Your Pre-Succession Checklist

Succession is often narrowly framed as the movement of assets like land and equipment to the next generation. Advisers focus on gifting land or selling equipment to the next generation while avoiding tax consequences, or they limit discussion to the liquidity needed to buy out off-farm siblings. They propose different kinds of trusts, gifting plans, insurance policies and entity structures to minimize taxes and protect assets.

While such planning is important, there is more to it than just the movement of assets. Discussing the following nonfinancial issues can grease the wheels of a successful ownership transition.

A vision for your life's next chapter. One factor in a successful transition is the senior generation's focus on its future. Specifically, what happens after you step into a less-prominent farm role? Will you be on the farm or ranch working in an employee capacity to support the younger generation's leadership? Do you have emotionally fulfilling activities away from the farm? Will you live on the farm or in town, and how will you spend your days? Without a vision for what's next, the senior generation risks feeling lost and depressed during and after the transition.

Your ability to let go. Closely related to a vision for your future is your psychological ability to let go of daily tasks. If your vocational identity—what you do—is tied up in the daily accomplishment of farm or ranch activities, and you must still instruct, guide or manage daily to feel a sense of accomplishment, it will be difficult for the next generation to be excited about taking over. Most leaders want to feel a sense of autonomy, that they have control over their work. Frustration ensues when the senior generation is not ready to let go and jumps in the middle of the daily to-do list, yet still talks about the importance of succession planning.

Agreement with your spouse. An often undiscussed issue is whether Mom and Dad agree on aspects of the handoff. Succession-planning efforts can stall because the parents are not in agreement about the principles of the financial and management transition. Maybe one parent is still highly involved in the business, and the other parent is ready to retire. Or, there is a lack of agreement about the timing or amounts of financial gifts. When parents don't agree on the basic tenants of a succession plan, it stymies the advisers and stalls the whole transition effort.

The next generation's skills. It is hard to admit that your kids do not yet have the skills to manage the business and even harder to acknowledge that your kids may not be the best leaders for the future. If they do have the ability but are not yet ready, work with them to develop a plan to gain knowledge and experience. If a non-family leader is needed, or if you need to brainstorm alternatives to family ownership, start those discussions early, as implementation often takes several years.

The next generation's relationships. If the next generation does not work well together, you may be setting the stage for future legal battles by trying to keep the assets tied together, which minimizing taxes often requires. Engage in honest dialogue about how your adult children will own and manage assets together. Through careful planning, you can develop strategies that don't tie the financial fates of your heirs together. But, it requires admitting and planning around the lack of working relationships, which is often difficult for parents to acknowledge.

Planning for the legal and tax aspects of a transition is important, but there are other issues that can help—or harm—your succession and estate plan. Considering them will help set the stage for your successful planning process. ///

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