important



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Why do Estate Planning?

- **Take Care of Family and/or Charities**
- **Direction for Asset Distribution**
- **Farm or Business Continuation**
- **Reduce or Eliminate Death Taxes**
- **Plan for Future Income Tax Benefits**
- **Provide for the Unexpected**
 - **Illness or Disability**
- **Reduce stress on family**



What is Estate Planning?

- **More than just a Will**
- **Includes documents to insure your wishes are carried out**
- **Provides a smooth transfer of assets to the next generation**
- **Plans for non-death situations**



First Major Point

**Please seek a
Qualified
Estate Attorney,
Accountant or Financial
Planner as needed**



What may be Included?

- **Will**
- **Power of Attorney**
 - Durable POA for Finances
- **Advanced Care Plan**
 - (Medical Directives or Living Will)
- **Health Care Agent**
- **Trusts**
- **Other tools or documents**



The Will

- **Yes, you need one!**
- **Over 55% die without one**
- **No will = you die “Intestate”**
- **Tennessee has a will for you**
- **You may not like it!**



The Will

- **Simple Will – covers basics**
- **Can be as detailed as needed**
- **Allows you to give things as you desire**
- **Clears up possible confusion and reduces stress**



The Will

- **Names Executor(s)**
- **Bonding of Executor**
- **Inventory requirement**
- **Terms of the will-**
 - **Can list specific assets**
- **Beneficiaries**
- **Naming of Guardian or Trustee**
- **Residuary Clause – all others assets**



The Will - continued

- **Holographic**
–hand written
- **Do It Yourself - risky**
- **Better – Use “Good”
Estate Attorney**





TRUSTS

- **Definition: A legal entity which can hold title to assets for the benefit of one or more persons.**
- **Creator of trust = Trustor or Grantor**
- **Person overseeing trust = Trustee**
- **People receiving benefits = Beneficiaries**



Trusts

- **Many types of Trusts**
 - Testamentary, Living, Revocable, Irrevocable
- **Transfer assets outside estate**
- **Simple Trusts**
 - To care for children
 - Protect certain assets
- **Used to keep businesses operating**
- **Used by large estates to reduce taxes**



Living Trusts

- Often promoted by outsiders
- Do Not always prevent Probate
- Can be Expensive
- MUST be updated to work
- Not needed by most folks
- Should be combined with a will



Power of Attorney

- **Durable POA - for Finances**
- **Can name more than one person**
- **You can limit authority**
- **“Springing” Power of Attorney**
 - **Complicated, often not recommended**
- **Valid until death**
 - **POA’s authority ceases at death of grantor**



Medical Directives-Living Will

- **Advanced Directives** - TN law change in 2004
 - **Advance Care Plan**
- **Health Care Agent**
 - Replaces Medical Power Of Atty
 - Forms on page 187-189
- **Level of life support**
 - You decide, not doctor or family
- **Organ Donation**





Other Items

- **Forms of ownership**
 - Sole Proprietorship, Partnership, LLC
- **IRA's and 401K's**
 - **Beneficiaries Important!!!!**
- **Life Insurance**
 - Usually transfers outside of estate
- **Letter of Last Instruction**



Other Planning Tools

- **Church- Charities- Donations**
- **Charitable Remainder Trust**
- **Conservation Easement**
 - **Also called Land Trust**
 - **Protect land from development**
 - **Farm, Recreation, Wildlife**



Other Estate Planning Tools

- **Disability Insurance**
- **Long term care Insurance**
- **Burial Prepayment / Insurance**
- **Gravesite / Memorial Garden**





Potential Pitfalls

- **Gift Tax**
 - Gifts up to \$13,000 / year – tax free
- **Estate / Inheritance Taxes**
- **Estate Income Tax**
- **Life Estate in property**
 - Reduces tax exclusion
 - May require gift tax reporting



Federal and Tennessee Exemptions

Year	Federal Exclusion	Tenn. Exemption
2000-2001	\$675,000	\$675,000
2002-2003	\$1,000,000	\$700,000
2004-2005	\$1,500,000	\$850,000-\$950,000
2006-2008	\$2,000,000	\$1,000,000
2009	\$3,500,000	\$1,000,000
2010	\$0 ?	\$1,000,000
2011	\$1,000,000 - ?????	\$1,000,000

Rates were 18% to 45%

Rates 5.5% to 9.5%

Congress will likely change the Federal exclusion and tax rates soon.



Distribution of Assets

Who Gets What

- **Being Fair – best concept**
- **Equal - Often not possible**



Summary

- **Determine where you are now**
- **Farm Financial Planning**
 - **MANAGE** program – Free!
- **Develop future plans with next generation in mind.**



Summary

- **Communication –**
- **Critical Ingredient**
 - **Keep communication lines open**
 - **When everyone is on same page whole process goes smoother**
 - **Secrets hurt!**



Farm Succession

- **How does management transfer**
- **How do assets transfer**
- **Income distribution**
- **Put it down on paper**
- **Eliminate unknowns**



Estate Plan

- **Use qualified Estate attorney, Accountant and Financial planner**
- **Get Will, Power of Attorney, Medical Directives and Health Care Agent completed**
- **Determine other needed documents**



Final Point

- You have spent your lifetime caring for your family –
- Be sure to finish the job!
- ***DO IT!***

QUESTIONS

