

Pass perfect



There's no silver bullet to successful estate planning, but flexibility and communication can make the transition easier. ■ By Bill Spiegel

Out in the High Plains of western Kansas lives a man who is planning to pass his farm down to a child, who just finished college. Handing over the reigns of a multimillion dollar business doesn't scare the farmer; he has been grooming his children for

the responsibility. But planning for the next generation — and all of the difficulties farm life can throw at the family — is a huge task.

Our western Kansas farmer is not alone. Farm families throughout Kansas are facing similar challenges. Some questions our farmer friend has:

- How far out do I begin planning?
- I can't foresee everything. What happens when my children start a family of their own?
- How can I get my children started on the farm promptly, yet make sure we both have ample income?

The trouble with estate planning

is that every family is different. There is no one-size-fits-all solution to generation transfer, what we commonly call estate planning. There are some concepts, however, that apply across the board.

"Estate planning permits a person to utilize and enjoy property owned during life and to pass that property to family members or others, mostly with an objective of the least possible shrinkage in value," says Roger McEowen, ag law specialist at Kansas State University. "With minimal planning, a husband and wife can pass \$1.35 million [for 2002] through the two estates with no federal estate tax liability."

TALK IT OVER

Some families find talking about the future difficult. But this is a necessary first step before you ever meet with an accountant, lawyer or insurance representative, says Lance Woodbury, principal with Kennedy and Coe in Garden City.

"Have a discussion with the younger generation about goals, interests and desires to make sure everyone understands the future plan for the estate, particularly if the estate is a farming or ranching operation," Woodbury says. "You may be passing down a business the next generation doesn't want, or an estate that different members of the family have different ideas for."

Tailor the estate plan and educate family members so that the plan reflects the direction the family wants to go.

Doing this can prevent quite a bit of conflict that may occur after the parents are gone, Woodbury adds.

What tools should you gather before a family meeting? McEowen says you should immediately compile basic information: ages of those involved, medical history, real estate deeds and the family's goals and objectives.

Another document should include an inventory of assets, liabilities and debt. "Once you get that data, you can classify parents into one of three groups, based on their wealth," he explains. Your planning team, which should include your

Money-saving methods

By their very nature, estate plans are intended to save money. Properly designed, you and your heirs can save a great deal in taxes. According to Jan Marks, certified public accountant and partner at Varney and Associates LLC in Manhattan, you need to make sure that assets are titled properly.

"Married couples should own enough property in their individual names, or the name of their trust, to take advantage of both lifetime exclusions (\$1.35 million per parent)," she says. You can use a living trust to make this happen. Also, use the annual, tax-free gift exclusion of \$11,000 to gift assets to heirs, which minimizes the amount of the estate.

Life insurance trusts also may be used. This moves insurance out of the estate and offers more leverage if cash is available.

You may wish to establish a family business, whether it is a corporation or partnership. Developing a family limited partnership (FLP) can offer many advantages, Marks says, including "the ability of the senior generation, through retention of the general partnership interest, to retain control over management of assets and decision making, if they choose," she explains.

"Also, the FLP gives the senior generation general-partner status. They can extract reasonable fees for services, allowing discretionary withdrawal of extra funds."

Two additional benefits of an FLP: the gift exclusion and, in the context of farmland, the assurance that several parcels of real estate remain together within a single entity. ♦

accountant, a lawyer and insurance agent, will use this to determine which estate-planning program works best for you.

It is possible that no member of the younger generation wants to farm. That is obviously not the case with our friend from western Kansas, whose son is looking forward to the challenge.

But plans change. What happens when the son or daughter gets married and has a family?

KEEP IT FLEXIBLE

"The estate plan you have in place will need to be updated as wealth increases and as family members pass through various stages in life," Woodbury explains.

Meeting every few years with your management team is imperative. These meetings should be used to discuss plans, the status of the business, family-member involvement and roles. Also, see if your estate-planning documents reflect your current thinking, while still covering your

estate tax liabilities.

Just as your farm grows and changes, so should your estate plan. For instance, accumulating more assets, such as land or equipment, will impact the value of the estate to be transitioned. This is one reason why adequate life insurance is important. It gives a family cash at the time of a parent's death.

THE FUTURE IS YOURS

"Estate planning is an opportunity to plan holistically for the future of the business or estate, especially now that the potential estate tax liability is lessening with current laws," Woodbury says. "Be wary of advisors [who] sell canned solutions to your estate concerns. The best plan is one that your advisors have worked with you to create."

Understand that your initial plan is a living document, developed especially for your farm and family. It is subject to change, but with planning, there is every reason to believe your farm can be passed smoothly to the next generation. ♦