Three Myths about Farm Succession Planning

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1. It's Too Early

It's never too early to start implementing your succession plan. Business succession planning consists of two components – management succession and ownership succession. Management succession should be addressed first and early because you want to be sure your successor is capable of managing operations and shares your values before you begin to transfer ownership to that person.

Implementing a management succession plan can take years, even decades. Your children may be capable farmhands, but it will take a considerable amount of time before you will feel comfortable that they know every component of your operation in enough detail to manage the entire operation. Gradually increasing responsibilities should give your successor an increasing sense of pride and loyalty to the business, which you'll want to see before transferring any equity.

2. Fair Means Equal

This sentiment is common to all business owners, but is especially pertinent for operators with on- and off-farm children. In many cases *fair does not mean equal*. Your on-farm children will preserve your business and its ability to earn money, and they should be compensated accordingly. Fortunately, farmers have options for transferring some wealth to off-farm children.

One example is the use of a land LLC, where both on- and off-farm children own an LLC that leases farmland to the operating entity (owned by only on-farm children). You can use your farm-related wealth to provide for off-farm children, but you should also not feel guilty about treating your children differently depending on their contribution to the business.

3. Less Equity, Less Control

The transfer of ownership is a necessary and useful succession planning tool. After all, the complete transfer of ownership and control is the end goal of any succession plan. But transferring equity also strongly incentivizes your chosen successor because they now share in the upside of the business. It is important to remember that *equity and control are not the same things.*

There are a variety of strategies available that transfer equity while retaining control. For example, you could transfer a minority equity stake initially and wait to complete the transfer until a later date. You could create a class of non-voting equity to provide your successor with a piece of the future growth without sacrificing control. Or you could be named the manager of a manager-managed LLC. These are just a few viable options to transfer ownership while still retaining control of the day-to-day operations.

No two farm succession plans are the same and should not be approached in the same manner. There is more to learn about farm business succession than simply “passing the torch.” Contact Mike Zahrt at 616.726.2223 or at mzahrt@fosterswift.com to discuss the succession plan that best fits your needs.