The Importance Of Structure

Spend time on one of the variables in the operation over which you have control.

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During the course of working day in and day out with family farms and ranches in transitions, we spend significant time talking about structure and strategy. Structure has to do with the way the farm or ranchland, the equipment, livestock and other assets are owned today and how they might be owned tomorrow. Strategy has more to do with how we might improve or grow the business so that it remains viable for the future. Both topics are critical to the success of the family business but need to be addressed in a certain order. Here, I will focus on business structure, while in the future, I will focus on business strategy.

THE CHALLENGES

The ownership structure is important to get right for several reasons. First, agriculture businesses are capital intensive. If assets are not placed in the right type of entity or are not owned by people who make good partners, money can end up trapped in the business, used on tax payments or, ultimately, used on partner buyouts instead of improving or growing the enterprise.

Second, agriculture—and land in particular—is for many a generational business. Unlike a publicly traded stock or other liquid assets, people often intend to own land over decades or even centuries. Parents often gift land to their children or grandchildren. Several families jokingly tell me that the words "sell land" are never to be spoken in their presence. My point is that if you don't have a thoughtful, long-term approach to the ownership structure of your land, you may end up spending hard-earned money on dismantling what took several decades and generations to build.

Third, agriculture businesses can be complicated. Utilizing government programs like crop price subsidies, crop insurance, disaster aid and conservation programs require a sound business structure with documented participation by owners. Tax strategies involving various expense deductions, income deferrals and depreciation strategies can make it challenging to know where you stand regarding your financial performance. In short, a structure that doesn't address and make sense of these unique dynamics can put the business, and its owners, at risk.

A WAY FORWARD

One way to approach structure is to first recognize the benefits and costs of what you have in place. Sitting down with your accountant and an attorney together and understanding your structure and its pros and cons may take an investment of several hundred dollars or more, but the return can be far greater in terms of saving or protecting capital for the future.

As you discuss your structure, there may also be an opportunity to understand your family's or partners' expectations about the future. Does everyone want to own the business in the future? Does anyone want to exit? What financial expectations does everyone have? Do partners expect dividends or distributions? Are people planning to gift their ownership to their children? These kinds of questions foster long-term discussion and planning that can help the family prevent future conflict.

When you combine a working knowledge of your current structure with your family members' or partners' thoughts and goals for the future, you end up with a chance to make deliberate and thoughtful changes or modifications. Too often, these questions are asked after a taxable event or a tragic accident, or under the gun of a government deadline, and opportunities to improve or capture more benefits are missed.

Find the time to understand and manage your structure, which is among a few variables over which family agriculture businesses have some control. Structuring your business properly and occasionally reevaluating your approach can contribute significantly to achieving your family business goals. ///

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