

CHAPTER 1

The Road to Transition Planning Success

What is the difference between transition planning and estate planning?

There is often some confusion between transition planning and estate planning. They are distinct planning topics but complement each other. Both are important to the overall plan to transition ownership and management to the next generation.

Estate planning deals specifically with wills and legal documents, tax management strategies, investment and savings, insurance, estate distribution and contingencies.

A transition plan, where the next generation is going to be farming, must include a complementary estate plan, but not necessarily vice versa.

If the next generation is not interested in farming, then the retiring farming family may only need an estate plan.

What does a transition plan look like?

A transition plan is a living document that helps guide decisions around ownership, leadership, business structure, tax strategies and contingency plans.

There are several steps to developing a plan. These steps can take from several months to several years to complete depending on the needs and size of the business.

Your transition plan will be revised frequently to align with the changing environment and family circumstances. The result will be a clear, detailed plan that will help ensure a successful transition.

What is the transition planning process?

The first step in the transition planning process starts with an initial planning meeting between family members and others involved in the transition planning process. The next section contains information on how to get this meeting started.

The actual transition planning process includes three phases and they are completed through specific topics:

Phase 1: Readiness Assessment

This phase includes topics that will help you to determine if you are ready to begin transition planning. Transition planning requires a significant investment of time, money and emotional resources. There are farms that are simply not ready for transition planning. It is far better to realize this early. It is easier for ownership and management to make adjustments **before** beginning to work through the process.

Phase 2: Plan Development

This phase includes topics that will together form your transition plan.

Phase 3: Plan Implementation

Developing a transition plan can follow a standard process but implementation is specific to each farm family.

What are the approaches in transition planning?

Next, after your initial planning meeting, select a planning approach that is right for your business and family needs.

There are five planning approach options to choose from, each identifies specific topics that help build your transition plan:

Option 1 – Comprehensive Approach

This approach is the most detailed and all-inclusive approach. Most farm families will take a year or more to work through all the topics.

Option 2 – Condensed Approach

This approach includes the minimum recommended topics. Families following this approach could work through the topics in six months or less.

Option 3 – Estate Planning Approach

Use this approach when there may not be a next generation wanting to return to the farm or business. For families in this situation, the most important topics to consider are related to the estate plan. Families following this approach could work through the topics in six months or less.

Option 4 – Ownership Transfer and Tax Strategy Approach

This approach already involves having a good understanding of how you see your family managing through the transition. You will need to understand the different ownership transfer options that are available and their related advantages and disadvantages. You will also need to apply the most appropriate and advantageous tax strategy possible. Families following this approach could work through the topics in six months or less.

Option 5 – User-Defined Approach

You may find that none of the approaches, as outlined above, meet your needs. The user-defined approach lets you to tailor the transition planning topics to meet your specific needs.

Each planning approach is available as a table to help guide and record your progress. Locate and tear out your chosen planning approach in the Appendix (pages 195-205) to guide you through the process.

Follow the next section of this guide to start the process of your transition plan.